WPL Holdings, Inc. Annual Report

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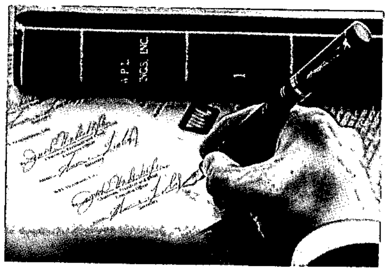
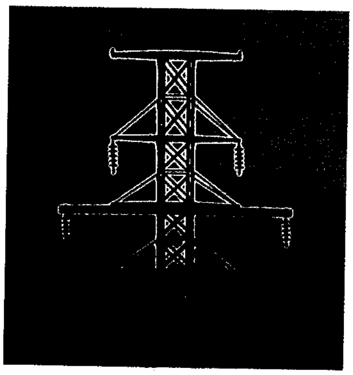
Contents

On the cover

The cover photos represent (from left) three major facets of WPL Holdings, Inc.: telecommunications, utility operations and environmental consulting.

In 1988 WPL Holdings, Inc. became the parent holding company of Wisconsin Power and Light Company and Heartland Development Corporation as a result of a corporate restructuring. The company is headquartered in Madison, Wisconsin. With assets exceeding $1 billion, WPL Holdings is continuing a performance record that demonstrates premier quality and financial excellence.





Wisconsin Power and Light Company, the holding company's regulated utility subsidiary, provides electric energy, natural gas and water to 340,000 customers in south-central Wisconsin at prices that are among the lowest in the nation.

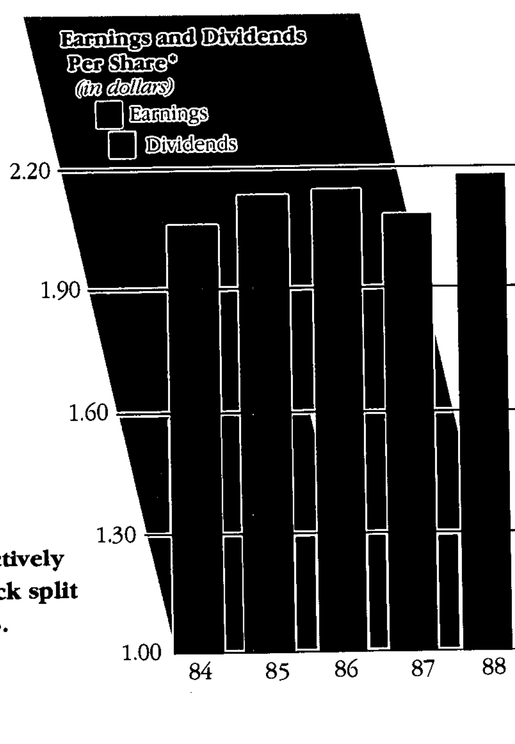
Through Heartland Development Corporation, WPL Holdings is expanding its opportunities beyond those of a successful utility into unregulated, non-utility businesses in four major areas: environmental consulting, telecommunications, energy technology, and real estate development.

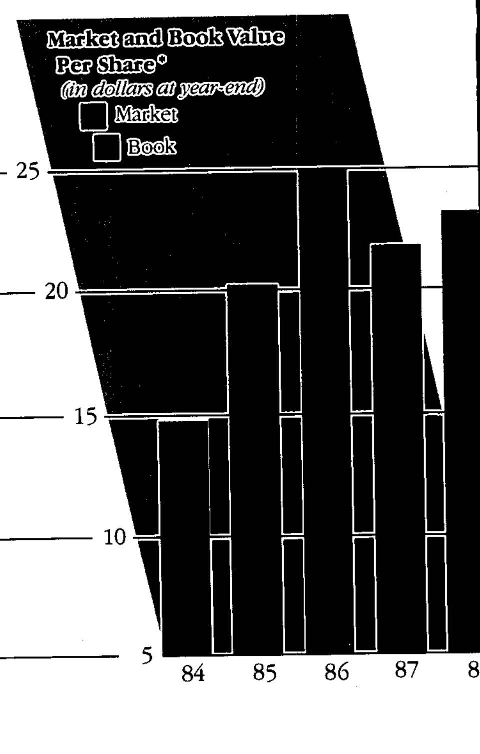
WPL Holdings, Inc.

1988

Financial Highlights

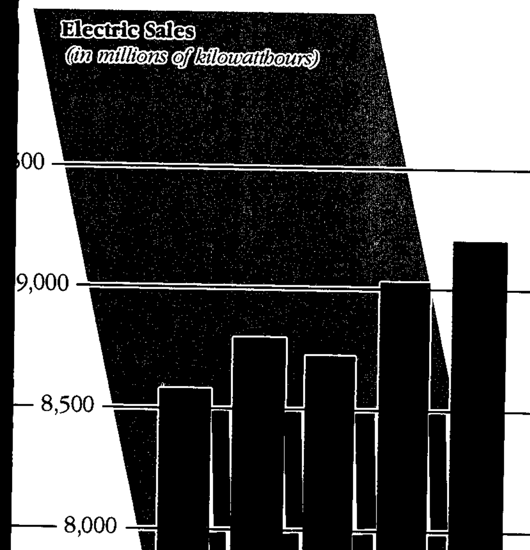
	1988	1987
Operating revenues	$ 600,933,000	$549,382,000
Operating expenses	$ 480,006,000	$424,599,000
Net earnings	$ 57,933,000	$ 54,965,000
Earnings per share*	$2.18	$2.08
Dividends per share*	$1.62	$1.54
Market-to-book value*	147%	145%
Total assets	$1,026,203,000	$996,033,000
Electric sales (thousand kilowatthours)	9,223,351	9,057,930
Gas sales, including transported gas (thousand therms)	276,564	243,190

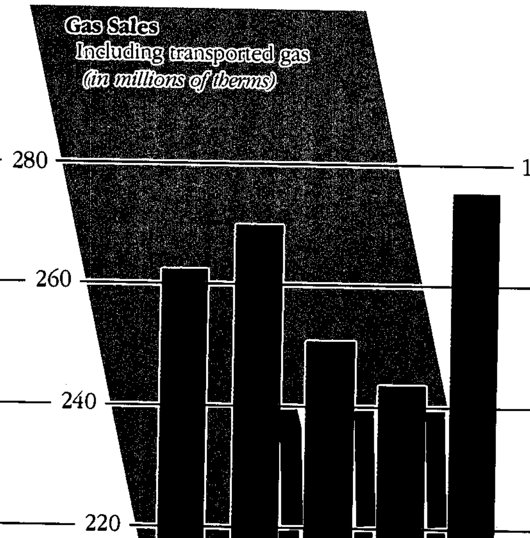


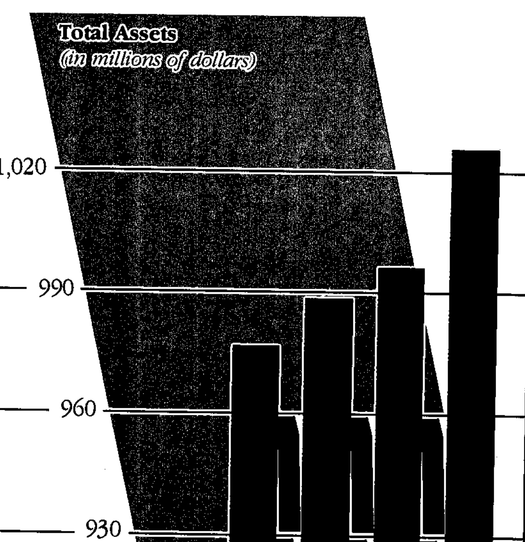


*All years have been retroactively restated for the 2-for-1 stock split effective September 2, 1988.

- Total assets exceeded $1 billion for the first time in the 64-year history of the company.
- Earnings per share reached a new high, increasing 4.8 percent over 1987 earnings. During the past 10 years, earnings per share have grown at a rate of 7.3 percent on an annual basis.
- Dividends per share of common stock increased in 1988 for the 16th consecutive year. The company has paid 172 consecutive quarterly common-stock dividends since 1946.
- Market value per share of common stock exceeded book value at year-end by 47 percent.
- The annual compounded rate of return for an investment in the company's common stock equaled 18.2 percent from 1979 through 1988, compared with 16.3 percent for the Standard & Poor's 500 stock index and 5.9 percent for the Consumer Price Index for the same period.
- Return on equity in 1988 was 14.3 percent and has averaged 15.2 percent over the last five years.
- Wisconsin Power and Light Co., the major subsidiary of WPL Holdings, Inc., continued its strong sales growth. Electric sales reached 9.2 billion kilowatthours in 1988, a 1.8-percent increase over 1987 sales. Natural-gas sales, including transported gas, reached a record high of 277 million therms in 1988, a 13.7-percent increase over 1987 sales.







Corporate Organization

Creating value for today's investor requires a unique corporate commitment. It's a commitment that begins with the sound fundamentals of financial stability and strength. A commitment that identifies, anticipates and responds quickly to customer needs. A commitment based on aggressive and forward-thinking management that embraces fresh, creative solutions to the challenges of increasingly competitive marketplaces.

In short, the value of a company's stock comes from a commitment to bring experience, enthusiasm and excellence right down to the bottom line. That commitment is the driving force behind the operations of WPL Holdings, Inc.

■ *WPL Holdings, Inc*

James R. Underkofler
Chairman of the Board, President
and Chief Executive Officer

■ *Heartland Development Corp.*

James R. Underkofler
Chairman of the Board, President and Chief Executive Officer

■ *RMT, Inc.*

■ *WP&L Communications, Inc.*

■ *ENSERV, Inc.*

■ *Heartland Properties, Inc.*

James R. Underkofler, left, and Erroll B. Davis, Jr.

WPL Holdings, Inc.

■ *Wisconsin Power and Light Co.*

James R. Underkofler
Chairman of the Board

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

■ *NUFUS Resources, Inc.*

■ *REAC, Inc.*

■ *South Beloit Water, Gas and Electric Co.*

■ *Wisconsin Power and Light Nuclear Fuel, Inc.*

WPL Holdings, Inc. was formed at the close of business on March 31, 1988, as a result of the restructuring of the company's chief subsidiary, Wisconsin Power and Light Co. WPL Holdings is the parent company of Wisconsin Power and Light and its utility-related subsidiaries and Heartland Development Corp., an umbrella organization for the company's four non-utility businesses.

Wisconsin Power and Light management first pursued the formation of a holding company in 1981. After much debate in the Wisconsin Legislature and the Public Service Commission of Wisconsin, the Legislature enacted a law in 1985 establishing rules for utility-holding-company formations. Based on that law, the company filed an application to form a holding company the following year. The company received all of the requisite federal and state regulatory approvals by March 1988.

WPL Holdings, Inc. Corporate Officers

James R. Underkofler, 65 (1941)
Chairman of the Board,
President and
Chief Executive Officer

Eugene O. Gehl, 65 (1985)
Vice President, Treasurer
and Assistant Secretary

Thomas A. Landgraf, 40 (1979)
Secretary and
Assistant Treasurer

(Date in parenthesis indicates the year the person joined Wisconsin Power and Light Co.)

The Chairman's Comments

An exciting new era in our 64-year corporate history began in 1988 when WPL Holdings, Inc. became a reality.

By achieving our objective of forming a holding company, we have strengthened our commitment to our shareowners, customers, employees and the communities we serve. We chose the holding-company structure — a common one in today's business world — because we believe it will enable us to respond more effectively and quickly to the challenges of today's rapidly changing business environment.

■ Management's priorities and resources are primarily focused on the continued growth of Wisconsin Power and Light Co., the major subsidiary of WPL Holdings. The holding-company structure also enables our Heartland Development Corp. subsidiary to nurture its existing non-utility businesses and to pursue new opportunities.

In short, our holding-company strategy complements the utility operations by providing greater flexibility to respond to competitive opportunities, while at the same time, enhancing our shareowners' investment by diversifying the earnings base.

Our diversification activities have been relatively modest to date. However, we will continue to explore and develop business opportunities that are compatible with the core utility. The status of our diversified investments is discussed in greater detail in the Heartland Development section of this report starting on page 24.

While some of our non-utility operations are beginning to contribute to WPL Holdings' net earnings, the strong financial performance of Wisconsin Power and Light dominated the holding-company's earnings in 1988.

WP&L's sound capitalization, low operating costs, modest new-capital needs, top-performing generating stations and competitive rates are the key elements contributing to its excellent financial condition.

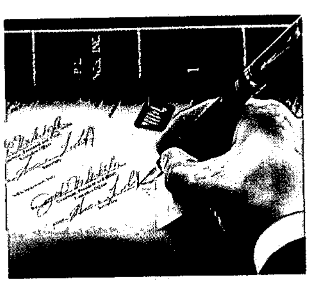
Wisconsin Power and Light has developed programs to increase services to its customers, improve efficiency and increase its product differentiation. Meeting the energy needs of its diverse customer group in the most cost-effective manner possible is the major emphasis of the utility's management strategy, and you will read more about these plans later in this report.

■ Preparing for the future, the Board of Directors elected Erroll B. Davis, Jr. to the office of Chief Executive Officer of Wisconsin Power and Light in July 1988. Erroll has been President of WP&L since July 1987 and will continue in that position.

Erroll and I believe that the key responsibility of managers is to provide employees with the resources they need to best serve our customers through their own ingenuity and creativity. Another major responsibility of managers is to perpetuate the success of the corporation by selecting talented and dedicated employees and by preparing their successors to be effective leaders in the future.

Our selection of Erroll — another step in preparation for my retirement — and the formation of the holding company strongly position the company for success in meeting future challenges.

■ The issues Wisconsin Power and Light faces remain the same as those we identified in last year's annual report: increased competition; mergers and takeovers; deregulation in some cases and



Board of Directors of WPL Holdings, Inc. and Wisconsin Power and Light Company

Two separate Boards of Directors provided direction for WPL Holdings, Inc. and Wisconsin Power and Light Co. in 1988, the first year that the holding company was in operation. The boards are composed of the same nine outside directors in addition to the Chairman, President and Chief Executive Officer of WPL Holdings (who also serves as Wisconsin Power and Light's board Chairman); the President and Chief Executive Officer of WP&L; and the two Executive Vice Presidents of WP&L.

(as of December 31, 1988)

James R. Underkofler, 65
Chairman of the Board, President
and Chief Executive Officer,
WPL Holdings, Inc.; and
Chairman of the Board,
Wisconsin Power and Light Company
A director since 1965

Erroll B. Davis, Jr., 44
President and Chief Executive Officer,
Wisconsin Power and Light Company
A director since 1984

L. David Carley, 60
Partner, Carley Capital Group
(a venture-capital group),
Washington, D.C.
A director since 1983;
also was a director
from 1975 to 1977

Rockne G. Flowers, 57
President, Nelson Industries, Inc.
(a muffler, filter and industrial-silencer manufacturing firm),
Stoughton, Wisconsin
A director since 1979

Eugene O. Gehl, 65
Vice President, Treasurer
and Assistant Secretary
WPL Holdings, Inc.; and
Executive Vice President
and General Counsel,
Wisconsin Power and Light Company
A director since 1977

Donald R. Haldeman, 52
President, Wisconsin Farm Bureau
Federation (Wisconsin's largest
general farm organization),
Madison, Wisconsin;
and farm owner and operator,
Norwalk, Wisconsin
A director since 1985

William L. Keepers, 50
Executive Vice President - Operations,
Wisconsin Power and Light Company
A director since 1984

Katharine C. Lyall, 47
Executive Vice President,
University of Wisconsin System,
Madison, Wisconsin
A director since 1986

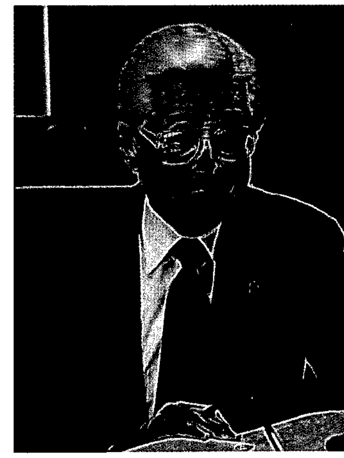
Milton E. Neshek, 58
President, Chief Executive Officer
and Director, Godfrey, Neshek & Worth, S.C.
(a law firm), Elkhorn, Wisconsin;
and General Counsel, Assistant
Secretary and Manager, New Market
Development, Kikkoman Foods, Inc.
(a food-products manufacturer),
Walworth, Wisconsin
A director since 1984

Henry C. Prange, 61
Chairman of the Board, President
and Chief Executive Officer,
H.C. Prange Company
(retail department stores),
Sheboygan, Wisconsin
A director since 1965

Henry F. Scheig, 64
Chairman of the Board,
Aid Association for Lutherans
(a fraternal benefit society),
Appleton, Wisconsin
A director since 1980

Carol T. Toussaint, 59
Consultant,
Madison, Wisconsin
A director since 1976

Gerard E. Veneman, 68
Director, Great Northern Nekoosa
Corporation (a paper and pulp
manufacturer and distributor),
Norwalk, Connecticut; and retired
Executive Vice President of Great
Northern Nekoosa and retired
President and Chief Executive Officer
of one of its subsidiaries,
Nekoosa Papers, Inc.,
Port Edwards, Wisconsin
A director since 1980



James R. Underkofler
Henry F. Scheig

COMMITTEES OF THE BOARDS

The Boards of Directors of WPL Holdings, Inc. and Wisconsin Power and Light Company each met seven times in 1988. The boards are composed of several committees, which also held meetings throughout the year.

Joint Committees

The Audit Committee recommends the independent auditors to be selected by the shareowners at the Annual Meeting. The committee reviews with the independent auditors the scope and results of the audit and matters regarding the company's financial-reporting and internal-accounting controls. It meets with the management and independent auditors to discuss and review accounting and reporting principles, policies and practices to be used. Both the internal and the independent auditors periodically meet alone with the committee and have authority to contact it on any matters requiring its attention. The committee consists of all board members who are not employees or officers of the company. In 1988 the committee held two meetings.

The Governance Committee is a special committee convened in 1988 to study the operation of the two Boards of Directors after implementation of the corporate restructuring, which occurred March 31, 1988. The committee's function was to make recommendations on the size, membership, committee structure and agendas of the boards of WPL Holdings and Wisconsin Power and Light. The committee is composed of the WPL Holdings

"While the holding-company structure allows flexibility for non-utility growth and expansion, WPL Holdings remains committed to maintaining the high quality of Wisconsin Power and Light in today's rapidly changing and constantly challenging business environment."

increased regulatory involvement in others; independent power producers; cogeneration; transmission access; gas transportation; new technology; and diversification.

