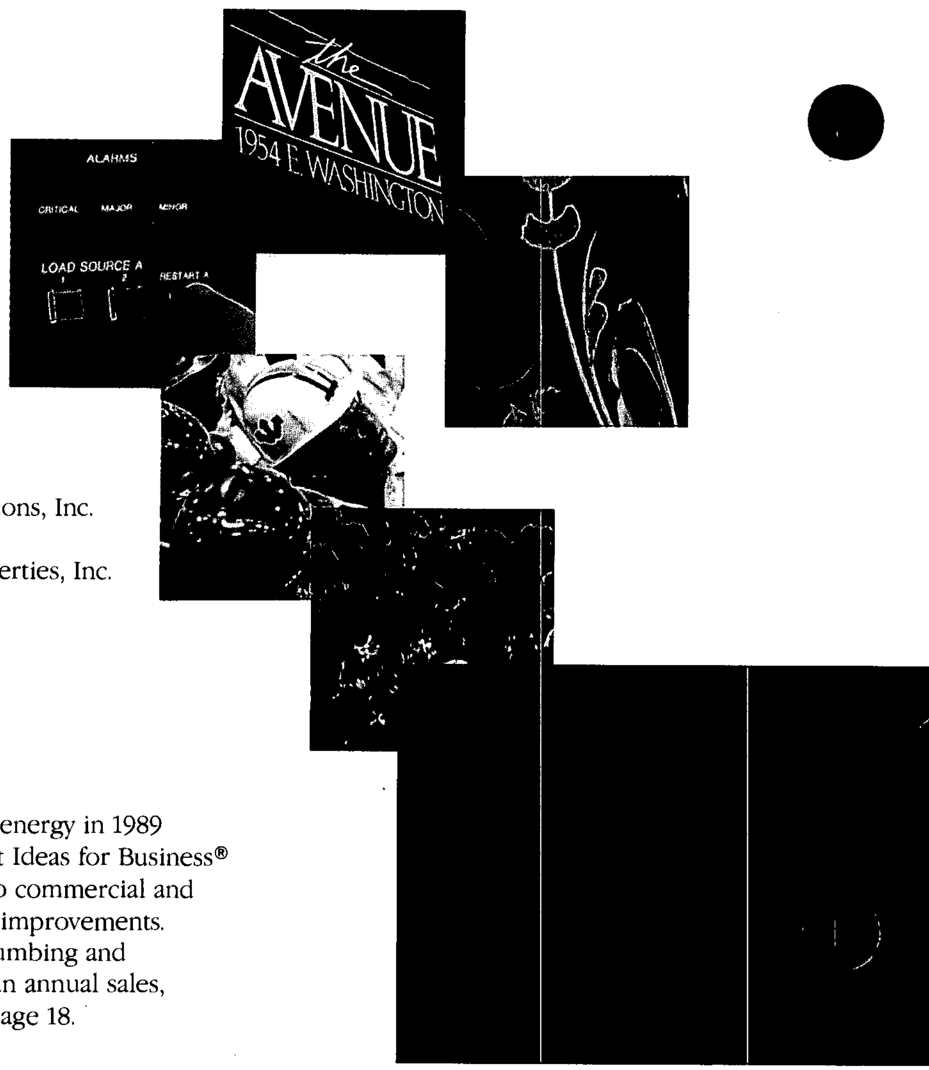
WPL HOLDINGS, INC. ANNUAL REPORT

WPL Holdings, Inc.

is the parent holding company of Wisconsin Power and Light Company and Heartland Development Corporation. Formed in 1988 as the 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, the holding company's regulated utility subsidiary, provides electric energy, natural gas and water to 349,000 customers in south-central Wisconsin at prices that are among the lowest in the nation. Through Heartland Development, WPL Holdings is expanding its opportunities beyond those of a successful utility into unregulated, non-utility businesses in four major areas: environmental, telecommunications, energy and real-estate development.

Contents



On the cover

The Kohler Co., Kohler, Wis., saved money and energy in 1989 through Wisconsin Power and Light Co.'s Bright Ideas for Business® program, which provides financial incentives to commercial and industrial customers to make energy-efficiency improvements. Kohler, the nation's leading manufacturer of plumbing and specialty products with more than $1.3 billion in annual sales, is WP&L's largest retail electric customer. See page 18.

Cover photo taken at Kohler Design Center, Kohler, Wis.

1989 Financial Highlights

▶ Dividends per share of common stock increased in 1989 for the 17th consecutive year. The company has paid 176 consecutive quarterly common-stock dividends since 1946.

▶ Wisconsin Power and Light Company, the major subsidiary of WPL Holdings, Inc., continued its strong sales growth. Electric sales reached a record-high 9.6-billion kilowatt-hours in 1989, an increase of 4.1 percent over 1988. The number of electric customers served in 1989 increased to 336,000.

▶ WP&L's natural gas sales, including transported gas, also increased in 1989. The 294-million therms sold topped 1988's sales by 6.4 percent. The number of gas customers served in 1989 increased by more than 3,000, to a total of 121,000 customers.

▶ Return on equity in 1989 was 12.4 percent and has averaged 14.4 percent over the last five years.

▶ The annual compounded rate of return for an investment in the company's common stock equaled 19.6 percent for the last 10 years, compared with 17.5 percent for the Standard & Poor's 500 stock index and 5.1 percent for the Consumer Price Index for the same period.

	1989	1988
Operating revenues	**$ 604,818,000**	$ 600,933,000
Operating expenses	**$ 488,641,000**	$ 480,006,000
Net earnings	**$ 51,482,000**	$ 57,933,000
Earnings per share*	**$ 1.93**	$ 2.18
Dividends per share*	**$ 1.68**	$ 1.62
Market-to-book value*	**153%**	147%
Total assets	**$1,047,414,000**	$1,031,660,000
Electric sales (thousand kilowatt-hours)	**9,600,329**	9,223,351
Gas sales, including transported gas (thousand therms)	**294,220**	276,564

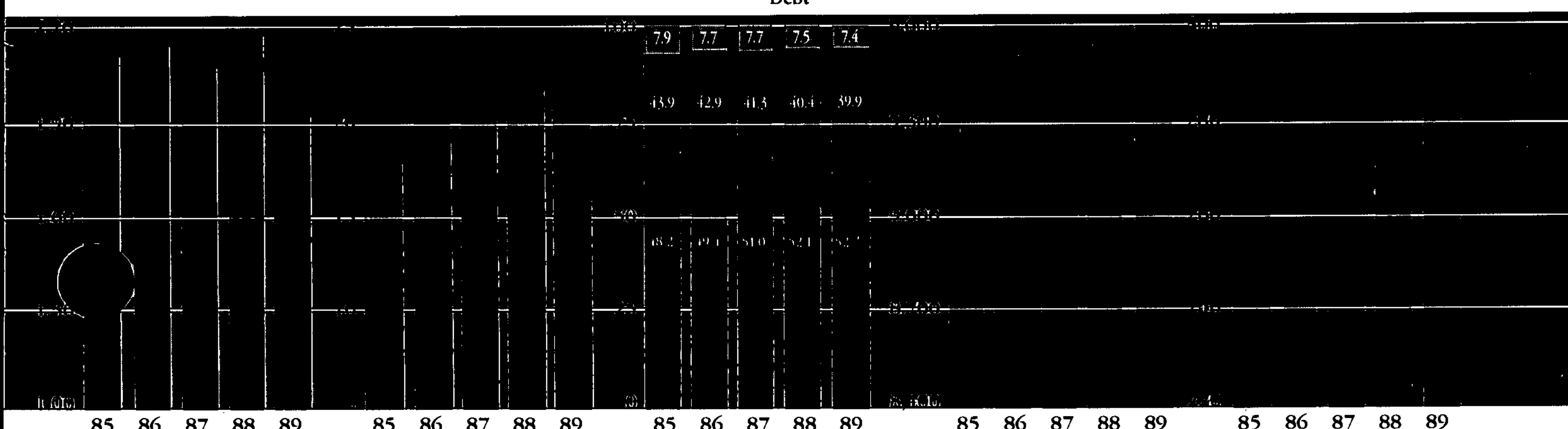
Earnings and Dividends Per Share*
(in dollars)
Earnings Dividends

Market and Book Value Per Share*
(in dollars at year-end)
Market Book

Year-End Capitalization Ratios
(in percentages)
Common Equity Long-Term Debt Preferred Stock

Electric Sales
(in millions of kilowatthours)

Gas Sales
Including transported gas
(in millions of therms)



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

Comments from the Chairman

At the beginning of a new decade, we are tempted both to reflect on the past decade and to predict the future. That urge is especially strong after the momentous events of 1989 and as I approach retirement.

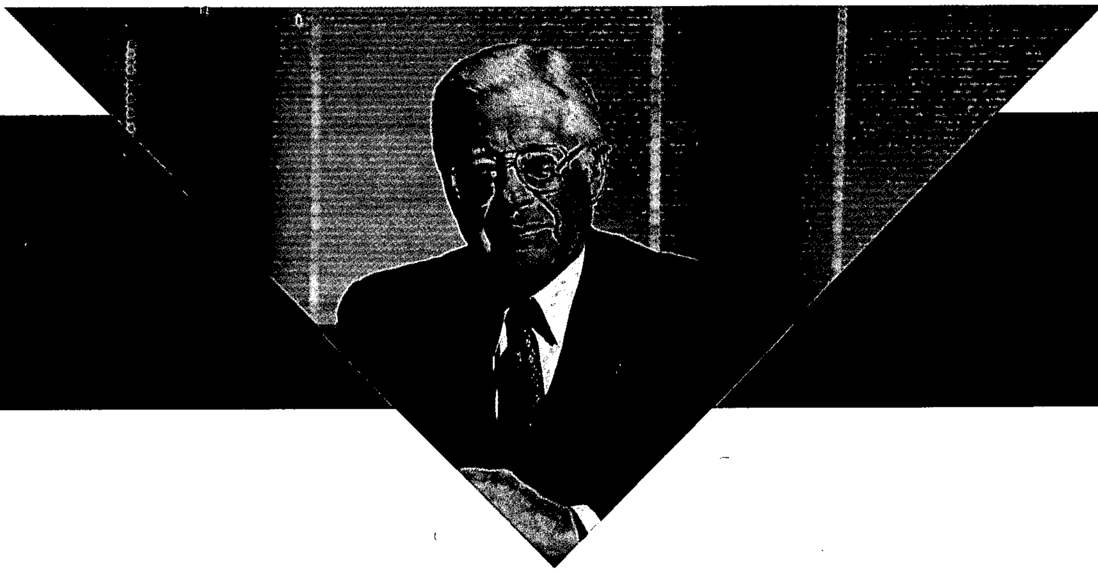
While the future is always uncertain, I eagerly and confidently welcome the new era because of the corporate leadership and strategies we have in place. To prepare for the new era, we have developed the following six strategies for WPL Holdings, Inc.

- Maintain the excellence of our utility operations.
- Emphasize investments in energy conservation, renewable-energy products or equipment, the development or acquisition of energy resources, and the development or operation of commercial or industrial facilities in Wisconsin.
- Continue to invest in the company's existing areas of diversification: environmental consulting, telecommunications, energy, real-estate development, affordable housing and recycling.
- Investigate additional recycling opportunities, particularly those that involve the production of energy.
- Invest in growing, established Wisconsin businesses, whether or not we obtain a controlling interest in them.
- Minimize capital-intensive investments.

These strategies will enable WPL Holdings to build, to grow and to plan for the future with confidence, while contributing significantly to both our shareowners' and Wisconsin's success.

1989 was an eventful, challenging year for WPL Holdings, Inc. and its subsidiaries, Wisconsin Power and Light Company and Heartland Development Corporation.

It marked our first full year of operating under a holding-company structure, and WPL Holdings' performance is on target. The holding company provides added flexibility and greater opportunities for the new decade.



"We are going about our business of securing and improving your investment by strengthening WPL Holdings and its subsidiaries, particularly Wisconsin Power and Light."

Wisconsin Power and Light's financial performance met our expectations in 1989, as the utility operations continued to dominate the holding company's revenues and earnings. You will read more about WP&L's results and strategic business plan later in this report. We are pleased with the continued strength of WP&L's operations and its preparedness for the increasing competition in the utility industry. We will maintain our competitive edge and our proven record of being a low-cost supplier of energy products and services.

Those were the major factors in our March 9, 1989, offer to acquire Madison Gas and Electric Company through an exchange of stock. Utility analysts and other independent experts confirmed that combining Wisconsin Power and Light and MGE — both headquartered in Madison, Wis. — could achieve significant cost savings and reduce future capital requirements.

MGE turned down our original offer, as well as an improved offer made in May 1989. We saw no purpose in pursuing the matter further due to the intransigence of MGE's management. To overcome that would have required a price well beyond MGE's value. That was not in our shareowners' best interest. Consequently, we withdrew our offer on June 9, 1989.

With or without MGE, WP&L will remain one of the nation's top utilities. We are going about our business of securing and improving your investment by strengthening WPL Holdings and its subsidiaries, particularly Wisconsin Power and Light.

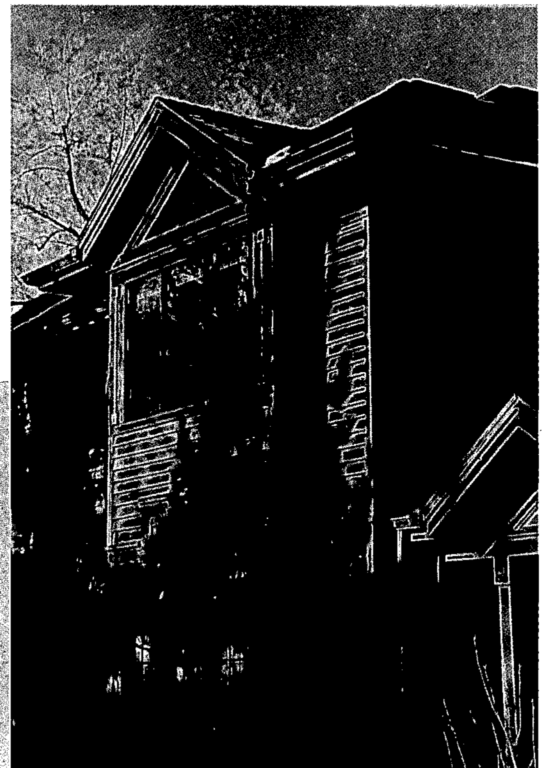
While some of our non-utility operations are contributing to WPL Holdings' net earnings, our diversification activities have been relatively modest, to date. We have proceeded prudently, recognizing that it takes time for some opportunities to develop. However, we are projecting that, in total, our non-utility subsidiaries will make a positive contribution to the holding company's earnings in 1990. The status of our diversified investments is discussed in greater detail in the Heartland Development section of this report starting on page 20.

An important concern of WPL Holdings is Wisconsin's economic and community development. To promote that development, the company announced in January 1989 a unique new investment program designed to make energy-efficient housing affordable for people of low and moderate incomes. As a result of WPL Holdings' initiative, Wisconsin Gov. Tommy Thompson called on other corporations to follow our leadership example in developing affordable housing. We announced in August 1989 that we planned to invest at least $7.5 million in affordable housing during 1989-90, primarily through our Heartland Properties, Inc. subsidiary. We now have eight projects completed and five underway, and have increased our total investment, to date, to $9.5 million.

Our affordable-housing approach is an excellent example of a successful business venture that is in the public interest, as well as that of shareowners. The return on these investments is competitive with other real-estate investments of similar structure, and equals or exceeds the rate of return that the holding company earns in its utility subsidiary.

On a more personal note, in December 1989, the Boards of Directors of WPL Holdings and Wisconsin Power and Light approved my retirement, effective July 1, 1990. I will remain on the Boards of Directors of the two companies, but I no longer will be a corporate officer. ...

One objective of WPL Holdings' unique affordable-housing investment program is to be a catalyst for other Wisconsin businesses' involvement in helping create affordable housing and shelters for those less fortunate. The Avenue Cooperative in Madison, Wis., shown below, is the first initiative by a major Wisconsin corporation in partnership with a non-profit housing group to create affordable housing using the new federal low-income-housing tax-credit law. Residents, below left, enjoy the energy-efficient, affordable apartment homes, which opened in December 1989. WPL Holdings also is providing the equity financing for affordable housing, center, in Elroy, Wis.



By the time I retire, I will have had the privilege of working for this fine company for more than 48 years and serving our shareowners as CEO for over 20 years. It has been a wonderful and rewarding experience and I am extremely grateful to all of you.

A key responsibility of a CEO and Board of Directors is to plan and prepare for management succession. The perpetuation of this successful company has been a top priority for me. I know that my successor, Erroll Davis, will continue the traditions and successes of WPL Holdings. He has assembled an outstanding management team that will serve you well in the future.

Armed with the creative strategies developed for a new era, WPL Holdings and Wisconsin Power and Light look forward to the new decade's many opportunities.

James R. Underkofler

James R. Underkofler
Chairman of the Board
and Chief Executive Officer
WPL Holdings, Inc.
February 14, 1990

WPL Holdings, Inc. Board of Directors

In 1989 WPL Holdings, Inc. restructured its Board of Directors. When WPL Holdings became the parent company of Wisconsin Power and Light on March 31, 1988, the 13-member WP&L Board of Directors also served as the holding company's board, providing the necessary transition for the operations of the company and its major subsidiary. With the restructuring completed, the Board of Directors of WPL Holdings approved a reduction in the number of its board members from 13 to seven, effective May 17, 1989. The board is composed of four outside directors in addition to inside directors James R. Underkofler, Erroll B. Davis, Jr., and Eugene O. Gehl.

WPL Holdings, Inc. Board of Directors: seated, from left, Milton E. Neshek, James R. Underkofler and Henry C. Prange. Standing, from left, Erroll B. Davis, Jr., Gerard E. Veneman, Rockne G. Flowers and Eugene O. Gehl.

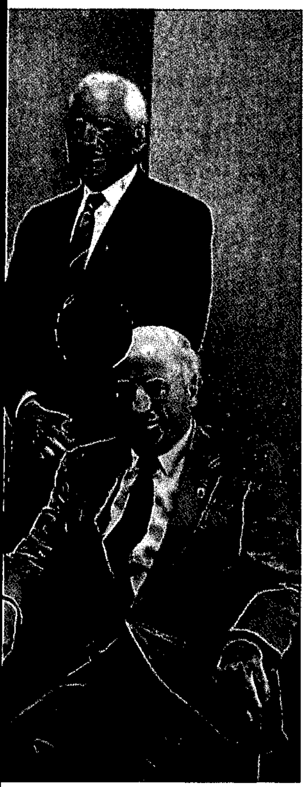
COMMITTEES OF THE BOARD

The Board of Directors of WPL Holdings, Inc. met 13 times in 1989. The board comprises three committees, which also met during the year.

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 al[illegible] members who are not empl[illegible] officers of the company. The[illegible]tee met twice in 1989.

The Compensation and Personnel Committee functions as an executive-review group, evaluating overall management and individual executive performance. It is composed of all board members who are not employees or officers of the company and, as a non-voting member, the Chairman, President and Chief Executive Officer of WPL Holdings. The committee held two meetings in 1989.

The Nominating Committee recommends nominees for election to the board and reviews the appropriateness of present board members' contin[illegible]mbership on the board. The c[illegible]e consists of the Chairman a[illegible] members of the board who are not employees or officers of the company. The committee held one meeting in 1989.



Corporate Organization

As of December 31, 1989

James R. Underkofler, 66
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 1981

Erroll B. Davis, Jr., 45
President and Chief Executive Officer, Wisconsin Power and Light Company
A director since 1982

Rockne G. Flowers, 58
President, Nelson Industries, Inc. (a muffler, filter and industrial-silencer manufacturing firm), Stoughton, Wisconsin
A director since 1981

Eugene O. Gehl, 66
Vice President and Treasurer, WPL Holdings, Inc.; and Executive Vice President and General Counsel, Wisconsin Power and Light Company
A director since 1981

Milton E. Neshek, 59
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 1986

Henry C. Prange, 62
Chairman of the Board, President and Chief Executive Officer, H.C. Prange Company (retail department stores), Sheboygan, Wisconsin
A director since 1986

Gerard E. Veneman, 69
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 1986

WPL Holdings, Inc.

- **Heartland Development Corporation**
  - RMT, Inc.
  - WP&L Communications, Inc.
  - ENSERV, Inc.
  - Heartland Properties, Inc.
- **Wisconsin Power and Light Company**
  - NUFUS Resources, Inc.
  - REAC, Inc.
  - South Beloit Water, Gas and Electric Co.
  - Wisconsin Power and Light Nuclear Fuel, Inc.

WPL Holdings, Inc. Corporate Officers

*As of December 31, 1989**

James R. Underkofler, 66
(1941) Chairman of the Board, President and Chief Executive Officer

Eugene O. Gehl, 66 (1985)
Vice President and Treasurer

Thomas A. Landgraf, 41
(1979) Corporate Secretary and Assistant Treasurer

Mary Fujimoto, 60 (1971)
Assistant Corporate Secretary

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

**Erroll B. Davis, Jr., 45 (1978), was elected President of WPL Holdings Jan. 17, 1990, by the Board of Directors.*

OUR MISSION

To become a profitable and growing regional supplier of energy products and services

Profitable — Achieve a competitive rate of return on our shareowners' investment while ensuring that the prices we charge our customers are consistent with the realities of our marketplaces

Growing — Increase our market share in the market segments we serve. Expand our product offerings, particularly in non-regulated and conservation areas

Regional — Offer our energy products and services in selected markets throughout the Upper Midwest

OUR STRATEGY TO ACHIEVE OUR MISSION

Wisconsin Power and Light Company will provide high-quality products and services at the lowest-possible cost, meeting our customers' expectations at all times, and striving to exceed them whenever possible.