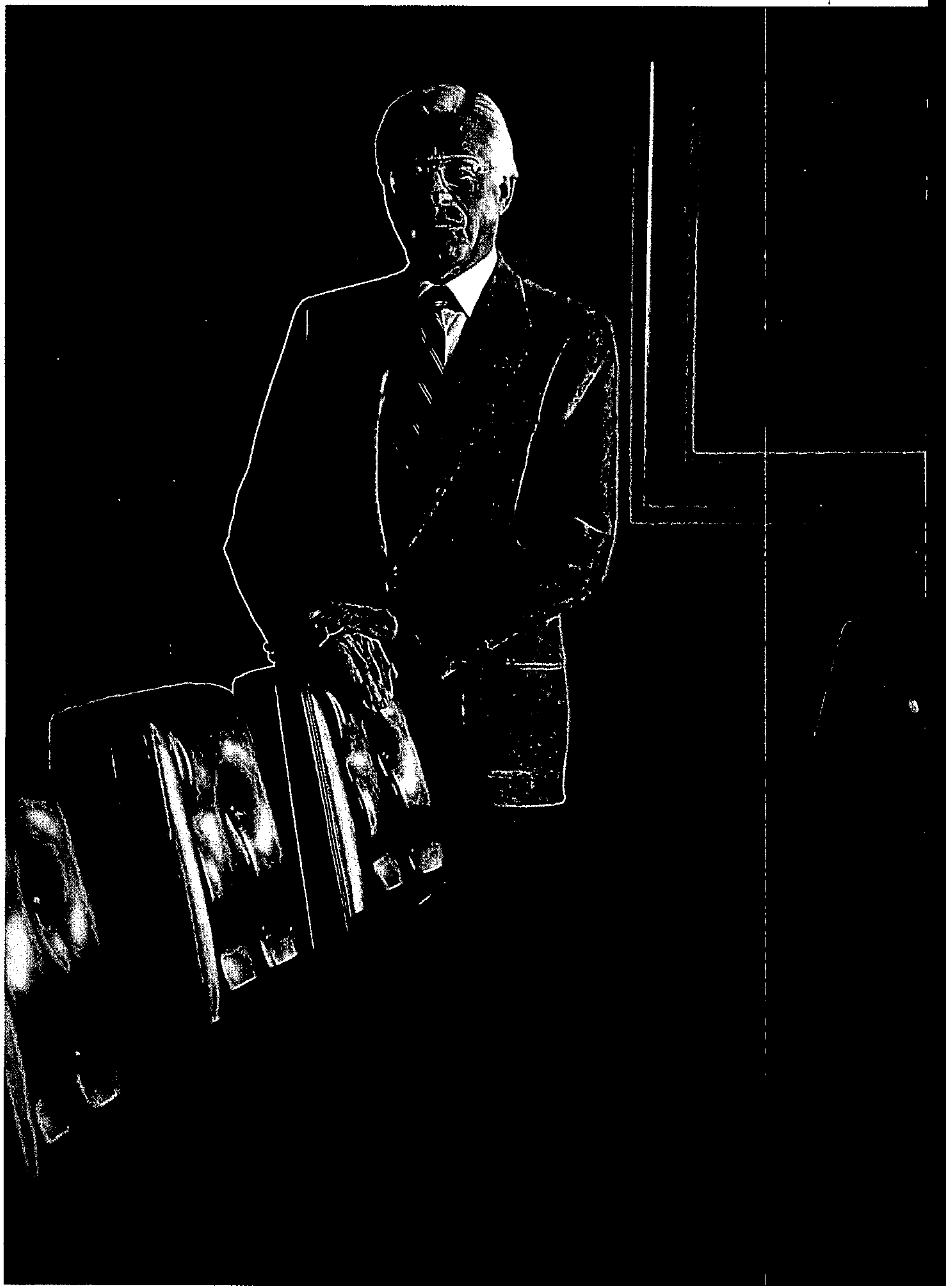
Many of the above are no longer future challenges; they are today's realities. We are closely following the latest developments in these issues nationwide and we are experiencing many of the challenges firsthand in Wisconsin.

For example, Wisconsin Power and Light has been able to retain all of its major natural-gas customers — despite the intense competition in the industry — by focusing on commercial and industrial customers' energy needs. In response to those customers' concern about prices, WP&L has moved aggressively into the gas-transportation business. Approximately 31 percent of WP&L's large commercial and industrial customers now use its services to transport their own natural gas, offsetting any impact from the loss of direct sales by WP&L.

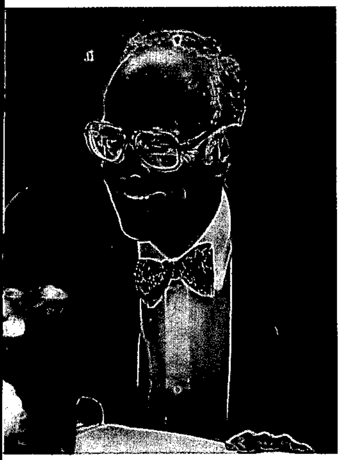
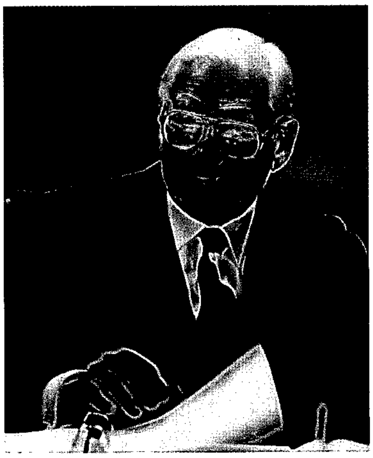
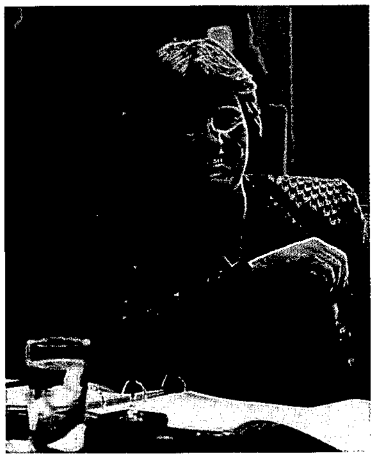
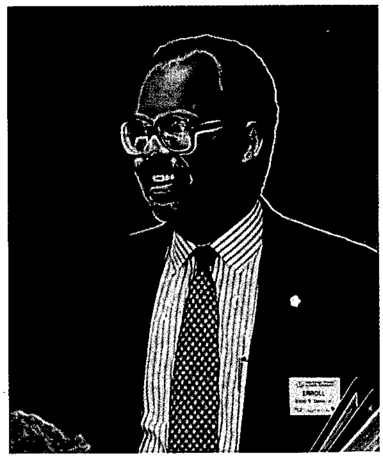
In the electric market, Wisconsin Power and Light is forming relationships with public-power entities to facilitate the movement of power to other utility service areas. In 1988 WP&L signed a contract to provide power to Wisconsin Public Power, Inc. System, a joint-action agency, for sale outside of WP&L's historical service area.

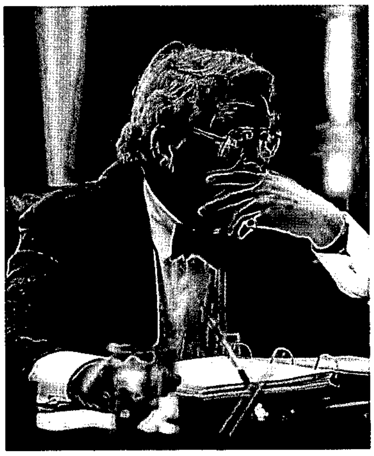
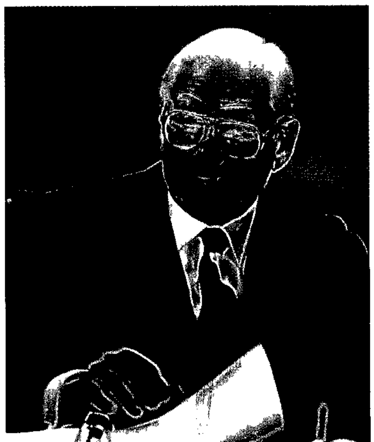
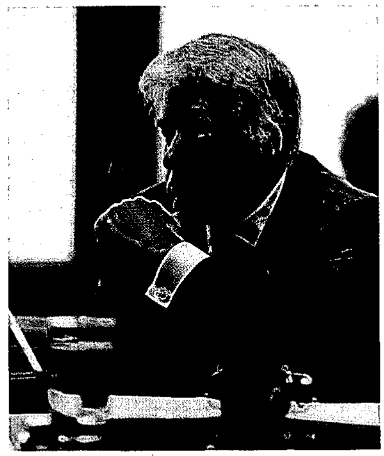
■ Responses continued to be made in 1988 to inquiries from communities and large industries outside of WP&L's service area. In the traditional utility climate of the past, that would not have happened. WP&L will take advantage of all available opportunities in a more competitive marketplace.

Thus, our energy-services company will strengthen its position as a competitor in the changing utility marketplace. At the same time, Heartland Development Corp. will explore new-business opportunities to enhance our shareowners' investment. As a result, WPL Holdings is prepared for the challenges of the next decade...and beyond.

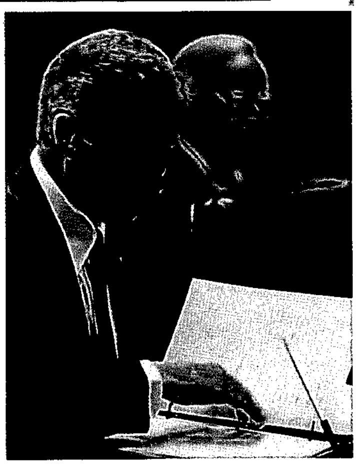
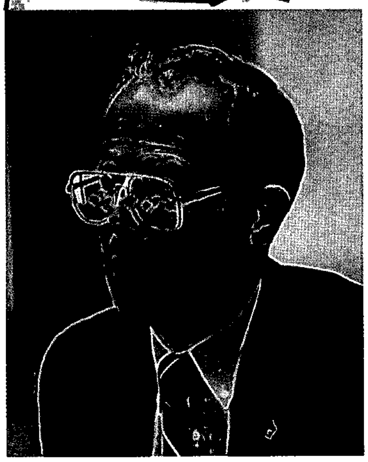


James R. Underkofler
Chairman of the Board, President
and Chief Executive Officer
WPL Holdings, Inc.
February 7, 1989

Erroll B. Davis, Jr.
***Donald R. Haldeman**

Rockne G. Flowers
Carol T. Toussaint
Gerard E. Veneman

Eugene O. Gehl
L. David Carley
Milton E. Neshek

Katharine C. Lyall
Henry C. Prange
William L. Keepers

Chairman, President and Chief Executive Officer; the Wisconsin Power and Light President and Chief Executive Officer; the WP&L Executive Vice President and General Counscl; and three non-management directors. The committee met twice in 1988.

WPL Holdings Committee

The Nominating Committee recommends nominees for election to the board and reviews the appropriateness of present board members' continued membership on the board. The committee consists of the Chairman and two members of the board who are not employees or officers of the company. The committee held one meeting in 1988.

Wisconsin Power and Light Committees

The Corporate Planning and Performance Committee examines corporate planning and performance, including the review of such items as sales and load forecasts, operating and construction plans and budgets, financing programs and rate-case matters. The committee, which consists of all members of the Board of Directors, met two times in 1988.

The Personnel Committee functions as an executive-review group, evaluating overall management performance and efficiency. The committee also reviews human-resource development and affirmative-action programs, benefit plans and changes and major provisions of negotiated-employment contracts. It approves the salaries of officers and managers. The committee is composed of all board members who are not employees or officers of the company and, as non-voting members, the WP&L Chairman and the WP&L President and Chief Executive Officer. The committee held four meetings in 1988.

The Nominating Committee recommends nominees for election to the board and reviews the appropriateness of present board members' continued membership on the board. The committee consists of the WP&L President and Chief Executive Officer and two directors who are not employees or officers of the company. The committee met once in 1988.

Commitment to SHAREOWNERS

WPL Holdings is committed to maintaining the corporate tradition of enhancing shareowners' investments. Investors have been well served by this commitment. Their confidence in the company has been rewarded by continued earnings increases and dividend growth, which consistently have exceeded those of the industry.

In 1988, the first year the holding company was in operation, earnings reached a record level of $2.18 per share, an increase of 4.8 percent over 1987 earnings. During the past 10 years, earnings per share have grown at a rate of 7.3 percent on an annual basis.

The company's commitment to its investors is evidenced by its historical pattern of consistent dividend growth. The company has paid common-stock dividends to its shareowners for 172 consecutive quarters since 1946. The 3.8-percent increase in dividends per share of common stock in 1988 marked the 16th consecutive year of dividend growth.

The market's confidence in WPL Holdings was reflected in a market-to-book ratio at year-end of 147 percent, well above the industry average.

In a move intended to make the price of WPL Holdings' common stock more competitive with the price of other utility stocks, the company split its common stock in 1988. The 2-for-1 stock split was designed to reduce the per-share market price of the common stock, making the stock available and attractive to a greater number of individual investors. By encouraging a wider distribution of WPL Holdings' stock, the split also will help maintain a stable market for the stock.

The performance of its major subsidiary, Wisconsin Power and Light Co., dominated the holding company's record earnings, emphasizing the continued importance of the utility operations in maintaining the financial strength of WPL Holdings.

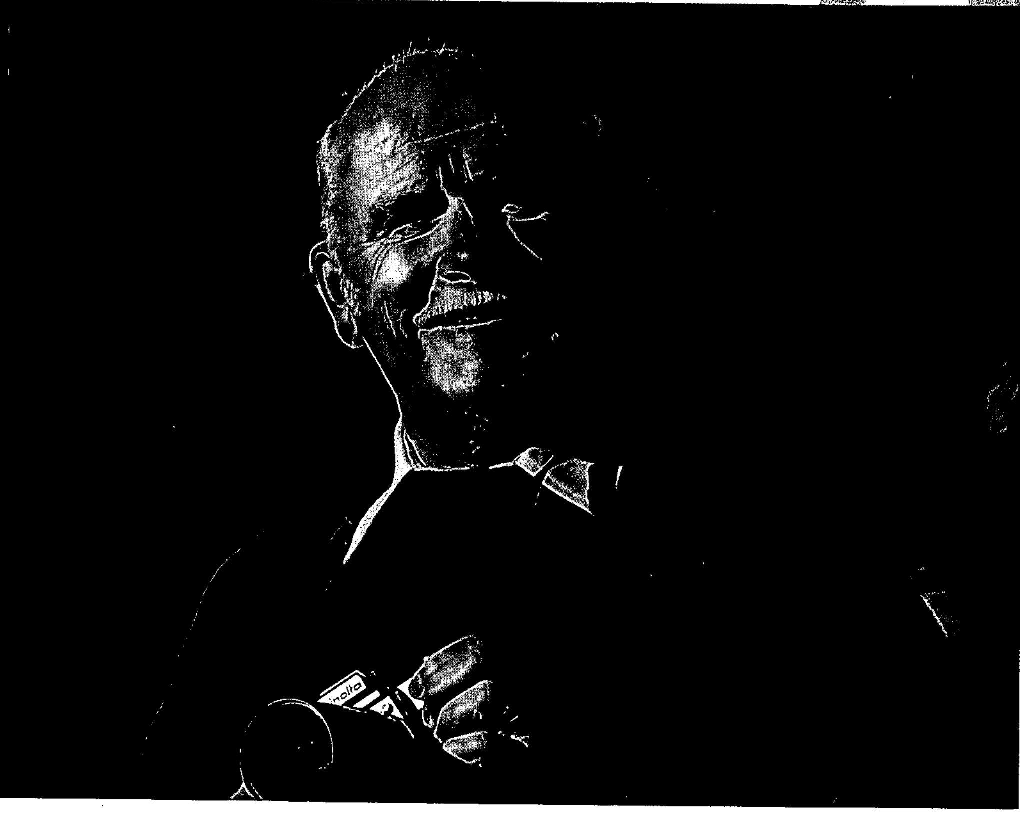
Continued on page 12

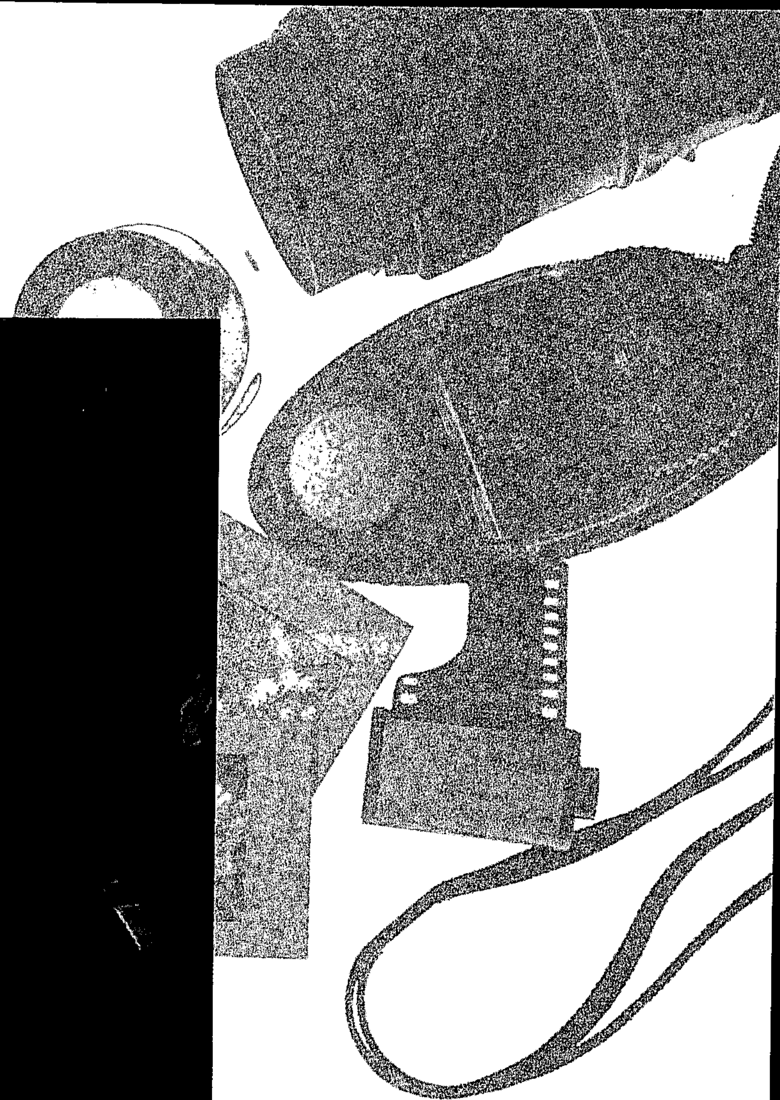
"I'm excited about being a WPL Holdings' shareowner," said Dinny Messner, a flight attendant based in Minneapolis, Minn. Messner became one of WPL Holdings' 40,564 holders of common stock in 1988 when her parents, longtime company shareowners, gave her WPL stock for Christmas. In Messner's view, "That was the best gift!"

1989 Plans

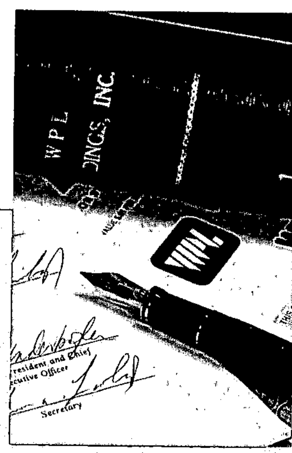
- Continue the company's record of dividend growth.
- Earn the rate of return that the utility is allowed by regulators.
- Take advantage of new non-utility investment opportunities.
- Implement productivity-improvement projects that will enhance shareowner return.
- Work with regulators on incentive regulation programs within the utility.

WPL Holdings, Inc.





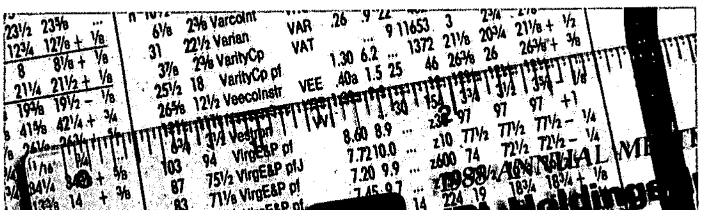
"My WPL Holdings' stock is a sound investment and I'm pleased with the excellent return," said Alan Dunwiddie, a shareowner for 10 years and a member of the company's shareowner advisory committee in Janesville, Wis., where he resides. An energetic man with multifaceted interests, Dunwiddie is a former bank president who now is President and Executive Director of the Janesville Foundation, Inc., a private foundation created by the Parker Pen Co. in 1944 to improve the quality of life in Janesville and the surrounding area. He also is an emeritus trustee and active member of the Wisconsin Nature Conservancy, a private nonprofit organization that preserves prairie land and other unique natural habitats. A talented photographer, Dunwiddie has created 1,500 slides of blossoming flowers and other prairie plants that are a breathtaking tribute to nature.