Wisconsin Power and Light enters the new era of the 1990s vastly different from the company of a decade — or even a year — ago. The organization is experiencing major changes as it seeks to evolve from a successful, yet traditional, Wisconsin utility into a growing and profitable regional supplier of energy products and services. That is our mission for the '90s.

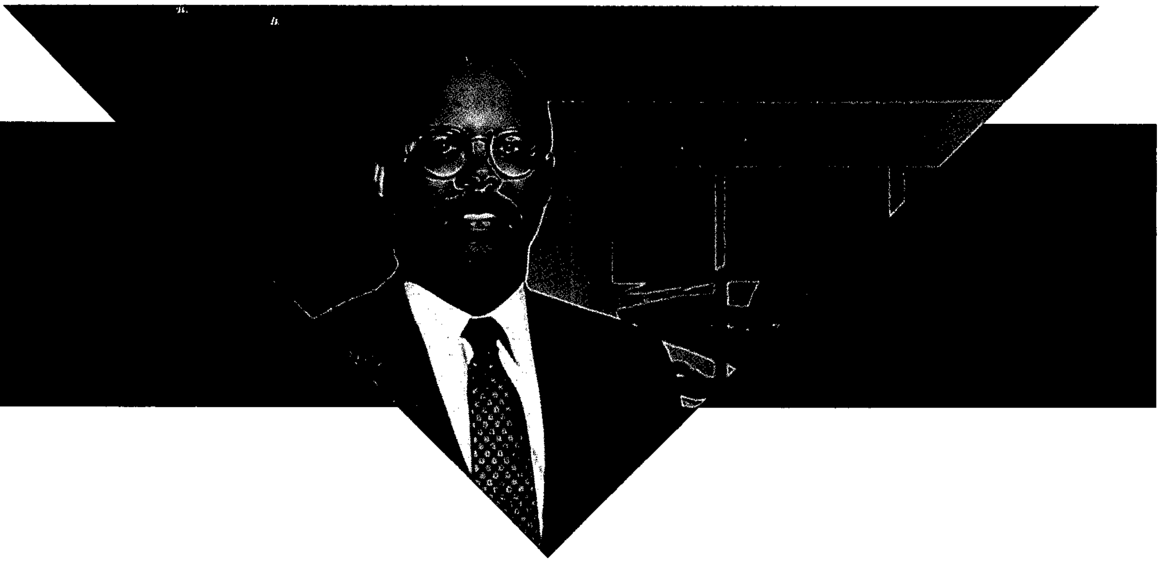
Why are we making this transition?

In a word, competition.

We no longer need to predict, as we have for a number of years, the advent of competition in the American utility industry. The events of 1989 proved that competition is here. Competitive activities at the southern border of our service area and in such Wisconsin communities as Deerfield, Footville, Marshfield, Elkhorn, Sun Prairie and Black Earth have left no doubt that competition is a reality and that the utility business is changing.

Wisconsin Power and Light, by most measures, is in a strong competitive position. Our company is financially healthy and our low rates make WP&L both the envy and the target of our competitors. Our commitment to our customers continues to grow at all levels of the organization. Our employees achieve impressive productivity gains that distinguish us from our competitors. We maintain our status as one of the nation's premier utilities.

But precisely because of our leading position, we are at risk — particularly if we choose to ignore three key indicators.



"Wisconsin Power and Light is a utility with a vision of an exciting future as a regional supplier of energy products and services. We now are putting creative strategies into place to help us achieve our mission in this new era."

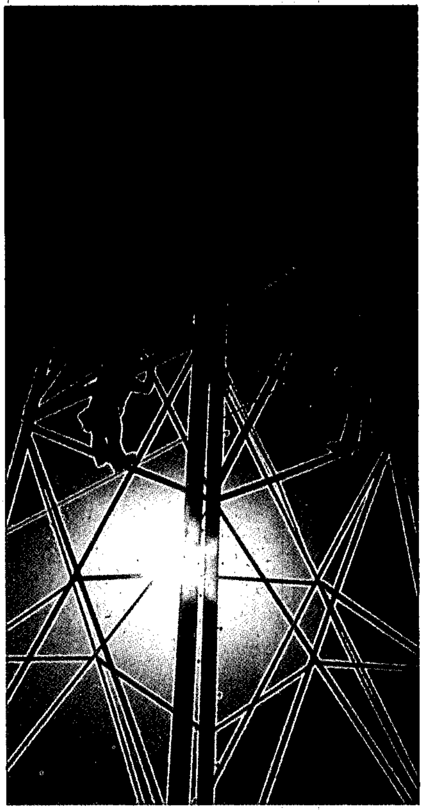
- Our markets are changing around us and becoming more competitive.
- Our competitors are challenging us more effectively.
- Our earnings' levels are becoming more difficult to maintain.

In short, our business is getting more challenging, and it is becoming more difficult to maintain our competitive position.

In a competitive marketplace, a successful company defines and manages its future "proactively" rather than reactively. The successful company knows its customers and its competition. It identifies emerging market opportunities and anticipates customers' responses. The companies that will succeed in a competitive marketplace will be those that focus on their customers and can deliver to them the most cost-effective and responsive services possible.

To position Wisconsin Power and Light to meet these competitive requirements, we have implemented significant changes in our corporate organization. First, we are creating and building a more customer-focused organization. Second, we have reorganized the company, effective Feb. 1, 1989, to emphasize customer segments, information technologies and marketing. And finally, we have increased our efforts to adopt the quality-management principles articulated by W. Edwards Deming, the noted U.S. statistician who is credited with the success of the post-World-War-II Japanese economic miracle.

Quality management is active management. At WP&L, we are beginning to change from a classical, directive management style to a style that emphasizes that the job of managers is to ensure that the men and women they are privileged to supervise have the training, the equipment and the leadership necessary to get the job done on behalf of our customers.



A quality focus starts with a clear mission. Two major accomplishments in 1989 were developing and communicating a comprehensive strategic business plan and establishing a budget driven by this plan. Our plan represents the culmination of several years of study and effort initiated by Jim Underkofler to develop a long-term strategy for Wisconsin Power and Light. The company's first strategy-driven budget provides the framework for implementing our strategic plans for 1990 and 1991. We have targeted a $25-million reduction in the corporate operations and maintenance budgets for the 1989-through-1993 period. At year-end 1989, the company had achieved 28 percent of its five-year target.

By any measure, 1989 was a year of great challenge to WP&L. We were challenged as never before in our 65-year history by the marketplace and by our competitors. We were challenged in many ways by the regulatory agencies with whom we must deal. We were challenged on the environmental and political fronts by proposed acid-rain legislation and by issues ranging from the greenhouse effect to electric and magnetic fields. And, finally, we were challenged at times by our own commitment to make extensive changes in the face of an increasingly more difficult and complex business environment.

Despite past and continuing successes in dealing with regulation, WP&L's regulatory relations in 1989 were overshadowed by the adverse decision by the Public Service Commission of Wisconsin on a coal-contract issue in our last retail rate case. The commission ruled that we did not properly administer the contract and that we must refund $9 million to ratepayers.

We have taken substantial exception to the PSC's findings on this issue and are pursuing a fair determination in the courts. We take great pride that WP&L customers enjoyed the benefits of the lowest fuel costs in Wisconsin during the period at issue and that the specific contract under dispute was our lowest-priced contract. In fact, if our fuel costs had been equal to the average fuel costs of the other major utilities in Wisconsin, our customers would have paid an additional $121 million for their electric service during the past 10 years.

Despite the challenges we addressed in 1989, we generally are satisfied with the utility's earnings. We achieved our earnings' target through a combination of increased weather-driven sales late in the year and significant productivity achievements, which offset downward pressures exerted by the unfavorable coal-contract decision.

I am pleased and proud that we were able to successfully meet the challenges of the marketplace in 1989. We expect, however, that these challenges will continue to intensify in the future. Our competitors are not resting and we cannot, either.

As I noted earlier, the emerging competitive market requires that the successful utility manage its own future. We strongly believe that the return on our shareowners' investment in the company should not be a function of our ability to increase our regulated asset base. Rather, it should result from our ability to respond to our customers' needs and make the most cost-effective long-term decisions. Our strategic business plan recognizes regulatory and market pressures, but to succeed, the plan must be driven first and foremost by customer demands.

Wisconsin Power and Light is a utility with a vision of an exciting future as a regional supplier of energy products and services. We now are putting creative strategies into place to help us achieve our mission in this new era.

Erroll B. Davis, Jr.
President and Chief Executive Officer
Wisconsin Power and Light Company
February 14, 1990

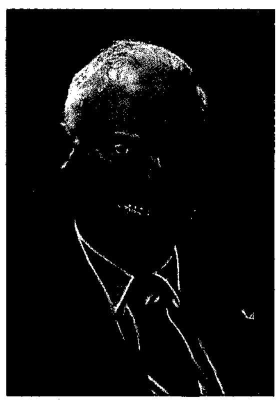
Wisconsin Power and Light Company

Board of Directors

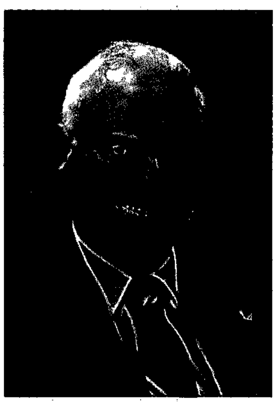
Wisconsin Power and Light's 12-member Board of Directors is composed of nine outside directors and three inside directors, who constitute senior corporate management: James R. Underkofler, Erroll B. Davis, Jr., and Eugene O. Gehl.

James R. Underkofler

Erroll B. Davis, Jr.



Henry C. Prange



Carol T. Toussaint

L. David Carley

Katharine C. Lyall

*As of December 31, 1989**

James R. Underkofler, 66
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., 45
President and Chief Executive Officer, Wisconsin Power and Light Company
A director since 1984

L. David Carley, 61
President, University Ventures, Inc. (a real-estate and financing firm in the construction of higher-educational facilities), Washington, D.C.
A director since 1983; first elected a director in 1975 and served until 1977

Rockne G. Flowers, 58
President, Nelson Industries, Inc. (a muffler, filter and industrial-silencer manufacturing firm), Stoughton, Wisconsin
A director since 1979

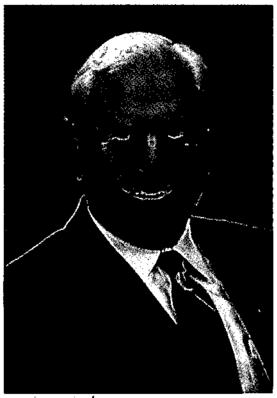
Eugene O. Gehl, 66
Vice President and Treasurer, WPL Holdings, Inc.; and Executive Vice President and General Counsel, Wisconsin Power and Light Company
A director since 1977

Donald R. Haldeman, 53
President, Wisconsin Farm Bureau Federation (Wisconsin's largest general farm organization), Madison, Wisconsin; and farm owner and operator, Norwalk, Wisconsin
A director since 1985

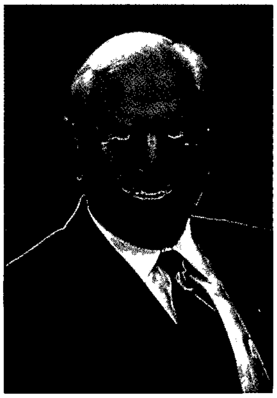
Katharine C. Lyall, 48
Executive Vice President, University of Wisconsin System, Madison, Wisconsin
A director since 1986

Milton E. Neshek, 59
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, 62
Chairman of the Board, President and Chief Executive Officer, H.C. Prange Company (retail department stores), Sheboygan, Wisconsin
A director since 1965



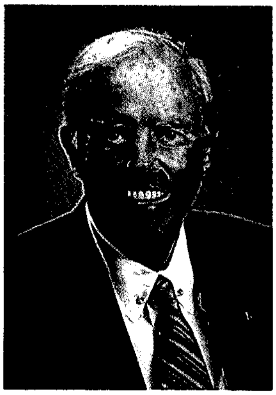
Eugene O. Gehl



Rockne G. Flowers

Donald R. Haldeman

Henry F. Scheig



Gerard E. Veneman

Milton E. Neshek

Henry F. Scheig, 65
Chairman of the Board,
Aid Association for Lutherans
(a fraternal benefit society),
Appleton, Wisconsin
A director since 1980

Carol T. Toussaint, 60
Consultant,
Madison, Wisconsin
A director since 1976

Gerard E. Veneman, 69
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

***William L. Keepers,** WP&L Executive Vice President - Operations and a board member, retired December 1, 1989.

COMMITTEES OF THE BOARD

The Board of Directors of Wisconsin Power and Light Company met nine times in 1989. The board is composed of several committees, which also held meetings throughout the year.

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 1989 the committee held two meetings.

The Compensation and Personnel Committee functions as an executive-review group, evaluating overall management performance. 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 two meetings in 1989.

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 twice in 1989.

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 1989.

Corporate Management

As of December 31, 1989

OFFICERS

James R. Underkofler, 66 (1941)
Chairman of the Board

Erroll B. Davis, Jr., 45 (1978)
President and Chief Executive Officer

Eugene O. Gehl, 66 (1985)
Executive Vice President and General Counsel

Eliot G. Protsch, 36 (1978)
Vice President and General Manager - Energy Services

James E. Johnson, 57 (1960)
Vice President and General Manager - Customer Services

A. J. (Nino) Amato, 38 (1985)
Vice President - Marketing and Communications

Norman E. Boys, 45 (1973)
Vice President - Power Production

David E. Ellestad, 49 (1960)
Vice President - Engineering and Operations

Edward M. Gleason, 49 (1977)
Vice President - Finance and Treasurer

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

Edward F. Killeen, 59 (1976)
Vice President - Planning and Administration

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

Thomas L. Consigny, 55 (1968)
Assistant Vice President - Public Affairs

Edward G. Young, Jr., 50 (1986)
Controller

Thomas A. Landgraf, 41 (1979)
Corporate Secretary and Assistant to the Chairman

Mary Fujimoto, 60 (1971)
Assistant Corporate Secretary

Thomas L. Hanson, 36 (1980)
Assistant Treasurer

Martin W. Seitz, 41 (1978)
Assistant Controller

DISTRICT MANAGERS

Thomas L. Adelman, 45 (1968)
Lake Geneva

Ronald L. Cowan, 43 (1971)
Baraboo

Philip E. Crawford, 48 (1960)
Dane County (Oregon)

Stanley D. Darden, 36 (1975)
Mineral Point

John D. Grawe, 41 (1971)
Janesville

W. Keith Penniston, 54 (1957)
Berlin

Gary F. Sartorius, 42 (1970)
Tomah

Jan M. Scott, 34 (1978)
Sheboygan

David J. Shaw, 34 (1986)
Beaver Dam

Barbara A. Siehr, 38 (1976)
Fond du Lac

Larry L. Studesville, 42 (1973)
Beloit

Linda A. Taplin-Canto, 35 (1980)
Portage

GENERATING STATION MANAGERS

Carl R. Diehls, 54 (1955)
Columbia (Portage)

James M. Campbell, 52 (1969)
Nelson Dewey (Cassville)

William A. Frederick, 63 (1959)
Nelson Dewey, Retiring

Kenneth J. Koele, 41 (1974)
Edgewater (Sheboygan)

Thomas M. Schroeder, 44 (1971)
Blackhawk and Rock River (Beloit)

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

GENERAL OFFICE DEPARTMENT HEADS

Daniel L. Bartel, 45 (1967)
Director of Electrical Operations

Roger L. Baumann, 47 (1970)
Director of Marketing Services

James W. Bindl, 45 (1976)
Director of Organizational Development

Willie B. Collins, 41 (1984)
Director of Internal Audits

John G. Fabie, 51 (1966)
Director of Electrical Engineering

Daniel A. Gomez-Ibanez, 46 (1977)
Director of Wholesale Services

Richard M. Gregory, 63 (1951)
Director of Fuel Services

William J. Holewinski, 43 (1973)
Director of Generating Station Engineering

Glen R. Kielley, 46 (1983)
Director of Employee Relations

John W. Laub, 50 (1967)
Director of Administrative Services and Real Estate

Robert G. Lindenau, 62 (1951)
Director of Real Estate Projects

James D. Loock, 43 (1973)
Director of System Operations and Analysis

Thaddeus A. Miller, 47 (1974)
Director of Materials Management

Dale G. Moody, 45 (1966)
Director of Gas Engineering and Operations

Suzette M. Mullooly, 42 (1972)
Director of Customer Services

Donald G. Neumeyer, 42 (1970)
Director of Information Systems and Services

Jules A. Nicolet, 46 (1977)
Director of Customer Accounting

Donald R. Piepenburg, 56 (1970)
Director of Corporate Communications

Barbara J. Swan, 38 (1987)
Associate General Counsel

Susan M. Tikalsky, 35 (1983)
Director of Environmental Affairs

Dennis W. Vickers, 40 (1983)
Director of Information Planning and Operations

Scott B. Wallace, 49 (1969)
Director of Integrated Electric Planning

George E. Wennerlyn, 46 (1968)
Director of Rate Design and Gas Supply

Michael J. Wish, 43 (1974)
Director of Corporate Services

Charlotte O. Woods, 47 (1980)
Director of Market Research/New Produ[cts] and Technologies Screening

Kim K. Zuhlke, 36 (1978)
Director of Customer Services

1989 Management Changes

Wisconsin Power and Light Co.'s Board of Directors elected two new officers in 1989.

Thomas L. Hanson was elected Assistant Treasurer. He had been Financial Relations Supervisor in the Treasury Department.

Martin W. Seitz was elected Assistant Controller. He had been Manager of Corporate Accounting and Reporting in the Controller's Department.

William L. Keepers, Executive Vice President - Operations, retired after 27 years of service.

Robert A. Carlsen, Vice President, retired after 38 years of service.

Duaine L. Mossman, Western Region Manager, retired after 38 years of service.

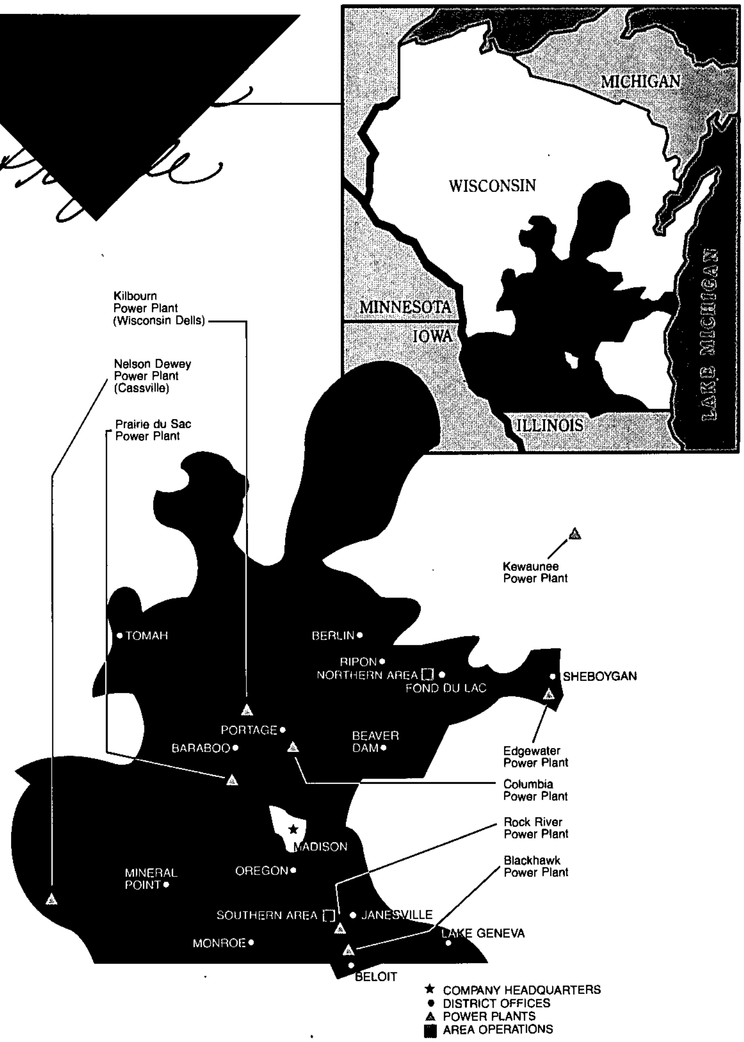
William A. Frederick, Generating Station Manager, Nelson Dewey, will retire in 1990 after 31 years of service. **James M. Campbell** has been named to succeed Frederick. Campbell had been Assistant Generating Station Manager, Columbia.

Stanley D. Darden was appointed District Manager, Mineral He previously was Southern Area Manager of Electrical tions.

Jan M. Scott was named District Manager, Sheboygan. He had been Superintendent of Transportation and Garage Operations in the Gas Engineering and Operations Department.

Linda A. Taplin-Canto was appointed District Manager, Portage. She previously was Labor Relations Supervisor in the Employee Relations Department.

Jules A. Nicolet was named Director of Customer Accounting. He had been District Manager, Sheboygan.