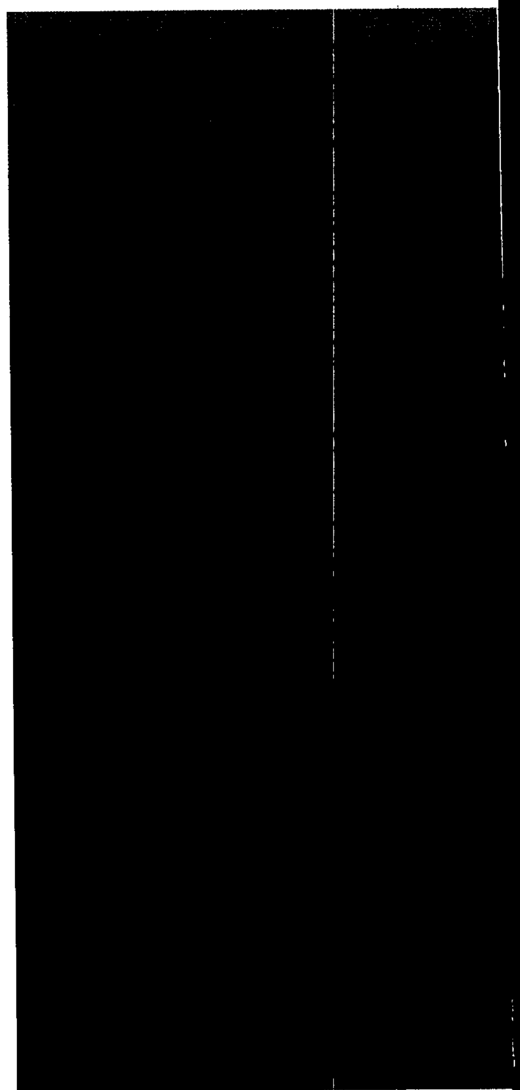


The high quality of Wisconsin Power and Light was underscored in the summer of 1988 when Moody's Investor Service and Standard & Poor's Corp. reaffirmed their highest utility ratings for WP&L's bond issues. The company is one of only four U.S. electric utilities to receive Moody's top Aaa bond rating and S&P's AA+ rating. The company has held these ratings since 1984.

The formation of WPL Holdings at the close of business on March 31 represents the achievement of a major corporate objective. The flexibility that a holding-company structure affords is vital to WPL Holdings' continued success and puts the company in a strong position for future growth. Management formed WPL Holdings to enhance shareowners' investment by diversifying the earnings base and by taking advantage of competitive opportunities.

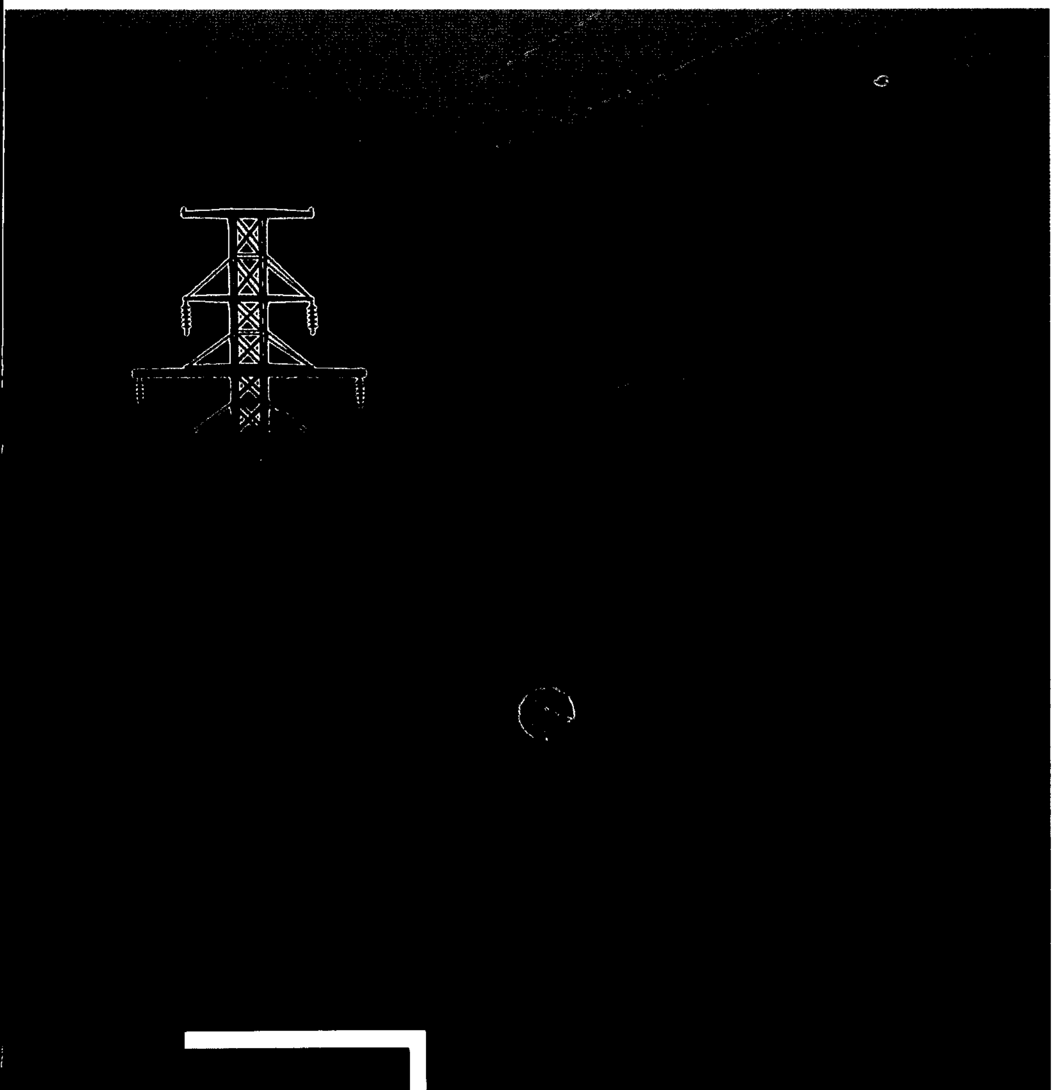
WPL Holdings' financial stability and strength make a difference in the lives of its shareowners.





WP&L...committed to makin

Wisconsin Power & Light Company



Homeowners, businesses, farmers and wholesale customers purchase WP&L's high-quality products and services at prices that are among the lowest in Wisconsin and the nation. The company is committed to maintaining those low rates to enhance its competitive edge.

difference

The commitment between WPL Holdings, Inc. and Wisconsin Power and Light Company is deeply rooted in a successful past but focused on a dynamic future.

The holding company is committed to maintaining the high quality of its major subsidiary — one of the strongest performers in America's utility industry.

The utility is committed to enhancing its contribution to the strong financial position of the holding company. At the same time, WP&L has focused its vision of the future on intensifying its commitment to its customers, employees and the communities it serves...and then going beyond to make a difference in their lives.

ne t sident and CEO

Wisconsin Power and Light Company's performance in 1988, paced by its consistently strong financial and operating results, reinforced its position as one of the top utilities in the nation.

A typical Wisconsin winter and record-breaking summer weather were the dominant factors in the utility's record financial performance in 1988. Both gas and electric sales were excellent, with gas revenues increasing 9.7 percent over 1987 revenues and electric revenues rising 3.6 percent.

Our customers' record use of electric power during the hot summer dramatically tested the reliability of WP&L's generating, transmission and distribution systems, as well as the resolve of our operating personnel. I am proud to state that both our equipment and our employees met the challenge. Unlike most other Wisconsin utilities, WP&L did not once have to interrupt service to any of its customers during the summer's record demand periods.

Weather and operating efficiency were not the only factors contributing to our excellent earnings performance in 1988.

The economic conditions in WP&L's service area remained strong, resulting in an increase of 6.6 percent and 9.1 percent in commercial and industrial electric sales, respectively. The growth rate of WP&L's commercial and industrial sales, which represent 45 percent of our electric revenues, has exceeded that of all other Wisconsin utilities over the last five- and 10-year periods through 1987. This reflects both the attractiveness of our service territory and the effectiveness of our economic-development activities.

WP&L also provides electricity to more wholesale customers than does any other Wisconsin utility. 1988 was characterized by intense competition in wholesale markets nationwide. Our wholesale rates are the lowest in Wisconsin, and we welcome the opportunity to demonstrate our strong capabilities in a competitive market.

With competitive pressures increasing on many fronts, we made further changes in 1988 to prepare for the future. One step we took was to begin to articulate a more clearly defined corporate strategy to guide both our present and future actions. A major thrust of Wisconsin Power and Light's strategy is to become a profitable and growing regional supplier of energy products and services.

To enable us to achieve that overall objective, we will focus our efforts on a number of objectives during the next two to five years.

■ One objective is to provide a greater array of energy products and services to meet the demands of our customers.

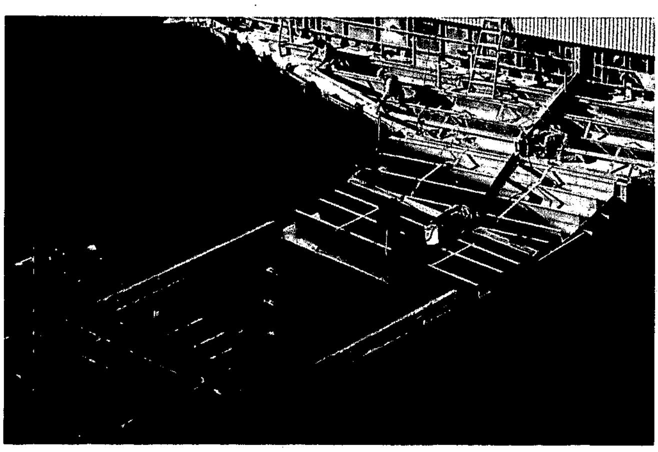
We have a dual responsibility to our customers. First, it is our job to develop the products and services they demand to meet their diverse needs. Second, it also is our job to ensure that these products and services represent the most cost-effective and productive solutions for those customers.

To improve our effectiveness in this area, we have put into place a corporate organization that will be driven by our customers' needs. We will identify our customers' product and service needs through enhanced market research and will develop responses to them in a timely fashion. Our customers must view us not as an energy provider, but as an energy partner who can add value to their lives and businesses.

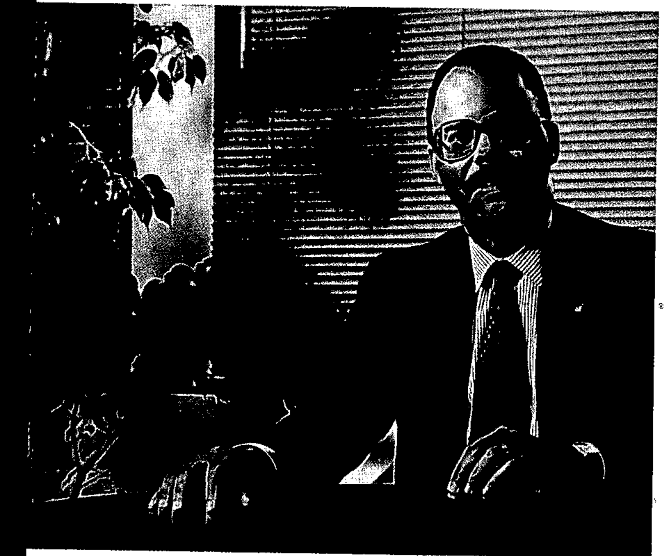
■ Another objective is to seek major change in the present regulatory process.

We will strive to redefine our regulatory relationships to ensure that our regulators understand our corporate objectives, the increasingly competitive markets in which we do business and, most importantly, the changing and diverse needs of our customers. It is our view that WP&L's future viability should depend upon our creativity and our ability to solve customers' problems. The regulatory process — to the extent that it is not sup-

WP&L completed a massive, $19.6-million construction project at the Colnmbia Energy Center near Portage, Wis., in 1988. The extensive modification of Columbia Unit 2 will increase the availahility and the fly-ash-collectiou efficiency of the precipitator.



"Competition is no longer on the horizon. It is here and we are responding to it. We no longer wait for customers to ask us to provide electric, gas or water service. Rather, we go to our customers and ask them what energy problems or needs they have and how we might help them solve those problems. We learn how we can add value to what our customers do."



planted by market forces — should recognize the degree to which one company can do this better than another.

We also have defined several short-term objectives that we plan to accomplish by 1990.

■ First, we will continue to price our products and services competitively by controlling our operating and production costs.

We presently have lower wholesale and commercial/industrial rates than our geographically closest competitors. Our residential rates also are among the lowest 25 percent in the nation. We are committed to maintaining these low rates.

Our managers will be challenged to make our operations more cost-effective over the next several years. Initially that may take a significant investment, but we are committed to changing the way we do business in the future.

■ Second, WP&L will become an even more customer-focused organization.

In 1988 we extended company wide the program tested the previous year in three locations to ensure that we provide superior value to our customers. The major emphasis of the program in 1988 was on training our work force how to manage in changing times. Training in both customer focus and productivity achievement will continue to be our emphasis in 1989 and 1990 as we communicate to our employees the need for continuous improvement to enhance our competitive position.

We have a 64-year history of outstanding customer service and we do many things that we are proud of, but we no longer can be content to allow other energy suppliers to emulate us in the future. If we do not continue to create, to progress and to add value to our customers' lives every day, we will be threatened with losing the strong competitive advantages that we enjoy today.

We will not stand still.

We now are intensifying our focus on customers through increased market research; reallocation of our resources; implementation of a multi-million-dollar customer-service information system to replace our present customer-billing system; development of comprehensive business plans by market segments; and service and pricing options designed to meet our customers' diverse needs.

■ Third, we have put into place, starting Jan. 1, 1989, a new, flatter corporate structure to support our customer markets. We have reorganized Wisconsin Power and Light according to our customer segments instead of the more traditional structures based on products or functions.

The reorganization will strengthen the corporate infrastructure, enabling us to improve product and service quality and to better serve our customers with more cost-effective and responsive products and services.

By implementing our corporate strategy and accomplishing our medium-term and short-term objectives, we are making the transition from a traditional utility to a regional energy supplier vigorously competing for new customers in new markets and new regulatory arenas.

Wisconsin Power and Light is committed to being an aggressive competitor in the marketplaces of both today and tomorrow. Our vision of the future will neither be limited to nor constrained by the bounds that others would impose upon us. We will be limited only by our own creativity and our ability to compete in increasingly competitive marketplaces.

Erroll B. Davis, Jr.
President and Chief Executive Officer
Wisconsin Power and Light Company
February 7, 1989

Corporate Management

As of February 1, 1989
(Date in parenthesis indicates year the person joined WP&L)

OFFICERS

James R. Underkofler, 65 (1941)
Chairman of the Board

Erroll B. Davis, Jr., 44 (1978)
President and Chief Executive Officer

Eugene O. Gehl, 65 (1985)
Executive Vice President and General Counsel

William L. Keepers, 50 (1962)
Executive Vice President - Operations

Eliot G. Protsch, 35 (1978)
Vice President and General Manager - Energy Services

James E. Johnson, 56 (1960)
Vice President and General Manager - Customer Services

A. J. (Nino) Amato, 37 (1985)
Vice President - Marketing and Communications

Norman E. Boys, 44 (1973)
Vice President - Power Production

Robert A. Carlsen, 64 (1951)
Vice President

David E. Ellestad, 48 (1960)
Vice President - Engineering and Operations

Edward M. Gleason, 48 (1977)
Vice President - Finance and Treasurer

William D. Harvey, 40 (1986)
Vice President - Associate General Counsel

Edward F. Killeen, 58 (1976)
Vice President - Planning and Administration

LuAnn G. Killeen, 51 (1965)
Vice President - Information Services

Thomas L. Consigny, 54 (1968)
Assistant Vice President - Public Affairs

Edward G. Young, Jr., 49 (1986)
Controller

Thomas A. Landgraf, 40 (1979)
Corporate Secretary and Assistant to the Chairman

Mary Fujimoto, 60 (1971)
Assistant Secretary and Risk Management Assistant

Thomas M. Regner, 36 (1978)
Assistant Treasurer

DISTRICT MANAGERS

Thomas L. Adelman, 44 (1968)
Lake Geneva

Ronald L. Cowan, 42 (1971)
Baraboo

Phillip E. Crawford, 47 (1960)
Dane County (Oregon)

John D. Grawe, 40 (1971)
Janesville

Jules A. Nicolet, 45 (1977)
Sheboygan

W. Keith Penniston, 54 (1957)
Berlin

Kenneth L. Robenolt, 59 (1953)
Portage

Gary F. Sartorius, 41 (1970)
Tomah

David J. Shaw, 33 (1986)
Beaver Dam

Barbara A. Siehr, 37 (1976)
Fond du Lac

Larry L. Studesville, 41 (1973)
Beloit

Temporarily vacant
Mineral Point

GENERATING STATION MANAGERS

Carl R. Diebls, 53 (1955)
Columbia (Portage)

William A. Frederick, 62 (1959)
Nelson Dewey (Cassville)

Kenneth J. Koele, 40 (1974)
Edgewater (Sheboygan)

Thomas M. Schroeder, 43 (1971)
Blackhawk and Rock River (Beloit)

GENERAL OFFICE DEPARTMENT HEADS

Daniel L. Bartel, 44 (1967)
Director of Electrical Operations

Roger L. Baumann, 46 (1970)
Director of Marketing Services

James W. Bindl, 44 (1976)
Director of Human Resource Planning and Development

Willie B. Collins, 40 (1984)
Director of Internal Audits

James E. Emerick, 43 (1978)
Director of Budgets and Financial Planning

John G. Fabie, 50 (1966)
Director of Electrical Engineering

Daniel A. Gomez-Ibanez, 45 (1977)
Director of Wholesale Services

Richard M. Gregory, 62 (1951)
Director of Fuel Services

William J. Holewinski, 42 (1973)
Director of Generating Station Engineering

Glen R. Kielley, 45 (1983)
Director of Personnel and Safety

John W. Laub, 49 (1967)
Director of Administrative Services and Real Estate

Robert G. Lindenau, 61 (1951)
Director of Buildings and Real Estate

James D. Loock, 42 (1973)
Director of System Operations and Analysis

Thaddeus A. Miller, 46 (1974)
Director of Materials Management

Dale G. Moody, 44 (1966)
Director of Gas Engineering and Operations

Duaine L. Mossman, 62 (1950)
Retiring as Western Region Manager

Suzette M. Mullooly, 41 (1972)
Director of Customer Services

Donald G. Neumeyer, 41 (1970)
Director of Information Systems and Services

Donald R. Piepenburg, 55 (1970)
Director of Corporate Communications

Barbara J. Swan, 37 (1987)
Associate General Counsel

Susan M. Tikalsky, 34 (1983)
Director of Environmental Affairs

Dennis W. Vickers, 39 (1983)
Director of Information Planning and Operations

Scott B. Wallace, 48 (1969)
Director of Integrated Electric Planning

George E. Wennerlyn, 45 (1968)
Director of Rate Design and Gas Supply

Michael J. Wish, 42 (1974)
Director of Corporate Services

Charlotte O. Woods, 46 (1980)
Director of Market Development

Kim K. Zuhlke, 35 (1978)
Director of Customer Services

Management Changes

Wisconsin Power and Light Company's Board of Directors approved a corporate reorganization plan Dec. 21, 1988. The restructuring is designed to better focus the company's resources on its customers and on the delivery of more cost-effective, responsive service.

The reorganization shortens the distance between the customer and senior management, and is a key part of the company's intensified customer-focus initiative. The new corporate structure puts special emphasis on customer segments, marketing and information.

The initial phase of the restructuring was completed Feb. 1, 1989. Management anticipates additional changes during 1989 as it refines the new customer-focused corporate structure.

The following are the major organizational changes.

Eliot G. Protsch was elected Vice President and General Manager-Energy Services. He is responsible for meeting the needs of WP&L's large industrial, commercial, wholesale, municipal, and utility customers. Protsch previously was District Manager, Dane County.

James E. Johnson was elected Vice President and General Manager-Customer Services. He is responsible for meeting the needs of the company's residential, rural, and small commercial and industrial customers. The field organization reports to Johnson, who previously was Vice President-Natural Gas.