Total assets $1 billion
Operating revenues $575 million
Percentage of operating revenues

Electric	80.6%
Natural gas	18.7
Water	.7
	100%

Net earnings $54 million

Customers
349,000 (electric, gas and water)

Electric	% of revenue
Residential & Farm	36.5%
Commercial	18.8
Industrial	26.8
Wholesale	13.8
Class A/other	4.1
	100%

Natural gas	
Residential	56.7%
Commercial firm	25.2
Industrial firm	5.9
Interruptible	7.8
Transportation/other	4.4
	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
1,915 megawatts

System peak demand
1,777 megawatts on July 10, 1989

Percentage of generation by fuel

Coal	79.24%
Nuclear	18.51
Hydroelectric	1.88
Natural gas	.26
Oil	.11
	100%

Creative Strategies for a New Era

And how Wisconsin Power and Light Company changed in 1989!

The framework for the change is our corporate strategic business plan. Created in 1989, our plan is the best current vision of how the company will achieve its corporate mission. WP&L is continuing to make changes in its corporate organization to address issues of strategic importance to its business and to prepare for a more competitive and challenging new era.

The company and its employees are proud of all that they have accomplished during this year of tremendous and exciting change.

"We must continuously change in order to create competitive advantage."

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

Change, of course, is not unique to the utility business; it is occurring in all aspects of the business world and our daily lives.

But in 1989, change became the constant at Wisconsin Power and Light Company. Not change for change's sake, but strategic changes vital to the company's future success. Challenging and exciting, yes. But also difficult and frustrating, at times.

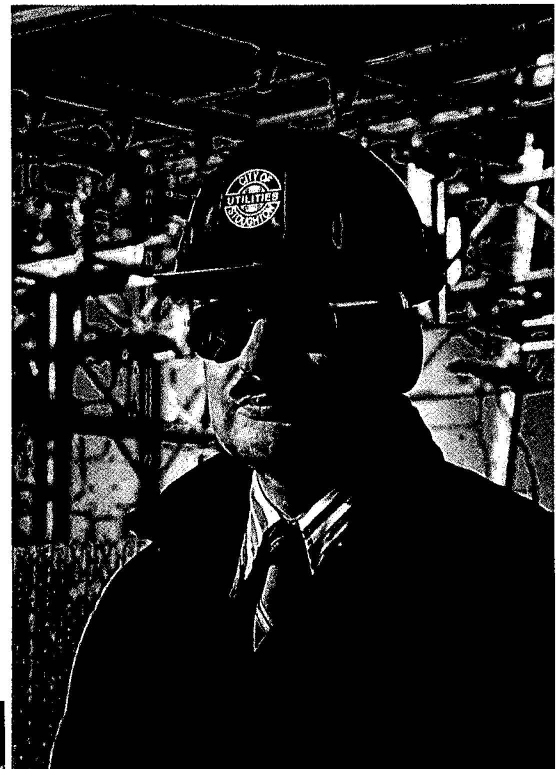
The results employees achieved in 1989 and their commitment to making changes in a fast-paced and increasingly competitive utility marketplace are a tribute to their strength and resourcefulness. They recognize the need for continuous productivity improvement at a rate greater than that of the competition. The creative strategies employees throughout the organization implemented in 1989 are helping WP&L become more customer focused, cost effective and competitive.

The customer-driven corporate reorganization, the implementation of quality-management principles, the development of a comprehensive corporate strategic business plan and a strategy-driven budget, discussed earlier in this report, were key 1989 accomplishments that positioned the company for the future.

Among the many changes that reflected our increased focus on customers was the implementation of the Customer Service Program, beginning in November 1989. This new customer-accounting system includes the centralization of customer-payment processing. The system will enable WP&L to provide better service to customers at a lower cost, with projected savings of $500,000 per year.

The company repositioned its conservation and marketing programs in 1989 to focus primarily on reducing customers' energy demand. WP&L also established an account-management program to concentrate on the company's 150 largest electric and natural-gas customers. The program's objective is to meet

"More than ever, partners." That's how Bob Kardasz, right, views the Stoughton Municipal Utilities' relationship with its wholesale electrical supplier, Wisconsin Power and Light. "We show mutual concern and respect for each other as we work together to plan for future new development," explained Kardasz, Stoughton's Director of Public Works. Typical of the two utilities' growing relationship, he said, was the teamwork involved with Stoughton's major utility project in 1989 — the construction of a new 69-kilovolt substation to better serve its 6,000 customers in the thriving community near Madison, Wis. He also pointed to the array of new services WP&L is providing, including rubber-safety-equipment testing and infrared scanning of Stoughton's electrical system. "Our goal is to provide both low-cost power and the best-possible services to help the Stoughton utility maximize the efficiency of its operations and maintain its low electric rates," said Jacob Williams, WP&L's Account Manager for the Stoughton utility, which is celebrating its centennial in 1990. Rosemaling, below, is a traditional Norwegian art form visible throughout the community rich in its Scandinavian heritage.



"WP&L's Bright Ideas for Business® program has been an excellent energy-conservation opportunity for the Kohler Co.," said Mike Potts, right, Kohler's Supervisor of Engineering – Energy. "It allowed us to go ahead with a major relighting project that hadn't even been planned — let alone budgeted." Potts and Brian Cleven, WP&L's Account Manager for Kohler, review the impressive results of Kohler's 1989 participation in Bright Ideas for Business. The relighting project and other initiatives to maximize energy efficiency resulted in a substantial decrease in electrical demand and a significant reduction in Kohler's energy usage, enabling the company to receive $1.3 million in cash rebates through WP&L's program. "The new lighting provides improved light levels — especially important in the porcelain-finishing area — which will enhance productivity," noted Potts. "We've also reduced our maintenance costs and our energy bills," added Tom Willis, Kohler's Manager of Energy and Utilities. "The program is a conservation success story for Kohler and WP&L."

College students tour the company's Columbia Energy Center as part of their experience in WP&L's 1989 Summer Intern Program. The company is responding to the challenge to build diversity into its work force, managing that diversity "innovatively and with excellence," according to the Edison Electric Institute, which recognized WP&L's program with its 1989 Meritorious Affirmative Action Achievement Award.

customers' needs by providing value-added products and services to assist in the growth and development of their businesses.

The company began offering its wholesale customers new products and services, including rubber-safety-equipment testing and infrared scanning of their electrical systems to discover potential equipment failures. WP&L also provided incentives to encourage many of its wholesale customers to sign long-term contracts with the company. Those customers now have the advantage of a discounted rate and a stable energy supply, while WP&L benefits from an enhanced ability to plan for the future.

Delivering the highest-quality energy products and services at the lowest-possible prices requires a commitment to productivity and continuous improvement. Both were apparent throughout Wisconsin Power and Light during 1989.

For example, employees at the System Operations Center, using the Energy Management System, reduced WP&L's energy costs by more than $10 million in 1989 through an increased focus on electric sales and purchases and brokering operations. WP&L also reduced its inventory costs and accounts receivable costs, saving millions of dollars. A new coal-freight contract approved at year-end will reduce costs by more than $10 million annually. The company is keeping its natural-gas rates extremely competitive by purchasing gas from non-traditional suppliers, both on a long-term and spot-market basis. WP&L's aggressive efforts reduced the overall cost of its gas purchases by approximately $14 million in 1989.

WP&L's new three-year distribution line-clearance program allows the company to maintain long-term reliable service to customers while significantly decreasing costs. The program saved money immediately in 1989 and will cut costs by nearly $1 million a year beginning in 1990.

Through WP&L's aggressive sales and management of the byproducts created by the company's coal-fired generating stations, WP&L received more than $400,000 in revenues and avoided $1.2 million in ash-disposal costs in 1989. The company's sale of ash ranks three times greater than the national average.

The generating stations continued to lead the company with their focus on productivity projects using the tools and techniques of WP&L's quality-improvement programs. Employees formed an increasing number of cross-functional problem-solving teams to address productivity issues. Employees at all levels, from every area of the company, worked together for one purpose — to ensure that WP&L customers get the best, most cost-effective service possible.

Change will continue in 1990 as many of the programs for which the company's skilled and imaginative employees laid the groundwork in 1989 attain results. WP&L will continue to be more customer focused and to emphasize the provision of more cost-effective products and services to customers.

The company's creative strategies will lead Wisconsin Power and Light into a new era — an era during which the company achieves its mission of becoming a growing and profitable regional supplier of energy products and services.

Heartland Development Corporation

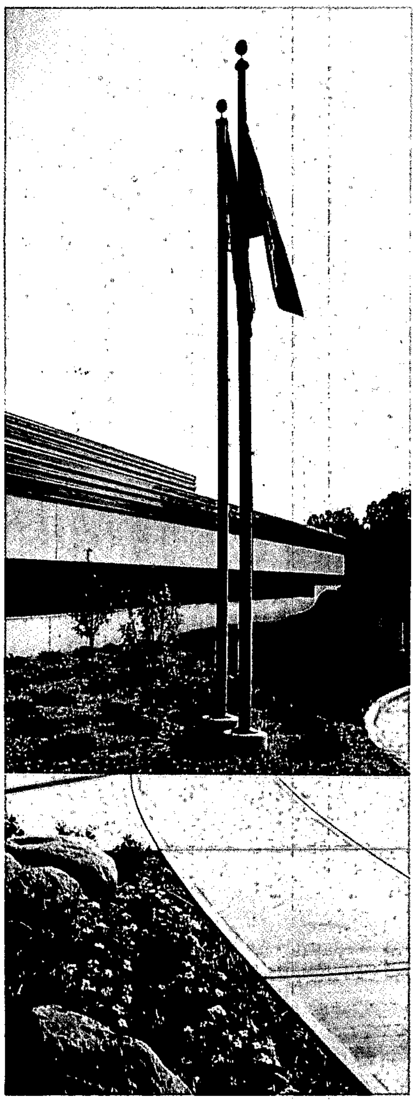
WPL Holdings' diversified business activities continue to grow through its Heartland Development Corporation subsidiary.

Heartland Development engages in business activities in four major areas: environmental through RMT, Inc., telecommunications through WP&L Communications, Inc., energy through ENSERV, Inc. and real-estate development through Heartland Properties, Inc.

Formed in March 1988, Heartland Development affords the holding company the flexibility to respond to new-business opportunities in unregulated, non-utility areas and to diversify the earnings base for shareowners. WPL Holdings' non-utility investments are projected to produce, collectively, a positive net income for the first time in 1990.

Heartland Development's strategies for 1990 are, first, to continue to develop its present businesses and, second, to invest in other ventures that WPL Holdings determines are prudent and profitable.

The following is a summary of the mission statements and business plans developed for Heartland Development Corp.'s four subsidiaries.



RMT's attractive new $7.5-million, 76,000-square-foot corporate headquarters opened in Madison, Wis., in July 1989. The building features one of the most advanced environmental laboratory facilities in the nation.

Environmental Consulting: RMT, Inc.

RMT, Inc. marked its third-consecutive year of record growth in revenue in 1989. Revenues increased to $30 million, compared with $25 million in 1988. RMT contributed 2 cents per share to WPL Holdings' 1989 earnings. Growth is projected to continue at the same rate through 1990.