A. J. (Nino) Amato was elected Vice President-Marketing and Communications. He had been Director of Electric Marketing and Customer Service.

Norman E. Boys was elected Vice President-Power Production. He previously was Director of Power Production.

LuAnn G. Killeen was elected Vice President-Information Services. She had been Director of Gas Marketing and Customer Service.

David E. Ellestad's title was changed to Vice President-Engineering and Operations. He previously was Vice President-Electrical Engineering and Procurement.

Edward F. Killeen's title was changed to Vice President-Planning and Administration. He had been Vice President-Administration.

The corporate reorganization also resulted in new responsibilities and titles for a number of supervisors, managers, department heads and district managers. The complete list of the new organization, effective Feb. 1, 1989, is shown on page 16.

In addition, the following are key management changes made earlier in 1988.

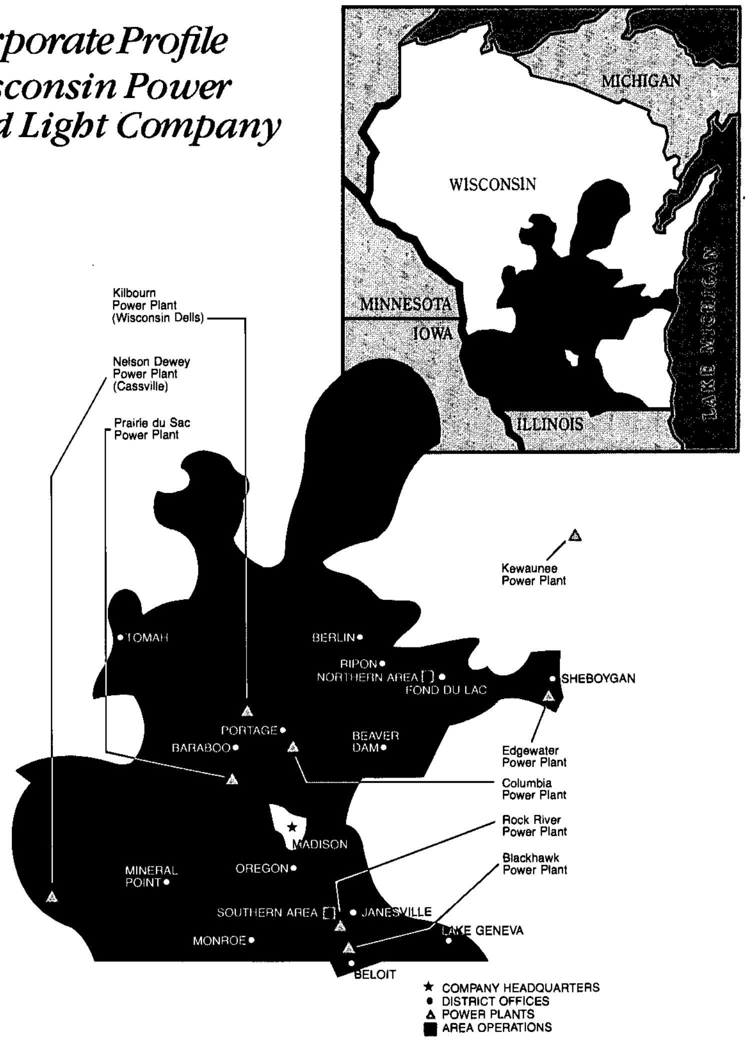
Erroll B. Davis, Jr. was elected President and Chief Executive Officer of Wisconsin Power and Light Company effective Aug. 1, 1988. He had been President since 1987.

Barbara A. Siehr was appointed District Manager, Fond du Lac. She previously was Local Manager, West Madison.

James D. Loock was named Director of System Operations and Analysis. He had been Manager, System Operations Center.

Scott B. Wallace was appointed Director of Integrated Electric Planning. He previously was Acting Director of Generation and System Planning.

Corporate Profile Wisconsin Power and Light Company



Total assets $1.007 billion

Operating revenues $576 million

Percentage of operating revenues

Electric	78.9%
Natural Gas	20.3%
Other	.8%

Net earnings $59 million

Customers

340,000 (electric, gas and water)

Electric customers	% of revenue
Residential	25.8%
Rural	10.5
Commercial	19.8
Industrial	26.6
Wholesale	14.0
Class A/other	3.3
	100%

Natural gas customers	
Residential	55.7%
Commercial firm	25.2
Industrial firm	5.5
Interruptible	6.9
Transportation/other	6.7
	100%

Service area

16,000 square miles in south-central Wisconsin — approximately one-third of the state

Full-time employees 2,600

Organization

Corporate headquarters, Madison, Wisconsin
14 district offices
Two area operations supporting district and company functions
Four coal-fired generating stations (including two jointly owned)
One dual-fuel (natural gas or coal) generating station
Two hydroelectric generating stations
One nuclear plant (jointly owned)

Total system capacity

1,912 megawatts

System peak demand

1,819 megawatts on Aug. 16, 1988

Percentage of generation by fuel

Coal	78.70%
Nuclear	18.90%
Hydroelectric	1.85%
Natural gas	.41%
Oil	.14%

Commitment to CUSTOMERS

Wisconsin Power and Light Company is committed to being a totally customer-focused organization. To maintain its position as a premier energy company in today's fast-paced, competitive marketplace, WP&L is concentrating all of its resources on achieving the company's goal: to be the energy provider of first choice of present and potential customers who seek high-quality products and services.

Serving a diverse group of customers, WP&L recognizes the value of identifying and defining customers' needs and then responding swiftly and appropriately to meet those needs. The company's customer-focused approach offers customers many unique, value-added services.

One of those services is Bright Ideas for Business™ — one of the first programs of its kind in the nation. Using a shared-savings concept, the service enables commercial and industrial customers to save energy and money through improvements recommended and financed by WP&L. In 1988, 40 customers signed Bright Ideas for Business™ contracts representing projects that cost $1.5 million and that will save the customers $466,000 in energy-related operating costs.

WP&L's low rates are a major advantage in today's competitive marketplace. The company's commercial/industrial and wholesale electric rates are the lowest in Wisconsin, and all of WP&L's rates rank among the lowest in the nation.

The company is keeping its natural-gas rates extremely competitive by diversifying its natural-gas suppliers from two major sources to many. In 1988 the company combined extensive spot-market gas purchases with aggressively negotiated long-term contracts with new suppliers to save $7 million, which WP&L passed directly back to its customers.

In addition, in 1988 WP&L completed the construction of a $4.7-million pipeline in southern Wisconsin to bring an additional, competitively priced source of natural gas into the service area.

The company maintains its competitive rates by operating highly efficient and reliable power plants and by taking cost-efficient approaches to managing its operating and production costs. The company's aggressive coal-purchasing policies again paid off in 1988 when WP&L renegotiated two major coal contracts, resulting in a total savings of $10.1 million for the years 1988-1994.

WP&L's new corporate structure will better focus its resources on customers and on the delivery of more cost-effective service. The company's total customer commitment is evident throughout the organization as WP&L employees take creative new approaches to meeting customers' diverse needs while also meeting the competition.

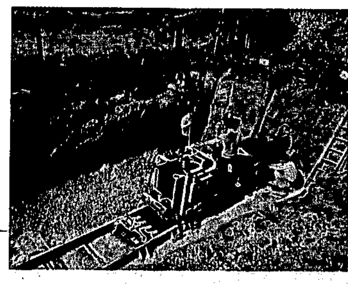
Wisconsin Power and Light makes a difference in the lives of its customers.

"We couldn't have asked for any better cooperation from Wisconsin Power and Light," said Tony Aurit, below. He, his brothers Jim, Pete and Charles, and their families operate two farms totaling more than 1,000 acres near Dodgeville, Wis. The family is taking advantage of several of the array of services WP&L offers its agricultural customers, including a cost-efficient time-of-day rate option and stray-voltage assistance and financing for an equipotential plane. Through WP&L, they also financed and installed milkhouse heat reclaimers at both of their farms, resulting in a savings of 22 percent per month in their total utility bill.

1989 Plans

- ■ Implement and refine the new corporate structure — a key step in WP&L's progress toward becoming a totally customer-focused organization.
- ■ Continue to competitively price WP&L's products and services by controlling operating and production costs.
- ■ Place a major corporate emphasis on market research.
- ■ Provide a greater array of energy products and services to meet the demands of WP&L's diverse customer group.
- ■ Continue to expand WP&L's customer base to strengthen the company's competitive position in its operating region.

"We have an excellent working relationship with Wisconsin Power and Light," said David Ladd, President of Walnut Hollow Farm in Dodgeville, Wis. Ladd's company is participating with WP&L in a major Bright Ideas for Business™ cogeneration project that will use wood waste from its manufacturing processes to generate electricity. Ladd has built Walnut Hollow Farm from a small craft department in his family-owned paint store into a business with multimillion-dollar sales, 200 employees and a growing nationwide market for his 600 products — unfinished decorative wood items for the residential craft industry.



■ Through the results of the Bright Ideas for Business™ service, reduce WP&L's summer peak demand by nearly 7 megawatts. The company estimates Bright Ideas for Business™ investments in 1989 of $5.5 million, with customer energy savings of $1.9 million annually. WP&L plans to market the program to its wholesale customers and to other U.S. utilities.

■ Provide 14,000 BuySmart cash rebates to customers who purchase energy-efficient appliances.

■ Continue to expand the number and variety of services WP&L offers to agricultural customers.

■ Implement a coal-inventory-reduction program at WP&L's power plants that will save $640,000 per year.

■ Renegotiate WP&L's railroad contract for the transportation of coal at a substantial annual savings.

■ Put into operation by year-end a sophisticated system to continuously monitor the flow of natural gas in WP&L's gas system.

■ Begin implementing a new customer-service information system that will replace the company's present customer-billing system.

Commitment to EMPLOYEES

Wisconsin Power and Light Company depends on the combined strength and vision of its employees at every level of the organization to succeed in the future.

That's why the company's commitment to the limitless potential of every employee is so vital. WP&L will continue to fulfill its longstanding commitment to employees: to provide a humane work environment with high standards of working conditions and competitive compensation. At the same time, the company recognizes its responsibility to ensure that employees understand the strategic direction of the company and where they fit into that future strategy.

To build that understanding within the utility, the company intensified training initiatives in 1988. Development programs focused on the skills needed to progress in a customer-focused organization, including leadership skills for managing change, team-building skills, cross-functional problem-solving skills for quality improvement, and basic supervisory skills for front-line supervisors. Nearly 1,000 employees — more than one-third of WP&L's work force — participated in these training programs in 1988, and more will do so in 1989.

The enthusiastic response of employees to the company's quality-team training program exemplifies their commitment to fulfilling the company's mandate: to work creatively at every level to increase productivity and to provide high-quality customer service. Since the program began in 1987, 49 quality teams involving 250 employees have completed the training, in which employees lead problem-solving within their work environments. Their projects have resulted in more than $500,000 in projected annual savings. Other benefits include improved employee morale and working conditions.

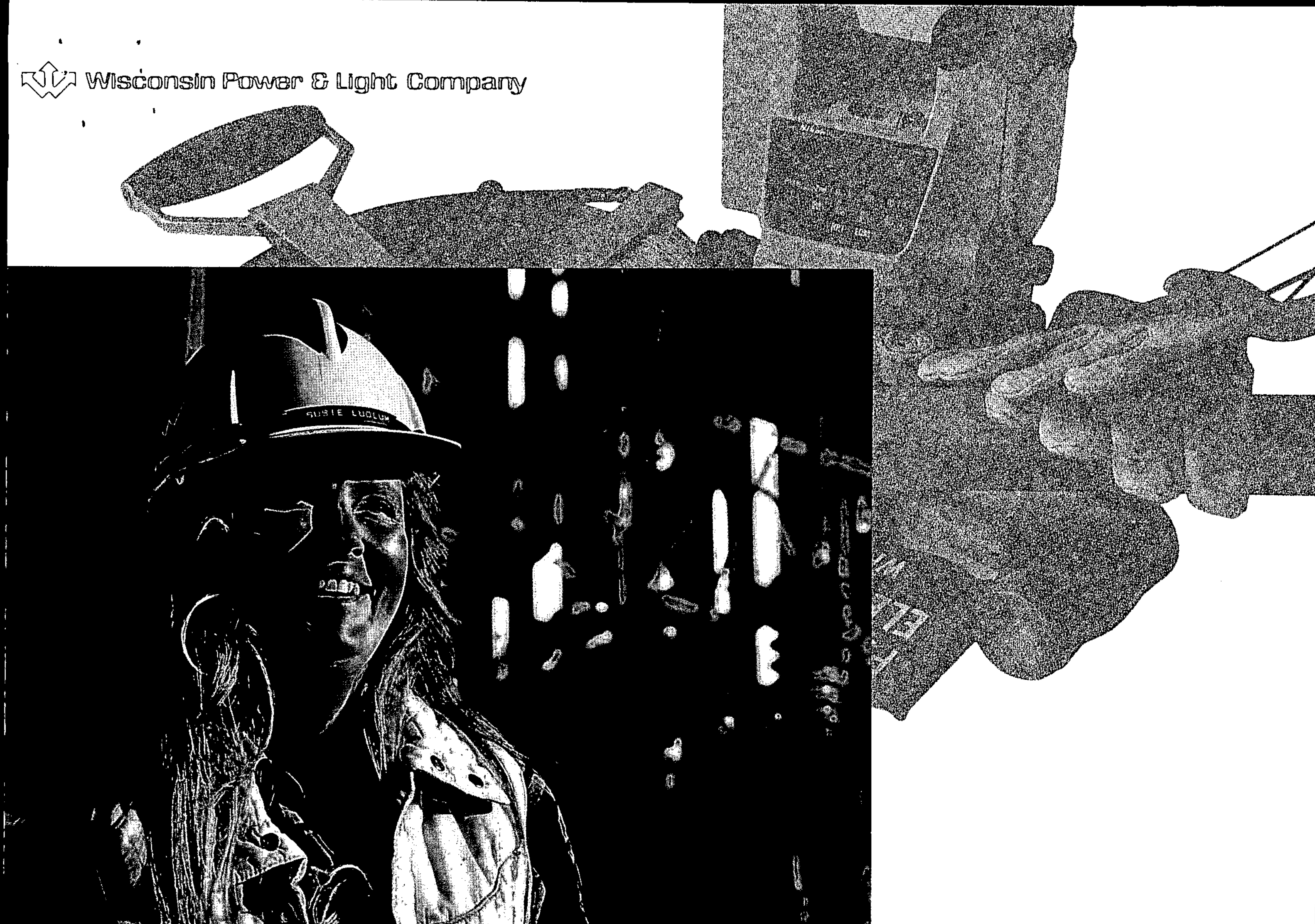
All of these training initiatives were designed to help employees develop new strengths to meet the challenges of a more competitive business environment. The focus of the company's comprehensive training and development programs reflects the new corporate emphasis on flexibility, cross-functional problem-solving, continuous improvement and attention to customer detail at every level.

As the company moves toward achieving its objective of being a totally customer-focused organization, employees meet today's challenges with creativity, strong skills and a sense of competitiveness. WP&L employees make the difference.

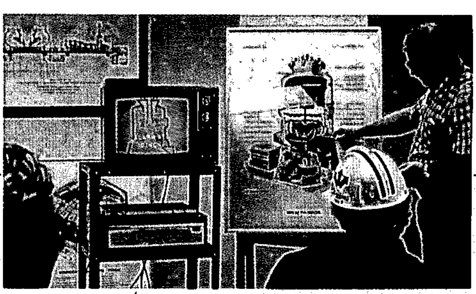
"I never thought I'd be challenged as much as I have been at Wisconsin Power and Light," said Frank Arevalo, Generation Planning Engineer, Integrated Electric Planning. "If someone had told me when I graduated in 1986 that today I'd be enhancing computer models, putting together computer programs and working with people who are the best in the industry, I never would have imagined it."

1989 Plans

- Continue the corporate focus on the concepts integral to becoming a customer-driven organization: continuous learning and improvement, leadership skills for managing change, team-building skills, cross-functional problem-solving skills, statistical process control and the development of individual talent.
- Expand WP&L's business partnership with technical colleges for quality-improvement training and technical apprentice programs and also for scholarship programs for students — especially women and minorities — in technical-degree programs.
- Continue to emphasize five major training initiatives: Leadership for Managing Change (provide to all



"I feel fortunate that the excellent on-the-job training I've received at Wisconsin Power and Light has allowed me to work in both engineering and operations," said Sue Ludlum, Engineering Technician in Mineral Point. "I'm confident that the company will continue to enable people who seek career growth to broaden their goals." A WP&L employee since 1977, Ludlum joined the company as a semi-skilled laborer. She completed the four-year engineering technician apprentice program in 1982 and worked for a year as a substation operator before resuming her engineering-technician position.



employees); customer-focused team-skills training; quality-improvement training (train 30 more teams involving 150 employees); technical apprentice training; and basic supervisory skills (offer 36 different programs).

■ Maintain WP&L's commitment to provide progressive compensation and benefit programs that meet both the company's and the employees' needs. One initiative to support this commitment will be the review of direct and indirect compensation plans that respond to the requirements of WP&L's rapidly changing work environment and new organizational structure.

■ Continue WP&L's commitment to a safe and productive work environment with the modernization of physical facilities at an estimated annual cost of more than $3 million.

Commitment to COMMUNITIES

Wisconsin Power and Light Company is committed to being a responsible member of each of the 605 communities it serves and to promoting the social and economic well-being of its service area. Throughout its 64-year history, WP&L has worked hard to establish the position of community leadership that it enjoys today.

The company's position has been built and strengthened by the hundreds of its employees who give freely of their time and talents. They believe they can make a difference in the lives they touch through their volunteer efforts. And they *are* making a difference — as volunteer firefighters, scout leaders, foster parents, Big Brothers and Big Sisters, blood donors, emergency medical technicians, civic, educational and ethnic-group leaders and more.

At the corporate level, the Wisconsin Power and Light Foundation provided grants in 1988 totaling $747,300, a 28-percent increase over the previous year. Contributions in support of education, a continuing emphasis of the foundation, represented more than 24 percent of the total donation.

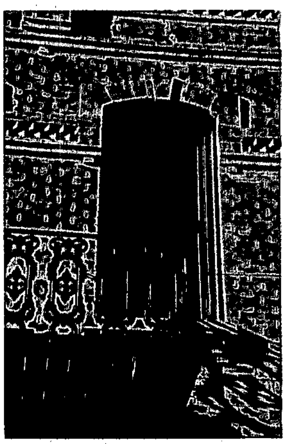
In addition, the company and its shareowners contributed $250,000 through the WP&L Hometown Energy Fund to help low-income customers pay their heating bills during the winter of 1988-89. Since the program began in 1983, the company has provided nearly $2 million to assist more than 10,000 customers.

A top priority at WP&L is maintaining and improving the economic strength of its service area. The company's active and successful economic-development program has a 50-year tradition of helping Wisconsin's economy grow and prosper. Working with state and local development groups and community leaders, the company continued its service-area business-development efforts in 1988. New and expanding industries in WP&L's service territory created more than 2,000 new jobs for Wisconsin and an additional investment of over $80 million in buildings and equipment.

WP&L's high-quality energy products and services and its competitive rates — which are among the lowest in the nation and in Wisconsin — are a strong selling point in communities' efforts to attract new business and industry. WP&L also supports Wisconsin businesses by spending an average of $128,500 per day in the state on items ranging from plant equipment to consulting services.

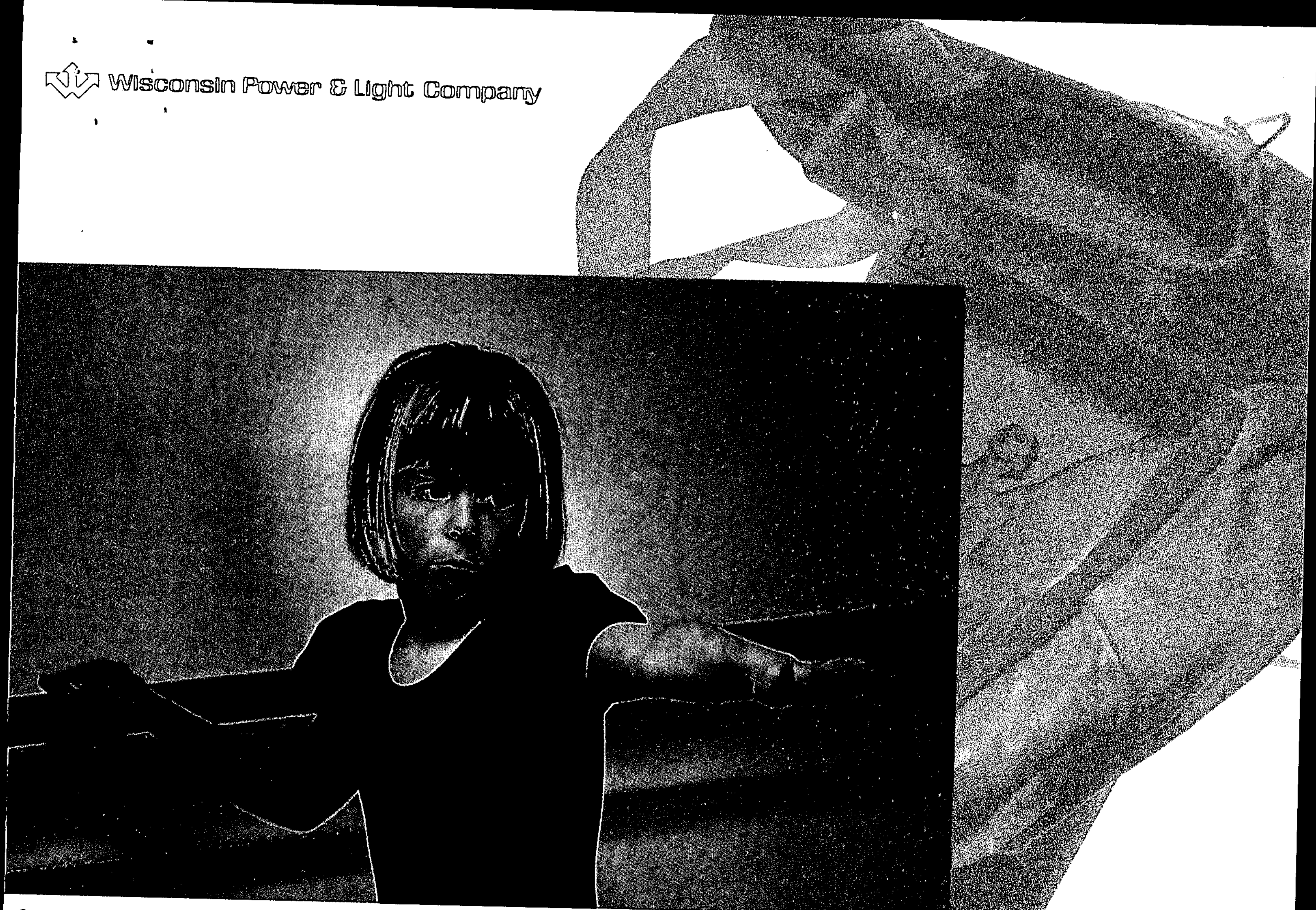
WP&L's innovative Selling to the Government Program, which began in 1986,

WP&L played a leadership role at the state level in 1988 by co-chairing the Wisconsin Main Street Task Force. The Main Street Program is a state-funded, comprehensive approach to revitalizing the downtowns of Wisconsin's communities such as Ripon, below.



1989 Plans

- Since the Wisconsin Power and Light Foundation was established in 1984, the company's initial target has been to raise the annual donation to an amount that represents 1 percent of WP&L's income before taxes. Based on anticipated grants, foundation contributions will exceed that level for 1989. Major emphasis will continue to be on education, health and welfare, and culture and the arts.
- While remaining active in recruiting technology-based industries to Wisconsin, WP&L's economic-development program will emphasize the retention and expansion of existing businesses.
- WP&L's economic-development team will contact the out-of-state headquarters of companies with



Support of cultural activities such as ballet instruction at a YMCA exceeded the Wisconsin Power and Light Foundation's goal of earmarking 15 percent of its total contributions to make art and cultural programs more accessible to people in Wisconsin's communities.

became part of a procurement consortium in 1988 whose mission is to assist Wisconsin businesses in competing for — and winning — state- and federal-government contracts. In 1988 the joint effort of consortium members resulted in more than $200 million in new government contracts for businesses in WP&L's service area.

Wisconsin Power and Light makes a difference in the quality of life of the communities it is privileged to serve.

operations in Wisconsin to help ensure the continued presence and success of those industries in Wisconsin's heartland.

■ The company will continue its efforts to strengthen the food-processing industry, vital to Wisconsin's economy. Through focus groups and surveys, WP&L will identify critical issues facing the industry and assist companies in accessing the full range of federal, state, university and local financial and technological resources available.

■ WP&L will enhance its partnership with local communities in meeting the needs of business and industry by introducing a Rural Development Resource and Training Center. The center will provide seminars, training materials and other resources for the use of community leaders.

Diversified business activities continue to grow

WPL Holdings, Inc. has diversified into unregulated, non-utility businesses through its subsidiary, Heartland Development Corporation.

The subsidiary guides business development in four major areas — environmental consulting, telecommunications, energy technology and real estate development. These areas of emphasis complement the business activities of Wisconsin Power and Light, which will continue to be the holding company's dominant subsidiary.

We formed Heartland Development in March 1988, after the holding company was created, to provide greater flexibility to respond to new-business opportunities and to diversify the earnings base for our shareowners.

We still are in the early stages of our diversification program, and the impact of our non-utility subsidiaries on our earnings has been relatively insignificant to date, as has been our investment in those businesses. However, we are convinced we are on the course that will ensure the greatest long-term benefits for our shareowners, customers, employees and the communities we serve.

Our diversification strategy will continue to be, first, to develop our present non-utility businesses and second, to explore new diversification opportunities that are compatible with our utility operations.

The following is an update of the status of Heartland Development Corp.'s four subsidiaries.

To accommodate its rapid growth, RMT broke ground in 1988 for two new office buildings. A 34,000-square-foot leased office and laboratory facility will house RMT's southeastern regional staff in Greenville, S.C. RMT President E. Brooks Becker, below, tours the building site of the company's $7-million, 75,000-square-foot corporate headquarters and environmental laboratory in Madison, Wis.

Environmental consulting: RMT, Inc.

1988 marked the second consecutive year of record growth in revenue and profits for RMT, Inc., Heartland Development's environmental consulting and engineering subsidiary. Revenues increased to $25 million, compared with $16.5 million in 1987 and $4 million in 1983. RMT plays a significant role in Heartland Development's diversification efforts.

RMT anticipates continued double-digit revenue growth in the next several years because of two major environmental events that have increased the demand for its services: the cleanup of hazardous-waste sites, which was mandated by the U.S. Congress, and the establishment of the $9-billion Superfund.

The fast-growing company specializes in the siting and remediation of solid- and hazardous-waste facilities, hydrogeology, industrial facility design, underground-tank management, industrial-hygiene engineering, air- and water-pollution control, asbestos management, and environmental laboratory services.

RMT was acquired by Wisconsin Power and Light Co. in 1983 and became a subsidiary of Heartland Development Corp. in March 1988. In 1983, RMT had a staff of 85 employees in Madison, Wis. Now a nationwide corporation, RMT's 353 employees staff its offices in South Carolina, Michigan, California and Washington, D.C., in addition to Wisconsin. The company projects 1989 revenues to be nearly $28 million and plans further geographic expansion.

HEARTLAND
Development Corporation

Telecommunications: WP&L Communications, Inc.

Recognizing the critical relationship that exists in business between communication and success, the company formed WP&L Communications, Inc. in 1985 to participate in a fiber-optics telecommunications network called NorLight.

In 1987 NorLight completed the construction of one of the first interstate fiber-optics networks in the Wisconsin-Minnesota-Illinois region. The reliability of the 895-mile, $45-million fiber-optics system has been outstanding with availability of 99.98 percent during 1988, significantly higher than the industry average.

We are much more encouraged about NorLight's outlook this year than we were last year at this time when we said in our annual report that "NorLight's results to date have been disappointing."

Although telecommunications is a highly competitive market, NorLight's sales revenues have increased consistently. A new management team, appointed in October 1987, and its aggressive marketing efforts have made the difference.

Continued on page 26

RMT's nationwide staff of professional engineers, chemists, hydrogeologists, industrial hygienists, scientists, regulatory strategists and field engineers has the expertise and resources to provide cost-effective environmental engineering services. RMT's wide range of projects includes a solid-waste landfill, above, at a large automotive foundry.

In 1988 the fiber-optic network exceeded its revenue target, received key long-term financing, and began an expansion project to serve additional markets in Wisconsin's Fox River Valley in response to customer demand.

Based in Madison, Wis., NorLight is owned by WP&L Communications, a subsidiary of Heartland Development Corp., and the subsidiaries of three other Wisconsin utilities. WP&L Communications owns a 31.9-percent interest in the venture.

Energy technology: ENSERV, Inc.

The company formed ENSERV, Inc. in 1984 to manage its energy-related businesses. While ENSERV's primary interest presently is in a new energy source called K-Fuel®, the subsidiary is in place to pursue other diversification opportunities in energy technology as they arise. ENSERV holds an option to purchase up to 10 percent of the interest in the patent rights to K-Fuel®.

In the K-Fuel® process, coal with a high moisture content and low heating value is processed under high-temperature and high-pressure conditions. The result is K-Fuel® — pelletized coal that has a high energy content and low sulfur emissions.

Commercial-scale development of K-Fuel® is on a tight schedule as the construction of the first-of-its-kind K-Fuel® plant moves forward. Engineering for the new plant has been largely completed and most permits have been obtained. K-Fuel®'s parent company, which received research funding from the Department of Energy, has nearly completed the construction financing of the K-Fuel® plant.

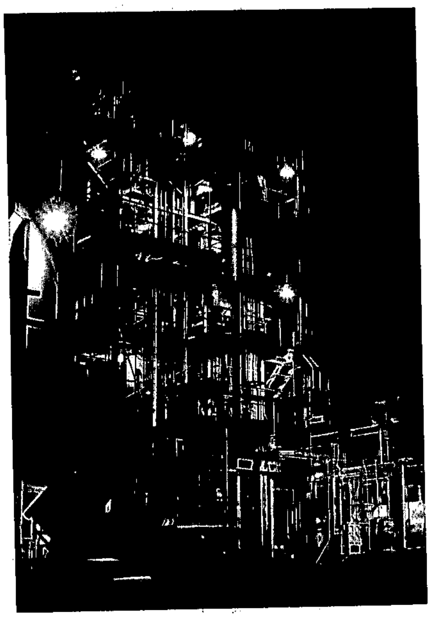
Real estate development: Heartland Properties, Inc.

Created in June 1988, Heartland Properties, Inc. is responsible for the development of non-utility property such as the land it owns in the rapidly expanding Old Sauk Trails Park on the west side of Madison, Wis.

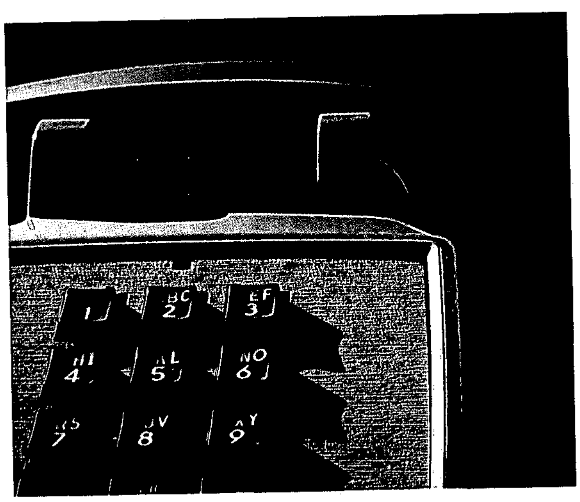
Heartland Properties also is the owner of the corporate headquarters of RMT, Inc., which is under construction in Old Sauk Trails.

James R. Underkofler
Chairman of the Board, President
and Chief Executive Officer
Heartland Development Corporation
February 7, 1989

K-Fuel®, a low-sulfur high-energy-content pelletized coal, is being produced at this demonstration plant near Gillette, Wyo.



NorLight's fiber-optic network is connected to a nationwide system linking approximately 175 cities, placing Wisconsin in a new age of communications. Its customer base includes both industries and other telecommunications carrier companies for which NorLight is a "carrier's carrier."



Heartland Development Corp. Corporate Officers

James R. Underkofler, 65 (1941)
Chairman of the Board,
President and
Chief Executive Officer

Eugene O. Gehl, 65 (1985)
Vice President, Treasurer
and Assistant Secretary

Thomas A. Landgraf, 40 (1979)
Secretary

Alan R. Kjelland, 45 (1976)
Assistant Treasurer and
Business Development Manager

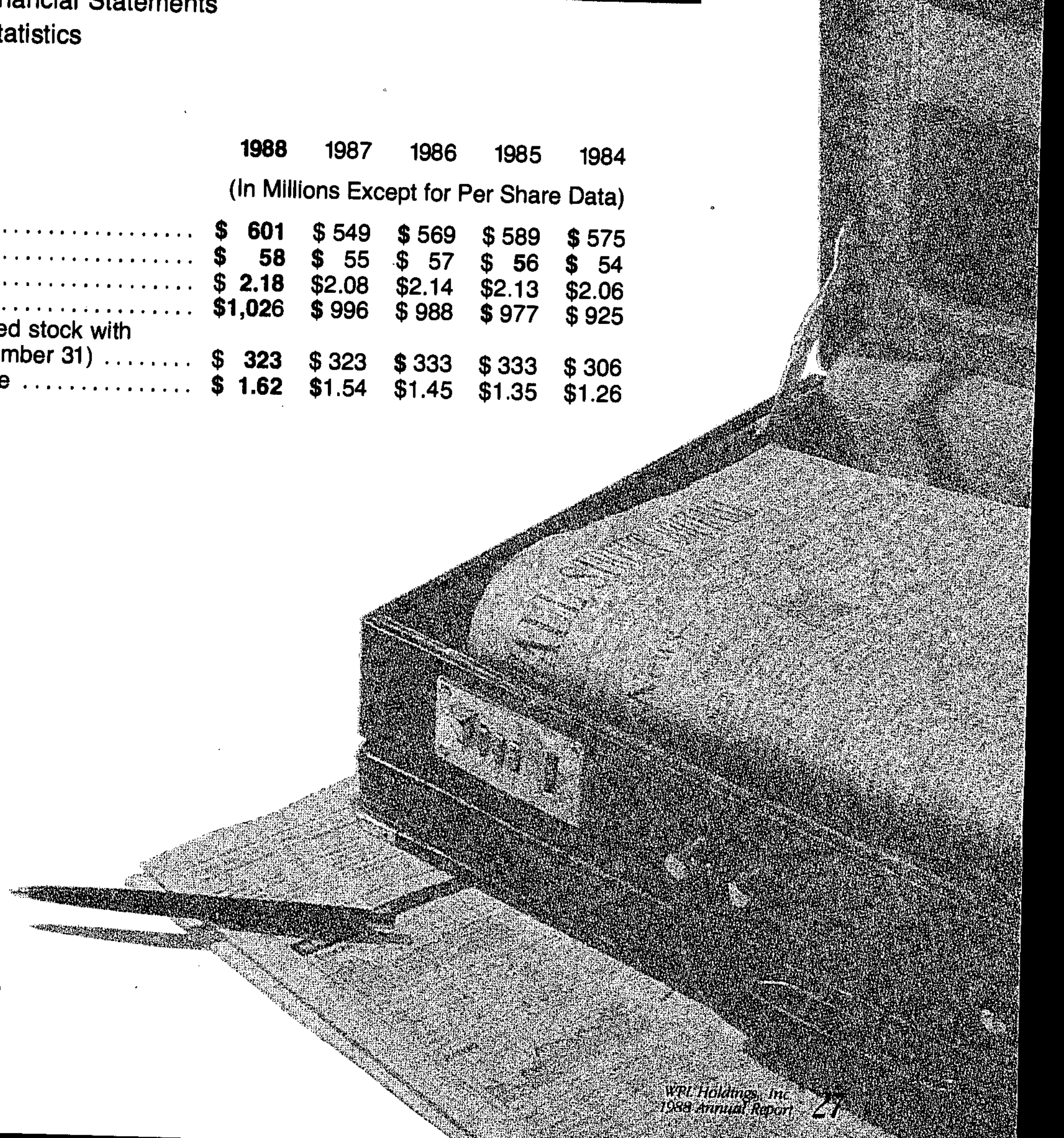
(Date in parenthesis indicates the year the person joined Wisconsin Power and Light Co.)

1988

Financial Section

SELECTED FINANCIAL DATA

	1988	1987	1986	1985	1984
	(In Millions Except for Per Share Data)				
Operating revenues	**$ 601**	$ 549	$ 569	$ 589	$ 575
Net earnings	**$ 58**	$ 55	$ 57	$ 56	$ 54
Earnings per share	**$ 2.18**	$2.08	$2.14	$2.13	$2.06
Total assets (at December 31)	**$1,026**	$ 996	$ 988	$ 977	$ 925
Long-term obligations and preferred stock with mandatory redemption (at December 31)	**$ 323**	$ 323	$ 333	$ 333	$ 306
Cash dividends declared per share	**$ 1.62**	$1.54	$1.45	$1.35	$1.26



1988 Financial Review

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

RESULTS OF OPERATIONS

Overview

All per-share information presented here has been retroactively restated to reflect the stock split effective in September 1988 (see "Notes to Consolidated Financial Statements," Note 3a).

The Company continued its positive financial performance in 1988. Earnings per share were $2.18 for 1988, a 4.8 percent increase over the prior year. Cash dividends per share of common stock have increased over each of the past five years, up to $1.62 in 1988 (see "Financial Highlights").

Effective with the formation of the holding company in 1988, financial statements of WPL Holdings, Inc. are consolidated with the operations of its subsidiaries. Prior year statements were not restated as such amounts are not material to the fair presentation of financial results. This will affect comparability between years in certain financial statement captions, however, such as other operating revenues, other operating expenses, and other income and deductions (see "Notes to Consolidated Financial Statements," Note 1a). The following analysis provides a more detailed discussion of the Company's results of operations and financial condition.

1988 Compared with 1987

Operating Revenues

Total revenues increased 9.4 percent over 1987. Electric revenues of the Company's subsidiary, Wisconsin Power and Light Company (WP&L), continued a growth pattern during 1988, increasing 3.6 percent over 1987. Increased kilowatthour sales of 1.8 percent, primarily in the residential, commercial, and industrial markets, were the result of hot, humid weather experienced in the summer. The Company recorded a record peak demand of 1,819 megawatts on August 16, 1988, representing an increase of 11 percent over the 1987 peak demand. The above increases were offset by a 12.5 percent decrease in kilowatthour sales for resale. This decrease was caused by reduced sales to other utilities that had substantial capacity growth during 1988. WP&L expects sales of electricity for resale to continue this pattern in the future due to such increased capacity. In addition, the Company experienced a $4.1 million annual increase in retail rates in October 1988, and a $.9 million annual decrease in wholesale rates based upon a settlement agreement reached in August 1987.

Gas revenues generated by WP&L increased by 9.7 percent over 1987. Therm sales increased in all major customer categories in 1988, for an overall 13.7 percent increase. This was primarily due to the colder weather during the heating season. Base rate changes during this period included an annual increase of $1.6 million in October 1988 and a $1.3 million annual decrease in April 1987.