RMT had revenues of $4 million in 1983, when it was acquired by Wisconsin Power and Light Co. It became a subsidiary of Heartland Development Corp. in March 1988 and now is its largest subsidiary.

RMT's market drivers continue to be the enforcement of current environmental regulations and programs, and legislation and regulations being developed to address ground-water protection, acid rain, and air and water toxics. RMT serves clients nationwide in a variety of industrial market segments — pulp and paper, chemical-petrochemical, metals, automotive, aircraft, textiles and waste management.

In 1989 RMT occupied new office facilities in Greenville, S.C., and new corporate headquarters in Madison, Wis. In September, RMT Laboratories moved into 21,500 square feet of ultramodern testing and research space in Madison. With its unrivaled custom design, the laboratory is fully equipped for high-production environmental testing. RMT Laboratories had a record 60-percent revenue growth from 1988 through 1989. The expanded facilities will allow continued aggressive growth plans into the early 1990s.

RMT opened a new branch office in Nashville, Tenn., in 1989. The company also has offices in South Carolina, Michigan, California and Washington, D.C. The company now employs more than 400 nationwide, including 240 people at its Madison headquarters and laboratory.

Telecommunications: WP&L Communications, Inc.

The company is involved in an exciting technology that has tremendous potential for communications in the new decade and in the coming new century.

WP&L Communications, Inc. participates in a fiber-optic telecommunications network through its investment in NorLight. Today's optical fiber is thinner than a human hair, yet it can carry thousands of times more information than either radio waves or the signals on copper telephone wires.

In 1987 NorLight completed the construction of one of the first interstate fiber-optic networks in the Midwest. The $55-million, 900-mile network provides telecommunications services to corporate and long-distance-carrier customers in Wisconsin, Illinois and Minnesota. NorLight can provide its customers with access to 230 cities nationwide.

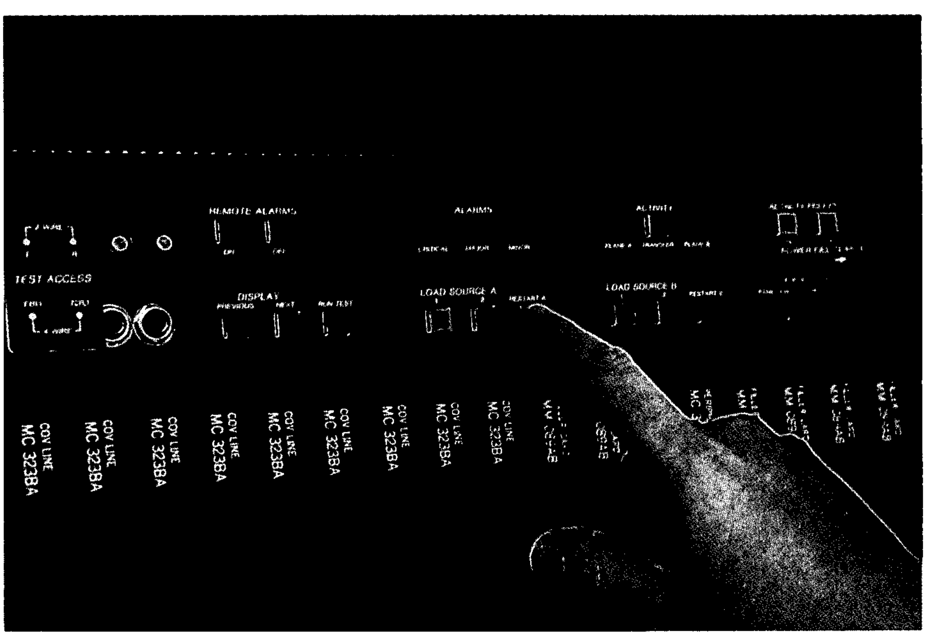
Because its aggressive marketing efforts have been so successful, NorLight is planning capital additions in 1990 to upgrade its system to meet customer demand. In 1989, the company expanded its services by connecting its network with U.S. Link, a regional fiber-optic firm serving Fargo, N.D., and cities throughout Minnesota. NorLight also has completed extensions of its system in Wisconsin through the Fox River Valley from Milwaukee to Green Bay. In 1990, NorLight plans to expand its system into Iowa.

The company's revenues have increased every quarter since the network began operation in 1987, and again were higher than projected in 1989. Profitability, however, has lagged revenue growth because of the high-interest costs associated with the capital-intensive nature of NorLight's business. WPL Holdings' shareowners realized a 2-cents-per-share loss from this investment in 1989. However, the company projects that NorLight will earn a small profit by year-end 1990.

With major opportunities for growth anticipated in the corporate market, NorLight is on course to achieve its goal of being the dominant regional fiber-optic carrier.

Based in Madison, Wis., NorLight is owned by WP&L Communications and the subsidiaries of other Wisconsin utilities. WP&L Communications owns a 31.9-percent interest in the company.

While WP&L Communications' activities will focus primarily on its NorLight investment in 1990, it may devote some resources to studying other investment opportunities in telecommunications.



NorLight's customer base increased by 59 percent in 1989. Its customers include American Family Insurance Co., which uses NorLight's fiber-optic cable for voice and data transmission. American Family's fiber-optic system supports more than 2,000 network users at any given time and connects its Milwaukee and regional offices in Wisconsin to its corporate headquarters in Madison, Wis. American Family, the nation's fourth-largest mutual auto insurance company, provides home, health, life, business and farm/ranch coverage, in addition to auto insurance, in 12 states. American Family's assets exceeded $3 billion at year-end 1989.

Energy: ENSERV, Inc.

Formed in 1984 to invest in energy-related business activities, ENSERV, Inc. remains primarily involved in the development of a new energy source called K-Fuel®.

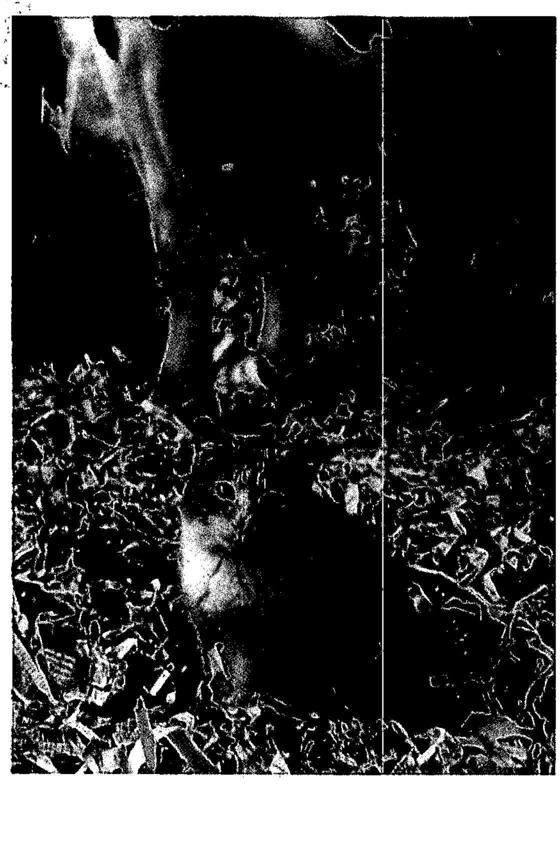
In the K-Fuel® process, coal with a high moisture content and low heating value is processed under high-temperature and high-pressure conditions. The result is K-Fuel® — pelletized coal that has a high energy content and low sulfur emissions. Construction of the first commercial K-Fuel® plant near Gillette, Wyo., is on schedule, with completion estimated in the first quarter of 1991.

In addition to the K-Fuel® venture, ENSERV is investigating refuse-derived fuels, particularly discarded rubber tires.

Real-Estate Development: Heartland Properties, Inc.

Heartland Properties, Inc. is responsible for the development and management of the company's non-utility properties, which include real estate in prime commercial and tourism areas. The subsidiary was the developer for RMT, Inc.'s new corporate headquarters and also was active in 1989 as the primary investor for WPL Holdings' affordable-housing program.

WPL Holdings and Heartland Properties have invested, to date, $9.5 million of equity to provide affordable housing in Wisconsin's communities, particularly in areas that Wisconsin Power and Light serves. The unique design of the affordable-housing investment program supports public and private partnerships in community-improvement initiatives and exemplifies the positive impact that the holding company is having on Wisconsin Power and Light's service area.



Heartland Development intends to prove that there is a profit in the recycling business. The company announced in December 1989 that it had teamed up with the Mt. Horeb (Wis.) Cooperative and other investors to open a newspaper-recycling facility in early 1990. Called Agri-Paper, the new business offers farmers shredded newspaper for use as animal bedding. Heartland Development owns one-third of the $323,000 business.

Heartland Development Corporation Corporate Officers

As of December 31, 1989

James R. Underkofler, 66 (1941)
Chairman of the Board,
President and
Chief Executive Officer

Eugene O. Gehl, 66 (1985)
Vice President, Treasurer
and Assistant Secretary

Thomas A. Landgraf, 41 (1979)
Secretary and Assistant Treasurer

Alan R. Kjelland, 46 (1976)
Assistant Treasurer and
Business Development Manager

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

Financial Section

▶ SELECTED FINANCIAL DATA

	1989	1988	1987	1986	1985
	(In Millions Except for Per Share Data)				
Operating revenues	**$ 605**	$ 601	$ 549	$ 569	$ 589
Net earnings	**$ 51**	$ 58	$ 55	$ 57	$ 56
Earnings per share	**$ 1.93**	$ 2.18	$2.08	$2.14	$2.13
Total assets (at December 31)	**$1,047**	$1,032	$ 996	$ 988	$ 977
Long-term obligations and preferred stock with mandatory redemption (at December 31)	**$ 321**	$ 323	$ 323	$ 333	$ 333
Cash dividends declared per share	**$ 1.68**	$ 1.62	$1.54	$1.45	$1.35

▶ CONTENTS

Management's Discussion and Analysis of Financial Condition and 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 11 percent decline in earnings of WPL Holdings, Inc. (the company) was the direct result of decreased earnings of its major subsidiary, Wisconsin Power and Light Company (WP&L). The most significant reason for this decrease was the recording of a reserve, which had the effect of reducing net earnings by $4.3 million on an after-tax basis, resulting from the Public Service Commission of Wisconsin (PSCW) having found WP&L imprudent in the administration of a coal contract. This issue and other factors causing the decline in earnings will be discussed further.

Cash dividends per share of common stock have increased during each of the past five years, reaching $1.68 in 1989, and dividends on common stock have been paid for 176 consecutive quarters.

Effective with the formation of the holding company in 1988, financial statements of the company 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, 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.