Starting in 1988, various industrial gas customers began purchasing their gas directly from suppliers and transporting it through WP&L's distribution system at applicable transportation rates. This has continued throughout 1987 and 1988 with additional customers being added. The transportation of gas by WP&L results in equal reductions of gas revenues and purchased gas expense, while retaining the contribution to earnings, and should be considered when comparing gas revenues with prior years (see "Notes to Consolidated Financial Statements," Note 1h). Transportation of gas is expected to continue at about the same level during 1989.

On February 1, 1989, the Public Service Commission of Wisconsin (PSCW) issued a generic order that will give WP&L the opportunity to recover from all retail customers take-or-pay costs incurred by the Company's pipeline suppliers upon deregulation of the gas industry. Certain of these costs were authorized to be passed through from the supplier to the local distribution companies by the Federal Energy Regulatory Commission (FERC). Management believes that it will be able to recover the majority of these costs from its customers and, as a result, such charges will not have an unfavorable impact on future earnings.

Other Operating Revenues increased $25.5 million between years, primarily due to the consolidation of the non-utility subsidiaries operations.

RMT, Inc.'s revenue reached a record high of approximately $25 million, an increase of 51 percent over 1987, resulting in a 45 percent increase in net earnings. Although NorLight (which is 31.9 percent owned by WP&L Communications) recorded a net loss in 1988, it also continued to show consistent revenue growth.

Operating Expenses

Total operating expenses increased 13.0 percent over 1987. The primary reason for this was the increase in other operation expense due to the consolidation of the non-utility subsidiaries. In addition, total fuel expense, including electric production fuels and purchased power, increased 4.7 percent as a result of increased kWh sales and the record-high demand experienced during the year.

Also, maintenance expense increased 9.6 percent due to a tube sleeving project at the Kewaunee Nuclear Power Plant.

Income Taxes

The Tax Reform Act of 1986 ("the Act") resulted in several changes in federal taxation, including lowering the statutory rate to 40 percent in 1987 and 34 percent in 1988 and repeal of the investment tax credit effective January 1, 1986. The overall effect of the Act is to reduce current federal income taxes for the years affected (see "Notes to Consolidated Financial Statements," Note 1k).

In December 1987, the Financial Accounting Standards Board ("the Board") issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes," (SFAS 96). In December 1988, the Board issued the Statement of Financial Accounting Standards No. 100, which deferred the effective date of SFAS 96 to fiscal years beginning after December 15, 1989, (January 1990 for the Company). Refer to "Notes to the Consolidated Financial Statements," Note 1k for additional information.

1987 Compared with 1986

Operating Revenues

Operating revenues decreased 3.5 percent compared with 1986. Electric revenues were comparable to 1986, with a 3.9 percent increase in kilowatthour sales being offset by a $15.0 million annual retail rate decrease effective April 1, 1987, and an annual wholesale rate decrease of $5.9 million. Gas revenues decreased 16.8 percent, primarily due to two major factors. Gas therm sales decreased 3.1 percent due to warmer weather, as well as transported gas by the large commercial and industrial customers. In addition, there was a base-rate change of a $1.3 million decrease effective April 1, 1987.

Operating Expenses

Operating expenses decreased 4.0 percent compared with 1986. Total fuel expense, including electric production fuels and purchased power, increased 3.9 percent primarily due to the increased kWh sales mentioned above. This was more than offset, however, by a reduction in purchased gas expense, which decreased $20.8 million, or 23.4 percent, due to transported gas resulting in reduced sales.

Other Income and Deductions

Other income and deductions increased due to a recording on the equity method its share (33 percent) of Wisconsin River Power (WRP), a subsidiary of WP&L. The Company also recorded its share of prior net earnings of WRP, resulting in an increase in other income (deductions) of $1.9 million.

Income Taxes

Income tax expense decreased due to the Tax Reform Act of 1986 as mentioned above.

LIQUIDITY AND CAPITAL RESOURCES

Requirements

As we use the term, liquidity means the ability of the Company to generate adequate amounts of cash to meet its needs. Our needs require that we maintain both short-term and long-term liquidity. Short-term liquidity is important because funds are required for the payment of interest and the payment of dividends. In addition, occasionally funds are required to meet requirements of the Company's non-utility subsidiaries.

Long-term liquidity is important because the Company's largest subsidiary, WP&L, is capital-intensive and requires large investments in long-lived assets. WP&L's largest requirement is for construction expenditures. The Company's ongoing construction commitments are significant and, as discussed in Note 2 to the Consolidated Financial Statements, our projected construction expenditures for 1989 are $101.5 million. Such construction includes recurring capital additions, non-utility subsidiary additions, and the funding of an external trust for the eventual decommissioning of the Kewaunee Nuclear Plant, which is jointly owned by WP&L.

In addition to construction commitments, WP&L has other capital requirements. The most significant of these relate to sinking fund obligations and mandatory retirements of long-term debt (see Note 3c in Notes to the Consolidated Financial Statements).

Results

The Company has been very successful in reducing its cost of capital and maintaining adequate funds to meet its requirements. This success is evidenced by our continued excellent bond rating by Standard & Poors' Corp. and by Moody's Investor Services, allowing the Company to take advantage of lower interest rates when issuing high-quality debt. The Company's success also can be attributed to our objective of internal financing of construction expenditures supplemented, when required, by short-term borrowings. With this objective in place, the Company has financed an average of 91 percent of its construction expenditures over the last five years from internally generated funds. There are several benefits from this objective, the most significant of which is the fact that the Company has not had to issue any material amount of first mortgage bonds since 1986. Other steps we have taken to increase our liquidity positions and reduce our overall cost of capital include:

- Selling of accounts receivable, the proceeds of which were used to reduce short-term debt (see "Notes to Consolidated Financial Statements," Note 1l).
- Redemption of $2 million of 8% Series U Bonds in 1988.
- Redemption of $12.7 million of Series S Bonds in 1987.

These measures, combined with an increase in net cash generated from operating activities of 26 percent from 1986 to 1988, have contributed to the Company's strong liquidity position, enabling it to meet its short-term and long-term liquidity requirements.

Report on the Financial Information

WPL Holdings, Inc. management is responsible for all the information appearing in this annual report and for the accuracy and internal consistency of that information. The consolidated financial statements that follow have been prepared in accordance with generally accepted accounting principles. In addition to selecting appropriate accounting principles, management is responsible for the manner of presentation and for the reliability of the financial information. In fulfilling that responsibility, it is necessary for management to make estimates based on currently available information and judgments of current conditions and circumstances.

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

The Board of Directors participates in the financial information reporting process through its Audit Committee, whose composition and duties are described on page 8 of this Annual Report.

James R. Underkofler

James R. Underkofler
Chairman of the Board, President and Chief Executive Officer
WPL Holdings, Inc.

Edward M. Gleason

Edward M. Gleason
Vice President-Finance and Treasurer
Wisconsin Power and Light Company

February 7, 1989

WPL Holdings, Inc. and Subsidiaries

Consolidated Statements of Income

Year Ended December 31,	1988	1987	1986	1985	1984
	(In Thousands Except For Per Share Data)				
Operating revenues (Note 1h):					
Electric	**$454,269**	$438,561	$437,033	$432,314	$425,004
Gas	**116,982**	106,643	128,201	152,588	146,809
Other (Note 1a)	**29,682**	4,178	4,012	4,029	3,663
	600,933	549,382	569,246	588,931	575,476
Operating expenses:					
Electric production fuels	**128,895**	129,276	127,476	126,957	119,817
Purchased power	**23,087**	15,913	12,262	22,764	34,230
Purchased gas	**76,702**	67,988	88,763	112,364	111,694
Other operation (Note 1a)	**135,407**	102,610	101,545	96,191	91,776
Maintenance	**39,811**	36,328	34,807	33,673	30,827
Depreciation (Note 1i)	**52,272**	49,448	45,139	50,945	42,147
Taxes other than income	**23,832**	23,036	22,931	14,975	22,251
	480,006	424,599	432,923	457,869	452,742
Operating income	**120,927**	124,783	136,323	131,062	122,734
Other income and (deductions) (Note 1a):					
Allowance for equity funds used during construction (Note 1e)	**—**	—	769	2,646	8,421
Preferred stock dividends of subsidiary	**(3,812)**	(3,814)	(3,814)	(4,360)	(4,780)
Other	**1,257**	(415)	694	(3,155)	(2,699)
	(2,555)	(4,229)	(2,351)	(4,869)	942
Interest expense:					
Interest on bonds	**27,888**	28,107	30,520	26,938	27,023
Allowance for borrowed funds used during construction (Note 1e)	**(1,829)**	(1,018)	(535)	(3,181)	(5,384)
Other (Note 4)	**3,199**	2,023	805	(2,936)	1,844
	29,258	29,112	30,790	20,821	23,483
Income before income taxes	**89,114**	91,442	103,182	105,372	100,193
Income taxes (Note 1k)	**31,181**	36,477	46,512	49,004	46,641
Net earnings	**$ 57,933**	$ 54,965	$ 56,670	$ 56,368	$ 53,552
Earnings per share (Notes 1f and 3a)	**$2.18**	$2.08	$2.14	$2.13	$2.06
Cash dividends paid per share (Note 3a)	**$1.62**	$1.54	$1.45	$1.35	$1.26

The accompanying nctes are an integral part of the consolidated financial statements.

Auditors' Report

To the Shareowners and Board of Directors of WPL Holdings, Inc.:

We have audited the accompanying consolidated balance sheets and statements of capitalization of WPL HOLDINGS, INC. (a Wisconsin corporation) and subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of income, common shareowners' investment and cash flows for each of the five years in the period ended December 31, 1988. 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 generally accepted auditing standards. 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 resonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly the financial position of WPL Holdings, Inc. and subsidiaries as of December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the five years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

Milwaukee, Wisconsin,
February 7, 1989.

ARTHUR ANDERSEN & CO.

WPL Holdings, Inc. and Subsidiaries

Consolidated Balance Sheets

December 31,	1988	1987
Assets	(In Thousands)	
Utility plant (Notes 1d, 1e and 2):		
Plant in service —		
Electric	$1,235,035	$1,188,582
Gas	146,033	132,918
Water	16,592	15,902
Common	83,471	70,032
	1,481,131	1,407,434
Dedicated decommissioning funds (Note 1i)	25,873	23,110
	1,507,004	1,430,544
Less — Accumulated provision for depreciation (Note 1i)	695,711	644,250
	811,293	786,294
Construction work in progress	20,259	15,325
Nuclear fuel, net (Note 1g)	21,247	19,627
Total utility plant	852,799	821,246
Other property and equipment, net (Note 1a)	4,571	—
Investments (Note 1b)	11,691	16,027
Pollution Control Revenue Bond Fund (Note 3c)	2,876	—
Current assets:		
Cash	720	828
Temporary cash investments, at cost, which approximates market	3,251	1,500
Accounts receivable, less allowance for doubtful accounts of $543,000 and $1,200,000, respectively (Note 1l)	38,384	44,060
Unbilled revenue (Note 1h)	36,707	39,273
Fossil fuel, at average cost (Note 5)	22,852	24,623
Materials and supplies, at average cost	20,595	18,923
Prepayments	19,244	18,379
	141,753	147,586
Deferred charges	12,511	11,174
TOTAL ASSETS	$1,026,203	$ 996,033
Capitalization and Liabilities		
Capitalization (See statements on page 33):		
Common shareowners' investment	$ 417,327	$ 398,123
Preferred stock without mandatory redemption	59,983	60,000
First mortgage bonds, net	322,485	322,797
Other	703	—
Total capitalization	800,476	780,920
Current liabilities:		
First mortgage bonds to be retired and sinking fund requirements (Note 3c)	13,813	—
Short-term debt (Note 6)	24,205	51,800
Accounts payable	42,266	47,293
Accounts payable to credit agent (Note 1l)	19,651	—
Accrued payroll and vacations	9,626	8,500
Accrued taxes	12,722	5,931
Accrued interest	7,591	7,612
Other	16,297	13,401
	146,173	134,537
Other credits:		
Accumulated deferred investment tax credits (Note 1k)	54,293	57,507
Other	25,259	23,069
	79,552	80,576
Construction commitments (Note 2)		
TOTAL CAPITALIZATION AND LIABILITIES	$1,026,203	$ 996,033

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

Year Ended December 31,	1988	1987	1986	1985	1984
			(In Thousands)		
Cash flows generated from (used for) operating activities:					
Net earnings	**$ 57,933**	$ 54,965	$ 56,670	$ 56,368	$ 53,552
Adjustments to reconcile net earnings to net cash provided by operating activities:					
Depreciation	**52,272**	49,448	45,139	50,945	42,147
Deferred income tax	**8,936**	9,254	13,449	12,589	11,926
Investment tax credit deferred (restored), net	**(3,214)**	(2,191)	(3,660)	2,433	7,089
Amortization of nuclear fuel	**5,882**	5,594	5,776	6,230	7,086
Amortization of unbilled revenue	**—**	—	(1,231)	(1,291)	(1,291)
Equity component of allowance for funds used during construction (AFUDC)	**—**	—	(769)	(2,646)	(8,421)
Other	**2,473**	1,882	1,918	1,956	1,889
Changes in assets and liabilities:					
Accounts receivable	**5,876**	4,222	5,607	(6,153)	3,433
Unbilled revenue	**2,566**	(1,404)	10,177	(8,538)	5,301
Fossil fuel	**1,771**	3,904	(2,161)	832	(5,671)
Materials and supplies	**(1,672)**	(31)	(684)	(1,878)	(3,244)
Prepayments	**(865)**	(2,970)	(826)	(13,508)	(371)
Accounts payable	**14,624**	(16,462)	5,888	8,724	(17,815)
Accrued taxes	**6,791**	(9,190)	(5,844)	4,484	(1,444)
Accrued interest	**(21)**	498	(2,557)	556	(1,735)
Other	**7,342**	(1,188)	347	(1,629)	14,825
Net cash generated from operating activities	**160,494**	96,331	127,239	109,474	107,256
Cash flows generated from (used for) financing activities:					
Sale of first mortgage bonds	**—**	—	88,000	—	8,500
Issuance of pollution control revenue bonds	**15,500**	—	—	—	—
Issuance of common stock	**4,239**	—	—	—	12,614
Net change in short-term debt	**(27,595)**	45,800	(44,100)	19,000	20,100
Bond maturities, redemptions and sinking fund requirements	**(1,999)**	(23,237)	(44,704)	(742)	(13,276)
Common stock cash dividends	**(42,942)**	(40,768)	(38,386)	(35,739)	(32,637)
Preferred stock redemptions	**(27)**	—	—	(6,672)	(1,531)
Net cash used for financing activities	**(52,824)**	(18,205)	(39,190)	(24,153)	(6,230)
Cash flows generated from (used for) investing activities:					
Additions to utility plant, excluding AFUDC	**(98,757)**	(75,960)	(63,879)	(66,888)	(91,712)
AFUDC	**(1,629)**	(1,018)	(1,304)	(5,827)	(13,805)
Dedicated decommissioning funds	**(2,763)**	(3,110)	(20,000)	—	—
Payments for nuclear fuel disposal	**—**	—	—	(15,369)	—
Pollution Control Revenue Bond Fund	**(2,878)**	—	—	3,326	4,621
Net cash used for investing activities	**(106,027)**	(80,088)	(85,183)	(84,758)	(100,896)
Net increases (decreases) in cash	**1,843**	(1,962)	2,866	563	130
Cash and cash equivalents at beginning of year	**2,328**	4,290	1,424	861	731
Cash and cash equivalents at end of year	**$ 3,971**	$ 2,328	$ 4,290	$ 1,424	$ 861
Supplemental disclosures of cash flow information:					
Cash paid during the year for:					
Interest on debt, less amount capitalized	**$ 31,686**	$ 29,632	$ 33,882	$ 23,446	$ 30,602
Preferred stock dividends of subsidiary	**$ 3,812**	$ 3,814	$ 3,814	$ 4,360	$ 4,780
Income taxes	**$ 23,262**	$ 30,109	$ 34,771	$ 24,046	$ 24,667

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Capitalization

December 31,	1988	1987
	(In Thousands)	
Common shareowners' investment (Notes 1a and 3a):		
Common stock, $.01 par value and $2.50 par value, authorized — 50,000,000 shares; issued and outstanding — 26,662,553 shares and 26,473,202 shares as of December 31, 1988 and 1987, respectively	$ 267	$ 66,183
Additional paid-in capital	182,984	112,799
Reinvested earnings	234,096	219,141
Total common shareowners' investment	417,327	398,123
Preferred stock without mandatory redemption (Note 3b):		
Wisconsin Power and Light —		
Cumulative, without par value, $100 stated value, authorized 3,750,000 shares, maximum aggregate stated value $150,000,000; issued and outstanding 599,630 shares and 600,000 shares as of December 31, 1988 and 1987, respectively:		
4.50% series, 99,970 shares outstanding	9,997	10,000
4.80% series, 74,912 shares outstanding	7,491	7,500
4.96% series, 64,979 shares outstanding	6,498	6,500
4.40% series, 29,957 shares outstanding	2,996	3,000
4.76% series, 29,947 shares outstanding	2,995	3,000
8.48% series, 149,865 shares outstanding	14,986	15,000
7.56% series, 150,000 shares outstanding	15,000	15,000
Total preferred stock	59,963	60,000
First mortgage bonds, net (Note 3c):		
Wisconsin Power and Light —		
Series J, 4⅝%, due 1989	—	6,303
Series K, 4¼%, due 1992	3,827	3,827
Series L, 6¼%, due 1998	8,899	8,899
Series M, 8%, due 1999	24,509	24,509
Series N, 8⅞%, due 2000	24,900	24,900
Series O, 8%, due 2001	29,995	29,995
Series P, 8⅞%, due 2004	35,000	35,000
1975 Series A, 7¾%, due 1991-2005	16,000	16,000
1975 Series B, 7¾%, due 2000	875	875
1975 Series C, 7¾%, due 2000	1,000	1,000
Series Q, 8⅞%, due 2006	35,000	35,000
Series R, 9⅛%, due 2008	35,000	35,000
1980 Series A, 8%, due 2000	9,000	9,000
1980 Series A, 8¼%, due 2007-2010	7,000	7,000
1984 Series A, floating rate, due 2014 (7.5% at December 31, 1988)	8,500	8,500
1988 Series A, floating rate, due 2015 (7.5% at December 31, 1988)	15,500	—
1986 Series T, 10% due 2016	50,000	50,000
1986 Series U, 8% due 1991	19,000	28,500
	324,005	324,308
Unamortized discount and premium, net	(1,520)	(1,511)
Total first mortgage bonds, net	322,485	322,797
Other	703	—
TOTAL CAPITALIZATION	$800,478	$780,920

The accompanying notes are an integral part of the oonsolidated financial statements.

Consolidated Statements of Common Shareowners' Investment

Year Ended December 31,	1988	1987	1986	1985	1984
			(In Thousands)		
Common stock:					
Balance at beginning of year	$ 66,183	$ 66,183	$ 66,183	$ 66,183	$ 63,787
Issued in connection with employee benefit plans and other	2	—	—	—	2,396
Adjustment of par value (Note 1a)	(66,051)	—	—	—	—
Adjustment for two-for-one stock split	133	—	—	—	—
Balance at end of year	267	66,183	66,183	66,183	66,183
Additional paid-in capital:					
Balance at beginning of year	$112,799	$112,799	$112,799	$112,765	$102,581
Adjustment of par value (Note 1a)	66,051	—	—	—	—
Issued in connection with employee benefit plans and other	4,247	—	—	34	10,184
Adjustment for two-for-one stock split	(133)	—	—	—	—
Balance at end of year	182,964	112,799	112,799	112,799	112,765
Reinvested earnings:					
Balance at beginning of year	$219,141	$204,944	$186,668	$166,368	$145,501
Net earnings	57,933	54,965	56,670	56,368	53,552
Cash dividends	(42,942)	(40,768)	(38,386)	(35,739)	(32,637)
Expense of issuing common stock and other	(36)	—	(8)	(329)	(48)
Balance at end of year	234,096	219,141	204,944	186,668	166,368
TOTAL COMMON SHAREOWNERS' INVESTMENT	$417,327	$398,123	$383,926	$365,650	$345,316

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES:

a. **Corporate Restructuring:**

On February 25, 1988, WPL Holdings, Inc. (the Company) and Wisconsin Power and Light Company (WP&L) received approval from the Securities and Exchange Commission to form a holding-company structure. On March 31, 1988, the parent holding company was formed and WP&L became a wholly owned subsidiary of WPL Holdings, Inc.

As a result of the holding-company formation, in all subsequent financial statements, preferred stock dividends of WP&L will be retroactively restated as a nonoperating expense. This restatement has no impact on net earnings or on earnings per share.

Also effective with the formation of the holding company, all $5 par value common stock of WP&L was converted to $.01 par value common stock of WPL Holdings, Inc. Consistent with this formation, common stock and additional paid-in capital have been adjusted to reflect the new $.01 par value.

As a result of the holding-company formation, financial statements of WPL Holdings, Inc. will be consolidated with the operations of its subsidiaries, effective January 1, 1988. This will result in an additional balance sheet caption under "Other property and equipment, net." For prior periods, the nonutility subsidiaries, including the current parent company, were accounted for by WP&L on the equity method, with nonutility subsidiaries' net revenues and expenses being included with "Other income and deductions." Beginning January 1, 1988, the nonutility subsidiaries' revenues and expenses are included in the appropriate line items of the consolidated statements of income. Periods prior to January 1, 1988, were not restated as such amounts are not material to a fair presentation of financial results.

Certain prior period amounts in the consolidated financial statements have been reclassfied to conform with current year presentations.

b. **Consolidation:**

The consolidated financial statements include WPL Holdings, Inc. and its wholly owned consolidated subsidiaries, Heartland Development Corporation and Wisconsin Power and Light Company. Also included are Heartland Development Corporation's subsidiaries, ENSERV, Inc., Heartland Properties, Inc., RMT, Inc. and

- WP&L Communications, Inc., and Wisconsin Power and Light Company's subsidiaries, South Beloit Water, Gas and Electric Co., Wisconsin Power and Light Nuclear Fuel, Inc. and REAC, Inc. Companies less than majority owned and other minor subsidiaries are accounted for on the equity method. All significant intercompany transactions and accounts have been eliminated.

c. **Regulation:**

WP&L's books and records are maintained in accordance with the uniform systems of accounts prescribed by its regulators. The Public Service Commission (PSC) of Wisconsin and the Illinois Commerce Commission have jurisdiction over retail electric rates, which represent approximately 81 percent of electric sales, and retail gas rates. The Federal Energy Regulatory Commission (FERC) has jurisdiction over wholesale rates representing approximately 19 percent of electric sales.

d. **Utility Plant:**

Utility plant is recorded at original cost. Such cost includes material, labor, overhead and an allowance for funds used during construction. Normal repairs and replacements of minor items are charged to maintenance expense. The costs of depreciable property retired, including removal costs less salvage value, are charged to accumulated depreciation upon removal from utility plant accounts. Thus, no gain or loss is recognized in connection with the ordinary retirement of depreciable utility property. Substantially all of WP&L's utility plant is pledged as security for its first-mortgage bonds. WP&L has no material leases.

e. **Allowance for Funds Used During Construction (AFUDC):**

AFUDC represents the interest cost of borrowed funds and the imputed cost of equity funds used for construction and does not contribute to the current cash flow of WP&L.

Prior to the October 1984 Wisconsin retail rate order, WP&L was limited to a 7 percent AFUDC rate on retail construction work in progress (CWIP) not included in rate base, representing approximately 30 percent of CWIP. Effective with the October 1984 order, WP&L capitalized AFUDC at 11.05 percent on qualifying CWIP not included in rate base, representing approximately 90 percent of CWIP. In accordance with WP&L's 1985, 1986, 1987 and 1988 retail rate orders, effective September 1985, August 1986, April 1987 and October 1988, respectively, WP&L capitalized AFUDC at 11.45 percent, 10.93 percent, 10.64 percent and 10.34 percent, respectively, on all qualifying CWIP.

For its wholesale jurisdiction, WP&L capitalized AFUDC on qualifying CWIP at 11.3 percent, 10.1 percent, 10.6 percent, 6.8 percent and 7.0 percent for the years 1984, 1985, 1986, 1987 and 1988, respectively.

f. **Earnings Per Share:**

Earnings per share are computed by dividing net earnings by the weighted average number of shares outstanding. The number of shares used in this calculation, as adjusted to reflect the two-for-one stock split in September 1988 (see note 3a), were:

	(In Thousands)
1988	**26,528**
1987	26,473
1986	26,473
1985	26,473
1984	25,996

g. **Nuclear Fuel:**

Nuclear fuel is recorded as an asset at its original cost and is charged to expense based upon the quantity of heat produced for the generation of electricity. Estimated future disposal costs of such fuel are expensed based on kilowatthours (kWh) generated. Under the Nuclear Waste Policy Act of 1982, the U.S. Department of Energy (DOE) is responsible for the ultimate storage and disposal of spent nuclear fuel removed from nuclear reactors. Disposal costs are recovered in rates charged for electric utility service.

Net nuclear fuel consists of:

	December 31, 1988	December 31, 1987
	(In Thousands)	
Original cost of nuclear fuel	**$115,951**	$106,053
Accumulated amortization	**94,704**	86,426
Net nuclear fuel	**$ 21,247**	$ 19,627

Accumulated amortization includes the income tax effects of using liberalized depreciation methods and assumes that plutonium and uranium in the spent nuclear fuel will have no residual value.

Prior to 1988, nuclear fuel was obtained from a subsidiary of WP&L created to explore and develop fuel sources for the jointly owned Kewaunee Nuclear Plant. This fuel was recorded at cost, which includes the cost of the operations of this subsidiary.

Purchases of nuclear fuel are currently being made on the open market and no exploration or mining is being performed. Consequently, WP&L's investment in the subsidiary was written off to the nuclear fuel asset account, and will be expensed as the fuel is burned.

h. **Revenue:**

WP&L accrues estimated utility revenues for services rendered but not yet billed at each month end.

Starting in 1986, various industrial gas customers began purchasing their gas directly from suppliers and transporting it through WP&L's distribution system at applicable transportation rates. Transportation rates are designed to recover all costs of gas distribution and a return on gas plant investment. Transportation of gas results in equal reductions to gas revenues and purchased gas expense but retains the contribution to earnings. In 1988, 1987 and 1986, these gas transportation customers accounted for approximately 22 percent, 23 percent and 10 percent of gas therm sales, respectively.

i. **Depreciation:**

WP&L allocates the cost of utility plant over the useful life of such plant through depreciation expense. Straight-line depreciation is computed on the average balance of depreciable property at individual straight-line rates, approved by the PSC, applied to various classes of property. Effective January 1, 1986, lower straight-line rates ordered by the PSC decreased annual depreciation expense an estimated $3.2 million. The annual composite rates were:

	Electric	Gas	Water	Common
	%	%	%	%
1988	**3.3**	**3.9**	**2.8**	**6.8**
1987	3.3	3.9	2.5	7.0
1986	3.3	3.9	2.5	6.5
1985	4.2	4.2	2.3	6.3
1984	4.3	4.2	2.2	6.1

Depreciation expense related to the Kewaunee Nuclear Plant includes a provision for decommissioning the plant. During 1986, Wisconsin utilities operating nuclear generating plants were required by the PSC to establish external trust funds to provide for the decommissioning of such plants and to deposit current and previously collected funds in such trust funds. During 1986, WP&L established a dedicated $20 million decommissioning fund from proceeds of a bond issue pending establishment of the external trust funds, determination by the Internal Revenue Service (IRS) of the tax deductibility of deposits to the trust funds and further direction by the PSC. In November 1987 WP&L, upon receipt of its IRS ruling, established initial external trust funds totaling $20.3 million representing funds collected through December 31, 1986. In accordance with PSC directives, all earnings of the external funds are recognized as other income. The balances in the funds at December 31, 1988 and 1987, totaled $26.8 million and $23.1 million, respectively, consisting of various investments, at cost. Future contributions to the funds are anticipated to be $2.5 million annually.

j. **Retirement Plans:**

WP&L has noncontributory defined benefit plans covering substantially all employees. The benefits are based on years of service and levels of compensation. WP&L's funding policy is to contribute an amount not less than the minimum required contribution and not greater than the maximum tax-deductible contribution. A combination of the projected unit credit and the term cost actuarial methods is used in determining its annual funding requirements.

WP&L adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions" (SFAS 87), effective January 1, 1987, which had the effect of reducing pension expense by approximately $5.5 million in 1987. Additionally, pension expense was increased in 1987 by approximately $3.6 million representing the one-time cost of an early retirement program. These adjustments to pension costs are built into WP&L's rates and as such do not have a material impact on net earnings.

The following table sets forth the funded status of the WP&L plans and amounts recognized in the Company's consolidated balance sheets at December 31, 1988 and 1987:

	1988	1987
	(In Thousands)	
Accumulated benefit obligation		
Vested benefits	**$(81,318)**	$(70,428)
Nonvested benefits	**(302)**	(138)
	$(81,820)	$(70,566)
Projected benefit obligation	**$(91,304)**	$(88,185)
Plan assets at fair value, primarily common stocks and fixed income securities	**133,991**	126,443
Plan assets in excess of projected benefit obligation	**42,687**	38,258
Unrecognized net transition asset	**(34,084)**	(36,248)
Unrecognized prior service cost	**8,129**	10,023
Unrecognized net (gain) loss	**(13,737)**	(13,783)
Prepaid (accrued) pension liability	**$ 2,995**	$ (1,750)

Net pension expense (benefit) for 1988 and 1987 included the following components:

	1988	1987
	(In Thousands)	
Service cost	**$ 1,907**	$ 2,722
Interest cost on projected benefit obligation	**7,831**	7,751
Actual return on assets	**(15,364)**	(10,714)
Net amortization and deferral	**2,449**	(4,378)
Net pension expense (benefit)	**$ (3,177)**	$ (4,619)

For 1988 and 1987, the weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 9 percent, and the rate of increase in compensation levels was based on historical experience. The expected long-term rate of return on assets used at January 1, 1988, and January 1, 1987, was 10.0 percent and 12.0 percent, respectively.

The plans used an assumed investment rate of 8.75

percent for 1986 and 1985, and 7.5 percent in 1984. Summary information related to these plans, when the former accounting and actuarial methods were used is presented below.

Summary Retirement Plans Information As of January 1,

	1986	1985	1984
	(In Thousands)		
Actuarial value of accumulated plan benefits:			
Vested	$ 62,128	$48,821	$48,342
Nonvested	1,183	1,181	2,016
Total	$ 63,311	$50,002	$50,358
Net assets available for benefits	$115,628	$97,337	$90,933
Total plan provisions (credit) for the year	$ (384)	$ 869	$ 2,756

Pension expense decreased in 1986, reflecting the favorable earnings on trust fund assets partially offset by plan amendments.

In addition to providing pension benefits, WP&L provides certain health-care and life-insurance benefits for substantially all employees who reach early or normal retirement age while working for WP&L. The estimated cost for such benefits, $631,000, $325,000, $314,000, $660,000 and $715,000 for 1988, 1987, 1986, 1985 and 1984, respectively, is accrued and charged to expense as a percentage of WP&L's payroll costs over the working lives of those employees expected to qualify for such benefits. WP&L's policy is to fund such benefits in accordance with income tax deductible amounts.

WP&L also offers a deferred compensation plan as well as other supplemental retirement plans to key executives of the Company. These plans are currently unfunded.

k. **Income Taxes:**

Depreciation expense computed for tax purposes reflects the use of various available liberalized depreciation methods. Deferred income taxes are recorded on the estimated reduction of federal income taxes due to the use of these practices. Such amounts are classified as additional accumulated depreciation in the Consolidated Balance Sheets. Beginning in October 1984, pursuant to PSC order UR 14, the state income tax effects of utilizing liberalized depreciation methods are flowed through currently.

The breakdown of income tax expense as reflected in the Consolidated Statements of Income is as follows:

	1988	1987	1986	1985	1984
	($ in Thousands)				
Income taxes:					
Current federal income	**$18,840**	$24,329	$30,559	$28,829	$20,943
Deferred	**8,936**	9,254	13,449	12,589	11,926
Investment tax credit—					
Deferred	**—**	—	381	6,436	10,437
Restored	**(2,915)**	(3,174)	(3,373)	(3,539)	(2,751)
Current state income	**6,320**	6,068	5,496	4,689	6,086
	$31,181	$36,477	$46,512	$49,004	$46,641

The following table reconciles the statutory federal income-tax rate to the effective income-tax rate:

	1988	1987	1986	1985	1984
Statutory federal income tax rate	**34.0%**	40.0%	46.0%	46.0%	46.0%
Allowance for funds used during construction, which does not constitute current taxable income	**(.6)**	(.4)	(.5)	(2.5)	(5.5)
State income taxes and state additional depreciation, net	**3.8**	3.2	2.2	1.9	3.5
Reversals of various plant-related timing differences for which deferred taxes had not been provided	**1.8**	1.9	1.8	2.5	2.0
Investment tax credits restored	**(3.1)**	(3.4)	(3.1)	(3.2)	(2.6)
Other differences, net	**(.9)**	(1.4)	(1.3)	1.8	3.2
Effective income tax rate	**35.0%**	39.9%	45.1%	46.5%	46.6%

As of December 31, 1988, $12.3 million of deferred income taxes at the 34 percent rate had not been provided on cumulative income tax timing differences of $36.3 million. These amounts are recoverable in rates under current regulatory policies.

The Tax Reform Act of 1986 ("the Act") contained numerous provisions, including the reduction of the maximum corporate tax rate from 46 percent to 40 percent in 1987 and 34 percent thereafter, as well as the elimination of the investment tax credit effective January 1, 1986. Previous investment tax credits taken were deferred and are being restored into income over the useful lives of the property. The impacts of the Act were included in rate changes made effective in 1987.

In December 1987 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96 "Accounting for Income Taxes" (SFAS 96). The accounting standard requires an asset and liability approach for financial accounting and reporting for income taxes instead of the deferred method. While the standard must be adopted no later than January 1990, the Company has not determined whether it will reflect the initial application of the statement as a cumulative effect in the year of adoption or as a restatement of prior years' financial statements.

SFAS 96 requires adjustments to reflect the accumulated deferred income taxes arising from book-to-tax temporary differences. These adjustments primarily relate to the following: tax rate changes; items previously recorded on an after-tax basis, and other temporary differences for which deferred taxes were not previously recorded.

The Company has not yet determined the amount of these adjustments. It is expected that the additional deferred income tax assets and liabilities will be offset primarily by regulatory assets and liabilities representing the expected future revenue requirement impact of these adjustments. However as in the past, the ultimate impact on net earnings related to these adjustments will depend greatly on the ratemaking treatment authorized in future ratemaking proceedings.

I. **Accounts Receivable:**

In July 1988, WP&L entered into a Purchase and Administration Agreement ("the Agreement") with CSW Credit, Inc. ("CSW") to sell, without recourse, certain accounts receivable of WP&L. The initial sale of these receivables took place on July 28, 1988, the proceeds of which were used to reduce short-term debt.

The agreement provides that utility receivables will be sold on a daily basis net of any cash collected by WP&L. All billing and collection functions remain the responsibility of WP&L. The total accounts receivable sold at December 31, 1988 was $41,377,000.

Certain receivables are not sold until the month following the month in which they are billed. Cash collections from prior receivables sold are also remitted at that time. Such amounts to be remitted totaled $19,651,000 at December 31, 1988.

NOTE 2. JOINTLY OWNED UTILITY PLANTS AND CONSTRUCTION COMMITMENTS:

WP&L participates with other Wisconsin utilities in the construction and operation of several jointly owned electric plants. The chart below represents WP&L's proportionate share of such plants reflected on the balance sheet at December 31, 1988 and 1987:

		1988		1987	
	Ownership Interest	**Plant in Service**	**Accumulated Provision For Depreciation**	**Plant in Service**	**Accumulated Provision For Depreciation**
	%	(In Thousands)		(In Thousands)	
Coal:					
Columbia Energy Center . .	**46.2**	**$162,322**	**$ 83,385**	$153,688	$ 78,331
Edgewater Unit 4	**68.2**	**41,746**	**24,948**	42,113	22,692
Edgewater Unit 5	**75.0**	**233,142**	**53,408**	231,223	43,681
Nuclear:					
Kewaunee Nuclear Plant	**41.0**	**116,244**	**94,130**	115,956	84,595
TOTAL		**$555,456**	**$255,871**	$542,980	$229,299

WP&L's share of operations and maintenance expenses is included in the appropriate expense categories in the statements of income.

Construction and net removal cost expenditures for 1989 are estimated to be $101.5 million. Substantial commitments have been incurred in connection with such expenditures.

NOTE 3. CAPITALIZATION:

a. **Common Stock:**

On July 13, 1988, the Board of Directors authorized a two-for-one split of WPL Holdings, Inc. common stock, effective in the form of a stock dividend. The additional shares were distributed in September 1988 to shareowners of record on September 2, 1988. All cash dividend per share data and earnings per share data have been retroactively adjusted to reflect this split.

A retail rate order effective October 13, 1988, requires WP&L to maintain a utility common equity level of between 45 percent and 50 percent of total utility capitalization. Also, the payment of dividends over and above a normal dividend for a typical electric utility would not be appropriate if the resulting utility common equity ratio fell below a 49.52 percent average over the August 1, 1988, to July 31, 1989, test year period. Based upon actual results through December 31, 1988, and projections for the remainder of the test year period ending July 31, 1989, management expects to be in compliance with the PSC utility capitalization requirement.

WP&L issued 479,000 new shares of common stock through its Dividend Reinvestment and Stock Purchase Plan (DR Plan) and Employee Stock Ownership Plan (ESOP), generating proceeds of $12.6 million for 1984. A retail rate order issued by the PSC in October 1984 required that no new shares of stock be issued under WP&L's DR Plan after January 1, 1985. Accordingly, WP&L changed the DR Plan to an open-market-purchase plan effective as of that date and issued no new shares of common stock after 1984.

As a result of the corporate restructuring, the Company adopted a new Dividend Reinvestment and Stock Purchase Plan (the Plan). The Plan invests in common stock of the Company, whose source may be newly issued shares purchased from the Company or outstanding shares of common stock purchased on the open market. During 1988, the Company issued 134,455 new shares of common stock through the Plan, generating proceeds of $4.2 million.

b. **WP&L Preferred Stock:**

There were no issues of preferred stock during the five years ended December 31, 1988. Pursuant to a 1985 PSC order, WP&L called and retired all of the remaining 12% preferred stock during 1985.

During 1988, WP&L redeemed 370 shares of preferred stock, which consisted of the following: 43 shares, 30 shares, 53 shares, 88 shares, 21 shares and 135 shares of 4.40%, 4.50%, 4.76%, 4.80%, 4.96% and 8.48% of preferred stock.

c. **WP&L Bonds:**

As of December 31, 1986, $32,274,000 principal amount of Series S Bonds had been purchased by WP&L and retired. WP&L purchased and retired the remaining Series S Bonds (approximately $12.7 million at December 31, 1986) either through purchase on the open market or through redemption on February 1, 1987, and, accordingly, such bonds were classified as short-term at December 31, 1986. Pursuant to PSC ratemaking, redemption premium and costs incurred to retire the Series S Bonds totaling $1.6 million at December 31, 1986, have been deferred and are being amortized to expense over the life of the Series U Bonds, issued primarily to retire the Series S Bonds. Also during 1987, WP&L purchased and retired $9.5 million of Series U Bonds that satisfies the 1988 sinking fund requirements for this series. As of December 31, 1988, $2.0 million principal amount of Series U Bonds had been purchased by WP&L and retired. In order to satisfy the remaining 1989 Series U sinking fund obligation, WP&L purchased and retired $7.5 million of Series U Bonds on January 24, 1989. Accordingly, such bonds were classified as short-term at December 31, 1988.