1989 Compared with 1988

Electric Operations

	1989	1988
	(In Thousands)	
Electric revenues	**$463,675**	$454,269
Electric production fuels expense and purchased power	**156,997**	151,982
Gross margin	**$306,078**	$302,287
Gross margin as a % of revenues	**66%**	67%

As shown above, the gross margin on electric sales was comparable to 1988. Electric revenues of

WP&L continued a growth pattern during 1989, increasing 1.9 percent, while electric volumes increased to a record high 9.6 billion kilowatthours (kWh) in 1989, an increase of 4.1 percent over 1988. Volumes sold were comparable to the prior year across customer classes except for a 64 percent increase in kWh sales to Class A utility customers, which resulted in a $3.3 million increase in Class A revenues. This increase was the result of WP&L pursuing opportunities in the bulk power market to purchase inexpensive off-peak power and reselling it to retail customers or neighboring utilities. Accordingly, purchased power expense increased 29.7 percent in 1989 compared with 1988. Although both the summer of 1989 and summer of 1988 were warmer than normal, on the average, the summer of 1989 was cooler than the summer of 1988. Despite this, peak demand approached 98 percent of the 1988 record demand. On July 10, 1989, demand on the system reached 1,777 megawatts (MW), only 42 MW less than the 1,819 MW peak demand recorded on August 16, 1988. Retail electric rates increased 1.0 percent and 1.1 percent as a result of retail rate orders that became effective November 1989 and October 1988, respectively. These rate increases also contributed to the increase in electric revenues.

Gas Operations

	1989	1988
	(In Thousands)	
Gas revenues	$107,783	$116,982
Purchased gas expense	61,343	76,702
Gross margin	$ 46,440	$ 40,280
Gross margin as a % of revenues	43%	34%

The gas margin increased to 43 percent in 1989, primarily due to the recording of a refund of approximately $14.3 million received from the company's major pipeline supplier. This refund resulted from the settlement of the supplier's 1986 rate case with the Federal Energy Regulatory Commission (FERC). The company was required by the PSCW to reduce both gas revenues and purchased gas expense by the entire refund amount. As a result, gas margins are artificially inflated by the adjustment. Excluding the impact of the refund, gas margins still would have increased to 38 percent. In addition, gas revenues would have increased 4.3 percent and purchased gas expense would have decreased by 1.4 percent. The increased revenues resulted from increased sales, especially during the cold weather experienced in December 1989. Purchased gas expense decreased slightly, even with higher quantities purchased, due to aggressive spot market purchases of gas at lower unit costs. Gas therm sales, including transported gas, also continued a growth pattern during 1989, increasing 6.4 percent over 1988 to 294 million therms sold. The average number of gas customers in 1989 also increased by 2.8 percent over 1988. In addition, retail gas rates were affected during this period due to retail rate orders received in November 1989 and October 1988. These had the effect of raising rates by 1.4 percent and 1.5 percent in 1989 and 1988, respectively, which also positively affected gas revenues.

The company's largest natural gas supplier has incurred take-or-pay charges in connection with its long-term gas purchase contracts. Currently, a portion of these charges is being passed on to WP&L. On February 1, 1989, the PSCW issued a generic order that gave WP&L the opportunity to recover from all retail customers these take-or-pay costs. As a result, all take-or-pay costs incurred can be recovered from the company's customers, and there will be no negative impact on current or future earnings. Currently, the FERC Order (Order 500) that gave rise to these charges is under review by the United States Court of Appeals. The outcome of this review and the impact on WP&L's customers is unknown.

Other Operating Revenues

Other operating revenues increased 14.4 percent between years, primarily due to increased business for RMT, Inc., Heartland Development's environmental consulting and engineering subsidiary. Record growth in revenue for RMT, Inc. continued in 1989 as revenues increased 19 percent. RMT, Inc. anticipates continued growth in the near future because of environmental events that have increased the demand for its services, including the cleanup of hazardous-waste sites, which was mandated by the U.S. Congress.

Other Operation Expenses

Total 1989 other operation expenses increased $15.5 million compared with 1988. The largest component causing the increase was a $4.8 million increase in the non-utility subsidiary expenses, primarily a result of RMT, Inc. operations. Corresponding to a 19 percent increase in revenues, RMT, Inc.'s other operating expenses increased 15 percent in 1989 compared with 1988. Also contributing to the increase was a $4.1 million increase in fees associated with the sale of WP&L's accounts receivable. Beginning in July 1988, WP&L incurred fees associated with the sale of its accounts receivable and in May 1989, WP&L began selling its unbilled revenues. The combination of having a full year of sales in 1989 and of selling larger amounts during a portion of 1989 caused the increase in expense. Finally, other operation expenses increased as a result of a $2.3 million increase in conservation programs benefiting utility customers.

Other Income and Deductions

Other income and deductions decreased as the result of recording a reserve, which had the effect of reducing net income by $4.3 million on an after-tax basis. In September, the PSCW concluded that WP&L did not properly administer a coal contract for the Columbia Energy Center (of which WP&L owns 46.2 percent), resulting in an assessment of a $9 million penalty to compensate ratepayers for excess fuel costs having been incurred over the 1974-1988 time frame. In the final rate order, effective November 13, 1989, the PSCW indicated that a refund should be made by WP&L to its customers, and to Wisconsin Public Service Corporation and Madison Gas and Electric Company for refund to their customers. As a result of this decision, the company has recorded a $4.3 million reserve, as discussed above. The company has appealed the order in the Dane County Circuit Court (the court). As a preliminary step in the appeal, the company asked the court to delay the issuing of refunds until the appeal of the whole case is finally decided. On February 14, 1990, the court denied the motion for such a delay, concluding that the company would not be irreparably harmed by being required to refund money to customers now and then recovering the money later, should the company ultimately win the appeal.

Income Taxes

Income taxes decreased $4.3 million between years primarily due to the lower pre-tax income in 1989 compared to 1988. In December 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96, "Accounting for

Income Taxes," (SFAS 96). The effective date of SFAS 96 has been deferred to fiscal years beginning after December 15, 1991 (January 1992 for the company). In December 1989, the PSCW issued an order, effective January 1, 1990, making various changes to the Uniform System of Accounts to more closely follow the FERC System of Accounts. The most significant impact of the changes is the adoption of the full normalization method of accounting for deferred income taxes. Beginning with the company's next rate case, deferred taxes will be recognized on all timing differences previously flowed through to income-tax expense. The net result will be to record a deferred tax liability offset by a receivable from customers on the consolidated balance sheet (see "Notes to Consolidated Financial Statements," Notes 1c and 1j, for additional information).

1988 Compared with 1987

Operating Revenues

Total revenues increased 9.4 percent over 1987. Electric revenues of WP&L continued a growth pattern during 1988, increasing 3.6 percent over 1987. Increased kWh sales of 1.8 percent, primarily in the residential, commercial and industrial markets, were the result of hot, humid weather experienced in the summer of 1988. The company recorded a record peak demand in August 1988, representing an increase of 11 percent over the 1987 peak demand. The above increases were offset by a 12.5 percent decrease in kWh sales for resale. This decrease was caused by reduced sales to other utilities that had substantial capacity growth during 1988. 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, 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. 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 approximately $25 million, an increase of 51 percent over 1987, resulting in a record 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 percent over 1987. The primary reason for this change 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 Plant.

Income Taxes

The Tax Reform Act of 1986 (the act) resulted in several changes in federal taxation, including reducing 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 1j).

LIQUIDITY AND CAPITAL RESOURCES

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. The importance of both short-term and long-term liquidity is discussed separately below.

Short-term Liquidity

Short-term liquidity is important because funds are required for the payment of interest and dividends. In addition, occasionally cash is required to meet the short-term needs of the company's non-utility subsidiaries.

In addition, the company and its subsidiaries require capital for sinking fund obligations and the mandatory retirement of long-term debt. The company also continues to require cash for non-utility subsidiary investments. These investments include the company's recent outlays to help provide affordable housing in Wisconsin. The first project announced in April 1989 was the state's first housing venture that supported public and private partnerships in community-improvement initiatives. On August 17, 1989, the company announced plans to make additional commitments for similar projects during the next year. Funding for these projects totaled $7.6 million in 1989.

The company's short-term liquidity can be measured by its ratio of current assets to current liabilities (current ratio). During 1989, that ratio dropped from .93 at December 31, 1988, to .70 at December 31, 1989. This decrease is caused by the use of short-term debt funds and proceeds from the sales of accounts receivable and unbilled revenue to finance long-term cash needs. Receivables totaling approximately $60 million (includes unbilled revenues) and $41 million had been sold as of December 31, 1989, and 1988, respectively. The use of these funds to meet the company's cash needs, while negatively affecting the company's current ratio, has resulted in a lower cost of capital than the other forms of debt or equity financing available. As the company reaches its short-term debt limit required by the PSCW, the company anticipates issuing long-term debt in late 1990 or early 1991, the proceeds of which will be used to extinguish this short-term debt outstanding.

The company anticipates that short-term debt funds will continue to be available and economical in the future due to strong ratings by utility analysts and outside rating services. WP&L commercial paper has been rated A-1+ by Standard & Poor's Corp. (S&P) and P-1 by Moody's Investors Service (Moody's). Bank lines of credit of $51.5 million, although seldom used, are available, which support these borrowings (see "Notes to Consolidated Financial Statements," Note 6).

Long-term Liquidity

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, projected construction expenditures for 1990 are $85.3 million. Such construction includes recurring capital additions and replacements and the funding of an external trust for the eventual decommissioning of the Kewaunee Nuclear Plant, of which WP&L owns 41 percent.

One of the company's objectives is to finance construction expenditures through internally generated funds supplemented, when required, by short-term debt. With this objective in place, the company has financed an average of 89 percent of its construction expenditures during the last five years from internally generated funds. In the near future, although a major power plant is not expected to be needed, several significant commitments and contingencies may require additional financing. Contingencies include the finalization of the federal acid-rain legislation potentially requiring additional capital investment. One major commitment is an agreement entered into with the Wisconsin Public Power, Inc. System (WPPI) to develop a site for the construction of combustion-turbine generators. Construction of the first unit is expected to begin in 1991. The first generator will be owned by WPPI. The development of the site and construction of the combustion turbines is subject to prior approval by the PSCW (see "Notes to Consolidated Financial Statements," Note 5).

As the company requires long-term financing, low cost funds also should be available due to excellent ratings for WP&L first mortgage bonds by the outside rating agencies. Moody's gave WP&L its highest rating of Aaa, while S&P's current rating is AA. These ratings are due, in part, to the overall low cost of debt and the company's strong equity ratio. Interest coverage ratios on a before-tax basis have ranged between 3.5 and 4.0 times earnings during 1989. In addition, the company decreased long-term debt in 1989, reducing the long-term debt co[illegible]t of total capitalization to less than 40 percent at Decem[illegible], 1989. This reduction is significant due to a PSCW requirement under its most recent rate order to maintain stability in common equity by maintaining at least a 49.5 percent common equity ratio as a percent of total capitalization over the test year. Based upon actual results through December 31, 1989, and projections for the remainder of the test-year period ending July 31, 1990, management expects to be in compliance with the PSCW utility capitalization requirement.