During 1988, WP&L issued $15.5 million of pollution control revenue bonds, Series A, to help finance certain qualified waste treatment construction projects. A special trust fund was established to administer the related construction expenditures. The net remaining balance in the fund is included on the Consolidated Balance Sheets as "Pollution Control Revenue Bond Fund."

Both the 1984 and 1988 Series A bonds are callable by the bondholder. These bonds, however, are classified as long-term on the Consolidated Statements of Capitalization as they are expected to be held until maturity.

The sinking fund requirements and maturities on first-mortage bond issues outstanding as of December 31, 1988, are:

	1989	1990	1991	1992	1993
			(In Thousands)		
Nonsubstitutable sinking fund obligations:					
Series U, 8.0%	$ 7,510	$9,500	$ —	$ —	$ —
1975A, 7.75%	—	—	700	700	700
Mandatory retirements					
Series K, 4.25%	—	—	—	3,827	—
Series J, 4.625%	6,303	—	—	—	—
Series U, 8.0%	—	—	9,500	—	—
Total	$13,813	$9,500	$10,200	$4,527	$700

NOTE 4. OTHER INTEREST EXPENSE:

On August 29, 1985, the PSC issued a final retail rate order that contained a provision for recovery over five years of interest charges paid on income tax deficiencies. As a result, WP&L discontinued expensing such items and reversed all previous interest accruals, increasing earnings per share by approximately 12 cents in 1985.

NOTE 5. COAL CONTRACT COMMITMENTS:

In order to ensure an adequate supply of coal, WP&L has entered into certain long-term coal contracts. These contracts include a demand ("take-or-pay") component whereupon payments are required if contracted quantities are not purchased by WP&L. Certain conditions may arise that require WP&L to make payments under these take-or-pay clauses. For example, WP&L is currently making such payments to a coal supplier due to alternative purchases of favorably priced coal on the open market. Any take-or-pay payments are expected to be offset by price savings from open market purchases.

Contract commitments also are affected by the acid rain legislation enacted by the Wisconsin Legislature in 1986. This legislation, which becomes effective January 1, 1993, establishes system-wide sulfur emissions limits for all utilities in the state. Under the legislation, WP&L estimates that it will incur additional annual fuel costs, principally to pay for lower sulfur coal. These costs are estimated to be not more than $22.0 million for 1993 and 1994 and a total of $22.0 million thereafter. In addition, WP&L estimates that it will be required to make additional capital expenditures prior to January 1, 1993, of between $8 million and $16 million for pollution-control equipment.

In the opinion of management, it exercised reasonable and prudent management judgment in entering into such contracts and, therefore, any such costs incurred to meet mandatory emission limits or take-or-pay provisions would be considered a legitimate cost-of-service item subject to recovery in rates. WP&L has established a planning team to review coal supplies and emerging technologies in order to manage and reduce these projected impacts. Present coal contracts also are being reviewed to mitigate the potential total impact.

NOTE 6. SHORT-TERM DEBT AND LINES OF CREDIT:

The Company maintains bank lines of credit to obtain short-term borrowing flexibility. The Company either pays commitment fees, maintains compensating balances, or a combination of both. Compensating balances are average bank deposits that earn no interest. There are no legal restrictions on withdrawal of these funds. In accordance with normal banking practice, such lines of credit may generally be withdrawn at the discretion of the lenders. These lines of credit are used as security for any commercial paper outstanding. Information regarding short-term borrowings and lines of credit is as follows:

	1988	1987
	(In Thousands)	
As of end of year—		
Lines of credit	**$58,500**	$43,000
Commercial paper outstanding	**$10,023**	$35,800
Notes payable to financial institutions	**$14,182**	$16,000
For the year ended—		
Maximum month-end amount of short-term borrowings	**$51,805**	$51,800
Average amount of short-term borrowings (based on daily outstanding balances)	**$28,563**	$16,764
Average interest rate on short-term borrowings	**7.50%**	6.99%

There were $185,000 and $0 outstanding on the lines of credit at December 31, 1988 and 1987, respectively.

NOTE 7. SEGMENT INFORMATION:

The following table sets forth certain information relating to the Company's consolidated operations.

	Year Ended December 31,				
	1988	1987	1986	1985	1984
			(In Thousands)		
OPERATION INFORMATION:					
Customer revenues —					
Electric	**$ 453,147**	$437,582	$436,047	$431,333	$424,212
Gas	**115,455**	105,595	127,144	152,106	146,134
Other	**29,874**	4,169	4,005	4,004	3,655
Interdepartmental revenues —					
Electric	**1,122**	979	986	981	792
Gas	**1,527**	1,048	1,057	482	675
Other	**8**	9	7	25	8
Total operating revenues	**$ 600,933**	$549,382	$569,246	$588,931	$575,476
Operating income —					
Electric	**$ 110,928**	$115,130	$126,616	$117,224	$112,131
Gas	**9,242**	8,134	8,426	12,306	9,373
Other	**757**	1,519	1,281	1,532	1,230
Other income and deductions, net	**(2,555)**	(4,229)	(2,351)	(4,869)	942
Interest expense, net	**(29,258)**	(29,112)	(30,790)	(20,821)	(23,483)
Income taxes	**(31,181)**	(36,477)	(46,512)	(49,004)	(46,641)
Net earnings	**$ 57,933**	$ 54,965	$ 56,670	$ 56,368	$ 53,552
INVESTMENT INFORMATION:					
Identifiable assets including allocated common plant at Dec. 31 —					
Electric	**$ 836,484**	$839,767	$841,334	$827,309	$802,074
Gas	**118,023**	107,930	101,331	107,084	99,273
Other	**73,896**	48,336	45,254	42,327	23,755
Total assets	**$1,026,203**	$996,033	$987,919	$976,720	$925,102
OTHER INFORMATION:					
Construction and nuclear fuel expenditures —					
Electric	**$ 83,150**	$ 65,448	$74,917	$ 77,276	$ 96,759
Gas	**17,553**	13,682	9,453	9,698	8,024
Other	**2,446**	958	813	1,110	734
Total construction and nuclear fuel expenditures	**$ 103,149**	$ 80,088	$ 85,183	$ 88,084	$105,517
Provision for depreciation —					
Electric	**$ 45,194**	$ 43,462	$ 39,703	$ 45,575	$ 37,141
Gas	**6,123**	5,556	5,033	5,023	4,687
Other	**955**	430	403	347	319
Total provision for depreciation	**$ 52,272**	$ 49,448	$ 45,139	$ 50,945	$ 42,147

NOTE 8. CONSOLIDATED QUARTERLY FINANCIAL DATA (Unaudited):

Seasonal factors significantly affect utilities and, therefore, the data presented below should not be expected to be comparable between quarters. Quarterly data is not necessarily indicative of the results to be expected for an annual period.

The amounts below were not examined by independent public accountants, but reflect all adjustments necessary, in the opinion of the Company, for a fair presentation of the data.

Quarter Ended	Operating Revenues	Operating Income	Net Earnings	Earnings Per Share
	($ In Thousands except for Per Share Data)			
1988:				
March 31	171,889	36,865	17,602	.67
June 30	132,604	23,918	10,738	.41
September 30	140,717	33,196	17,047	.64
December 31	155,723	26,948	12,548	.46
1987:				
March 31	157,368	36,498	15,073	.57
June 30	123,332	25,759	10,059	.38
September 30	127,251	32,012	13,560	.51
December 31	141,431	30,514	16,273	.62

Comparative Data and Statistics

	Year Ended December 31,					
	1988	1987	1986	1985	1984	1978
CONSOLIDATED ELECTRIC STATISTICS						
Customers served (end of period):						
Residential and rural	**293,210**	287,857	283,977	281,056	277,521	256,713
Industrial	**644**	597	576	560	534	710
Commercial	**38,092**	38,516	37,573	36,830	35,905	31,199
Wholesale	**35**	35	37	37	37	40
Class A	**6**	6	6	6	6	4
Other	**936**	919	916	908	892	910
Total	**332,923**	327,930	323,085	319,397	314,895	289,576
Sales—kilowatthours (in thousands):						
Residential and rural	**2,515,060**	2,352,529	2,288,790	2,276,424	2,222,626	1,998,773
Industrial	**3,020,098**	2,767,726	2,489,158	2,430,487	2,337,477	2,099,163
Commercial	**1,501,643**	1,408,803	1,344,783	1,319,511	1,273,430	916,632
Wholesale	**1,751,866**	1,633,597	1,577,405	1,468,945	1,465,144	1,145,447
Class A	**378,135**	838,869	958,587	1,235,951	1,235,939	366,784
Other	**56,349**	56,406	56,230	60,578	54,874	90,399
Total	**9,223,351**	9 057,930	8,714,953	8 791,896	8 589,490	6,617,198
Electric operating revenues (in thousands):						
Residential and rural	**$165,034**	$156,064	$157,611	$154,416	$149,734	$ 85,021
Industrial	**120,613**	112,491	107,477	105,518	99,996	57,575
Commercial	**69,754**	85,296	84,953	82,341	80,588	38,710
Wholesale	**63,654**	62,793	62,019	55,393	54,831	30,783
Class A	**9,369**	15,603	17,802	27,526	33,299	12,373
Other	**5,845**	6,314	7,171	7,120	6,556	5,858
Total	**$454,269**	$438,561	$437,033	$432,314	$425,004	$230,320
System capacity—at time of system peak (kWs):						
Company plants (including jointly owned)	**1,912,000**	1,904,000	1,901,000	1,889,100	1,621,100	1,653,300
Firm purchased power	**(83,000)**	(6,000)	60,000	41,700	162,700	63,700
Total	**1,829,000**	1,898,000	1,961,000	1,930,800	1,783,800	1,717,000
System peak demand	**1,819,000**	1,634,000	1,470,000	1,371,000	1 427,000	1,234,000
Reserve margin at time of peak	**10,000**	264,000	491,000	559,800	356,800	483,000
CONSOLIDATED GAS STATISTICS:						
Customers served (end of period):						
Residential	**104,797**	102,074	99,713	97,436	95,159	85,124
Commercial firm	**12,555**	12,142	11,786	11,472	11,167	9,135
Industrial firm	**402**	387	383	383	372	361
Interruptible	**117**	114	109	139	139	121
Transportation	**69**	71	51	—	—	—
Total	**117,040**	114,788	112,042	109,430	106,837	94,741
Sales—therms (in thousands):						
Residential	**109,677**	94,690	101,807	106,424	101,846	115,562
Commercial firm	**61,249**	53,693	59,998	63,786	59,783	64,088
Industrial firm	**15,709**	13,423	21,245	25,764	26,510	27,832
Interruptible	**24,644**	21,688	40,391	72,024	72,449	80,491
Interdepartmental sales	**4,074**	2,592	2,444	1,033	1,329	12,336
Transported gas	**61,011**	57,104	25,098	122	—	—
Total	**276,584**	243,190	250,983	269,153	261,917	300,309
Gas operating revenues (in thousands):						
Residential	**$ 65,190**	$ 59,939	$ 66,082	$ 70,758	$ 66,763	$30,887
Commercial firm	**29,427**	27,653	32,270	34,832	34,566	15,537
Industrial firm	**6,444**	6,627	10,675	14,999	13,969	6,618
Interruptible	**6,051**	6,492	15,453	31,025	30,463	16,203
Interdepartmental sales and other	**1,514**	1,064	1,449	966	1,048	5,259
Transported gas	**6,356**	4,888	2,272	8	—	—
Total	**$116,932**	$106,643	$128,201	$152,588	$146,809	$74,504

Shareowner Information

On December 31, 1988, there were 40,564 shareowners of WPL Holdings, Inc. and 7,186 holders of Wisconsin Power and Light Company preferred stock. Whether you are a new shareowner of the company or a shareowner of long standing, we recognize that you will have questions about your investment. Shareowner account records are maintained in the corporate general offices. The company's Shareowner Services representatives are available to assist you from 8 a.m. to 4:30 p.m. (Central time zone) each business day at one of the following toll-free numbers:

Local calls (Madison area)	252-3110
Other Wisconsin calls	1-800-362-5490
Outside Wisconsin calls	1-800-356-5343

Please direct written inquiries to:

WPL Holdings, Inc.
Attn: Shareowner Services
P.O. Box 2568
Madison, WI 53701-2568

TIMELINESS IN RECEIVING SHAREOWNER COMMUNICATIONS MAY DEPEND UPON HOW YOUR STOCK IS HELD

When an individual or institution acquires stock, there are two ways in which the ownership of the shares may be held:

Registered Ownership

The owner may have the actual stock certificate registered in the individual's name or, if the owner is a company, in the company's name. This type of ownership is referred to as "registered ownership." By holding shares in this manner, the owner's name and address will appear on the company's shareowner records and the owner will receive dividend checks, proxy statements and other communications directly from the company in a timely manner.

Beneficial Ownership

The owner may have a bank, broker or other financial institution — known as a "nominee" — physically retain the shares of stock, but establish an account on the owner's behalf. This type of ownership is referred to as "beneficial," or "street name," ownership. By holding shares in this manner, the owner will receive dividend checks, proxy statements and the annual and quarterly reports from the bank, broker or nominee, not directly from the company. In this situation, the bank, broker or nominee is the "registered owner" of the shares. As a result of the additional steps necessary to distribute materials to shareowners who are not registered owners, receipt of the proxy statement, annual and quarterly reports could be delayed by as much as two or more weeks when compared with a direct mailing from the company. In addition, it costs the company more to send informational material to shareowners whose stock is beneficially held.

Based on a company survey of its registered and beneficial shareowners, a frequent reason why stock was held beneficially was that shareowners did not want to worry about the safekeeping of their stock certificates.

For those shareowners who presently have their WPL Holdings' common stock held beneficially for safekeeping reasons but would like to receive the annual and quarterly reports and proxy material on a more timely basis, the company's Dividend Reinvestment and Stock Purchase Plan may be the answer. Shareowners can have their WPL Holdings common stock certificates transferred into the plan. At no charge, the company will act as the custodian of the certificates. To take advantage of this service, you must become a participant in the plan. Under the plan, all dividends on shares of stock transferred into the plan must be reinvested. Participants in the plan will receive proxy material, annual and quarterly reports and any other shareowner material directly from the company. Complete information about the plan is presented in the plan prospectus, which is available from the company.

All individual shareowner account information is maintained on a confidential basis.

MARKET INFORMATION

EXCHANGE LISTINGS

	Stock Exchange	Trading Symbol	Newspaper Abbreviation
WPL Holdings Common	New York Stock Exchange	WPH	WPL Hldg
Wisconsin Power & Light Co. 4.50% Preferred	American Stock Exchange	Wis Pr	WiscPL

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

Percent of individual shareowners who are Wisconsin residents*	
WPL Holdings common	58%
WP&L preferred	80%
Average common-stock holding	657 shares
Holdings by individual investors*	approx. 63% of total shares

*Including Dividend Reinvestment and Stock Purchase Plan and Employee Stock Ownership Plan participants.

QUARTERLY COMMON STOCK PRICE RANGES AND DIVIDENDS*

	1988			1987		
Quarter	**High**	**Low**	**Dividend**	**High**	**Low**	**Dividend**
First	$23⅞	$21⅝	$ .405	$27⅜	$24⅜	$ .38
Second	23½	21⅜	.405	25	21¼	.38
Third	23⅝	21½	.405	24⅜	22⅞	.39
Fourth	23¾	22¼	.405	24	21¼	.39
Year	$23⅞	$21⅜	$1.620	$27⅜	$21¼	$1.54

Year-end stock price $23.00

*Dividends and common-stock prices have been restated for the 2-for-1 stock split that occurred in September 1988.

Wisconsin Power and Light Co. preferred-stock dividends paid per share for each quarter during 1988 were as follows:

Series	Dividend	Series	Dividend
4.40%	$1.10	4.96%	$1.24
4.50%	1.125	7.56%	1.89
4.76%	1.19	8.48%	2.12
4.80%	1.20		

Continued on page 44

RECORD AND DIVIDEND PAYMENT DATES

As authorized by the WPL Holdings, Inc. and Wisconsin Power and Light Co. Boards of Directors, record and dividend payment dates normally are as follows:

WPL Holdings, Inc. Common Stock

Record Dates	Payment Dates
Jan. 31	Feb. 15
April 30	May 15
July 30	Aug. 15
Oct. 31	Nov. 15

Wisconsin Power and Light Co. Preferred Stock

Record Dates	Payment Dates
Feb. 28	March 15
May 31	June 15
Aug. 31	Sept. 15
Nov. 30	Dec. 15

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

The Dividend Reinvestment and Stock Purchase Plan provides an economical and convenient method for the company's shareowners and employees, the employees of its majority-owned subsidiaries and the preferred shareowners of Wisconsin Power and Light to purchase shares of the company's common stock. Participants in the plan may make optional cash payments of up to $3,000 per month to purchase additional shares. Investment dates normally occur on the 15th of each month. To encourage participation, there are no brokerage commissions, fees or service charges for purchases under the plan.

You may obtain a copy of the plan prospectus, detailing the features of the plan, by contacting Shareowner Services.

STOCK TRANSFER AGENTS AND REGISTRARS

Transfer Agents

For WPL Holdings, Inc. common stock and Wisconsin Power and Light Co. preferred stock:

Illinois Stock Transfer Company
223 W. Jackson Blvd.
Chicago, IL 60606

For WPL Holdings, Inc. common stock only:

Morgan Shareholder Services Trust Company
30 W. Broadway
New York, NY 10015

Registrars

Continental Bank, National Association
231 S. LaSalle St.
Chicago, IL 60693

Morgan Shareholder Services Trust Company
30 W. Broadway
New York, NY 10015

ANNUAL MEETING

Shareowners of WPL Holdings and Wisconsin Power and Light are cordially invited to attend the corporate Annual Meetings at 10 a.m. local time, Wednesday, May 17, 1989, at the Dane County Memorial Coliseum, 1881 Expo Mall, Madison, Wis. Proxy materials will be mailed to shareowners in early April.

INVESTOR RELATIONS INFORMATION

Inquiries from the financial community may be directed to:

Thomas L. Hanson
Wisconsin Power and Light Company
Attn: Investor Relations
P.O. Box 192
Madison, WI 53701-0192

Toll-free investor-relations numbers are:

In Wisconsin	1-800-362-5311
Outside Wisconsin	1-800-622-2258

FORM 10-K INFORMATION

The company will provide without charge copies of Form 10-K, as filed with the Securities and Exchange Commission, upon request. Direct your request to Shareowner Services.

QUESTIONS YOU MAY HAVE ABOUT YOUR SHAREOWNER ACCOUNT

Q. How do I notify the company of my new address?

A. For the protection of our shareowners, the company requires that a change of address be in writing, signed by the registered owner. If the shares are registered in more than one name, each shareowner must sign.

Q. Can my dividend check be sent directly to my bank?

A. Yes. You may send a written notice to the company requesting that your dividend check be directly deposited in either your checking or savings account. Be sure to provide the full name of your bank and its address to ensure that your check is properly credited to your account. You also may want to include your savings- or checking-account number. Remember, all shareowners must sign the request.

Q. How can I change the name (or registration) on my stock certificate?

A. The requirements for a basic transfer of stock are as follows:

- Sign the certificate on the back exactly as your name appears on the face of the certificate. You should do this in the presence of an authorized representative of a commercial bank or trust company or an authorized stockbroker who can guarantee your signature.
- Complete the assignment section on the back of the certificate, above your endorsement, providing the name, address and Social Security number of the person to whom the new stock is to be issued. Also, be sure to indicate the number of shares to be transferred.
- Forward the stock certificate along with a letter of instruction to one of our transfer agents listed at left. Because it is costly and inconvenient to replace lost stock certificates, we recommend that you send them by registered mail.

The new certificate will be forwarded to the address you provided in about two weeks.

More complex transfers may require additional information and supporting documents to effect the transfer. You may obtain information and assistance by contacting Shareowner Services or one of the transfer agents.

Editor: Mary Lynn Jartz, Wisconsin Power and Light Company
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WPL Holdings, Inc.

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