The managed use of internally generated funds, plus short-term and long-term debt funds, has enabled the company to be in a strong financial position as it looks to the future. Other sources of cash will continue to be aggressively pursued in 1990 and thereafter. These sources include additional earnings from WP&L as a result of customer retention and expansion, as well as cost-cutting efforts currently underway. Cash also is anticipated from additional earnings of RMT, Inc. and tax credits generated from the company's investment in affordable-housing projects.

WPL Holdings, Inc. and Subsidiaries

Consolidated Statements of Income

Year Ended December 31,	1989	1988	1987	1986	1985
	(In Thousands Except for Per Share Data)				
Operating revenues (Note 1g):					
Electric	**$463,075**	$454,269	$438,561	$437,033	$432,314
Gas	**107,783**	116,982	106,643	128,201	152,588
Other (Note 1a)	**33,960**	29,682	4,178	4,012	4,029
	604,818	600,933	549,382	569,246	588,931
Operating expenses:					
Electric production fuels	**127,062**	128,895	129,276	127,476	126,957
Purchased power	**29,935**	23,087	15,913	12,262	22,764
Purchased gas	**61,343**	76,702	67,988	88,763	112,364
Other operation (Note 1a)	**150,912**	135,407	102,610	101,545	96,191
Maintenance	**40,624**	39,811	36,328	34,807	33,673
Depreciation (Note 1h)	**54,572**	52,272	49,448	45,139	50,945
Taxes other than income	**24,193**	23,832	23,036	22,931	14,975
	486,641	480,006	424,599	432,923	457,869
Operating income	**116,177**	120,927	124,783	136,323	131,062
Other income and (deductions) (Note 1a):					
Allowance for equity funds used during construction (Note 1d)	**—**	—	—	769	2,646
Preferred stock dividends of subsidiary	**(3,811)**	(3,812)	(3,814)	(3,814)	(4,360)
Other	**(4,716)**	1,257	(415)	694	(3,155)
	(8,527)	(2,555)	(4,229)	(2,351)	(4,869)
Interest expense:					
Interest on bonds	**27,556**	27,688	28,107	30,520	26,938
Allowance for borrowed funds used during construction (Note 1d)	**(1,606)**	(1,629)	(1,018)	(535)	(3,181)
Other (Note 4)	**3,565**	3,199	2,023	805	(2,936)
	29,313	29,258	29,112	30,790	20,821
Income before income taxes	**78,337**	89,114	91,442	103,182	105,372
Income taxes (Note 1j)	**26,855**	31,181	36,477	46,512	49,004
Net earnings	**$ 51,482**	$ 57,933	$ 54,965	$ 56,670	$ 56,368
Earnings per share (Notes 1e and 3a)	**$1.93**	$2.18	$2.08	$2.14	$2.13
Cash dividends paid per share (Note 3a)	**$1.68**	$1.62	$1.54	$1.45	$1.35

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

WPL Holdings, Inc. and Subsidiaries

Consolidated Balance Sheets

Assets December 31,	1969	1988
	(In Thousands)	
Utility plant (Notes 1d and 2):		
Plant in service —		
Electric	$1,286,373	$1,235,035
Gas	155,866	146,033
Water	17,351	16,592
Common	95,402	83,471
	1,554,992	1,481,131
Dedicated decommissioning funds (Note 1h)	29,429	25,873
	1,584,421	1,507,004
Less—Accumulated provision for depreciation (Note 1h)	739,607	695,711
	844,614	811,293
Construction work in progress	14,151	20,259
Nuclear fuel, net (Note 1f)	22,992	21,247
Total utility plant	881,957	852,799
Other property and equipment, net (Note 1a)	11,573	4,571
Investments (Note 1b)	18,351	11,691
Poilution Controi Revenue Bond Fund (Note 3c)	1,745	2,878
Current assets:		
Cash	1,371	720
Temporary cash investments, at cost, which approximates market	3,721	3,251
Accounts receivable, less allowance for doubtful accounts of $2,245,000 and $543,000, respectively (Note 1k)	10,056	38,384
Unbilled revenue	33,180	36,707
Fossil fuel, at average cost (Note 5)	17,737	22,852
Materials and supplies, at average cost	24,441	20,595
Prepayments	21,635	19,244
	112,141	141,753
Deferred charges	21,647	17,968
TOTAL ASSETS	$1,047,414	$1,031,660

Capitaiization and Liabiiities		
Capitaiization (See statements on page 29):		
Common shareowners' investment	$ 423,937	$ 417,327
Preferred stock without mandatory redemption	59,963	59,963
First mortgage bonds, net	313,088	322,485
Other long-term debt	8,096	703
Total capitalization	805,084	800,478
Current iiabiiities:		
First mortgage bonds to be retired and sinking fund requirements (Note 3c)	9,410	13,813
Short-term debt (Note 6)	42,144	24,205
Accounts payable	58,524	47,723
Accounts payable to credit agent (Note 1k)	—	19,651
Accrued payroll and vacations	12,210	9,628
Accrued taxes	6,971	12,722
Accrued interest	7,521	7,591
Gas pipeline refunds due customers	12,602	—
Other	11,497	16,297
	160,679	151,630
Other credits:		
Accumulated deferred investment tax credits (Note 1j)	51,598	54,293
Other	29,853	25,259
	81,451	79,552
Construction commitments (Notes 2 and 5)		
TOTAL CAPITALIZATION AND LIABILITIES	$1,047,414	$1,031,660

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

WPL Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Year Ended December 31,	1989	1988	1987	1986	1985
			(In Thousands)		
Cash flows generated from (used for) operating activities:					
Net earnings	**$ 51,482**	$ 57,933	$ 54,965	$ 56,670	$ 56,368
Adjustments to reconcile net earnings to net cash provided by operating activities:					
Depreciation	**54,572**	52,272	49,448	45,139	50,945
Deferred income tax	**5,765**	8,936	9,254	13,449	12,589
Investment tax credit deferred (restored), net	**(2,695)**	(3,214)	(2,191)	(3,660)	2,433
Amortization of nuclear fuel	**7,216**	5,882	5,594	5,776	6,230
Amortization of unbilled revenue	**—**	—	—	(1,231)	(1,291)
Equity component of allowance for funds used during construction (AFUDC)	**—**	—	—	(769)	(2,646)
Other	**2,596**	2,473	1,882	1,918	1,956
Changes in assets and liabilities:					
Accounts receivable	**28,328**	5,676	4,222	5,607	(6,153)
Unbilled revenue	**3,527**	2,566	(1,404)	10,177	(8,538)
Fossil fuel	**5,115**	1,771	3,904	(2,161)	832
Materials and supplies	**(3,846)**	(1,672)	(31)	(684)	(1,878)
Prepayments	**(2,391)**	(865)	(2,970)	(826)	(13,508)
Accounts payable	**(8,850)**	20,081	(16,462)	5,888	8,724
Accrued taxes	**(5,751)**	6,791	(9,190)	(5,844)	4,484
Accrued interest	**(70)**	(21)	498	(2,557)	556
Gas pipeline refunds due customers	**12,602**	—	—	—	—
Other	**(17,434)**	1,622	(1,798)	347	(1,629)
Net cash generated from operating activities	**130,188**	160,231	95,721	127,239	109,474
Cash flows generated from (used for) financing activities:					
Sale of first mortgage bonds and other long-term debt	**7,400**	—	—	88,000	—
Issuance of pollution control revenue bonds	**—**	15,500	—	—	—
Issuance of common stock	**—**	4,239	—	—	—
Net change in short-term debt	**17,939**	(27,595)	45,800	(44,100)	19,000
Bond maturities, redemptions and sinking fund requirements	**(13,903)**	(1,990)	(23,237)	(44,704)	(742)
Common stock cash dividends	**(44,793)**	(42,942)	(40,768)	(38,386)	(35,739)
Preferred stock redemptions	**—**	(27)	—	—	(6,672)
Net cash used for financing activities	**(33,357)**	(52,815)	(18,205)	(39,190)	(24,153)
Cash flows generated from (used for) investing activities:					
Additions to utility plant, excluding AFUDC	**(92,506)**	(98,757)	(75,960)	(63,879)	(66,888)
AFUDC	**(1,808)**	(1,629)	(1,018)	(1,304)	(5,827)
Dedicated decommissioning funds	**(2,509)**	(2,509)	(2,500)	(20,000)	—
Payments for nuclear fuel disposal	**—**	—	—	—	(15,369)
Pollution Control Revenue Bond Fund	**1,133**	(2,878)	—	—	3,326
Net cash used for investing activities	**(95,890)**	(105,773)	(79,478)	(85,183)	(84,758)
Net increases (decreases) in cash	**1,121**	1,643	(1,962)	2,866	563
Cash and cash equivalents at beginning of year	**3,971**	2,328	4,290	1,424	861
Cash and cash equivalents at end of year	**$ 5,092**	$ 3,971	$ 2,328	$ 4,290	$ 1,424
Supplemental disclosures of cash flow information:					
Cash paid during the year for:					
Interest on debt, less amount capitalized	**$ 31,191**	$ 31,686	$ 29,632	$ 33,882	$ 23,446
Preferred stock dividends of subsidiary	**$ 3,811**	$ 3,812	$ 3,814	$ 3,814	$ 4,360
Income taxes	**$ 29,428**	$ 23,262	$ 30,109	$ 34,771	$ 24,046

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

WPL Holdings, Inc. and Subsidiaries

Consolidated Statements of Capitalization

December 31,	1989	1988
	(In Thousands)	
Common shareowners' investment (Notes 1a and 3a):		
Common stock, $.01 par value, authorized — 100,000,000 shares; issued and outstanding — 26,662,553 shares	$ 287	$ 267
Additional paid-in capital	182,964	182,964
Reinvested earnings	240,706	234,096
Total common shareowners' investment	423,937	417,327
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; 599,630 shares issued and outstanding		
Series — Shares outstanding		
4.50% — 99,970	9,997	9,997
4.80% — 74,912	7,491	7,491
4.96% — 64,979	6,498	6,498
4.40% — 29,957	2,998	2,996
4.76% — 29,947	2,995	2,995
8.48% — 149,865	14,986	14,986
7.56% — 150,000	15,000	15,000
Total preferred stock	59,963	59,963
First mortgage bonds, net (Note 3c):		
Wisconsin Power and Light —		
Series K, 4¼%, due 1992	3,827	3,827
Series L, 6¼%, due 1998	8,899	8,899
Series M, 8%, due 1999	24,500	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 (6¾% at Dec. 31, 1989)	8,500	8,500
1988 Series A, floating rate, due 2015 (7¼% at Dec. 31, 1989)	15,500	15,500
1986 Series T, 10%, due 2016	50,000	50,000
1986 Series U, 8%, due 1991	9,500	19,000
	314,505	324,005
Unamortized discount and premium, net	(1,417)	(1,520)
Total first mortgage bonds, net	313,088	322,485
Other	8,098	703
TOTAL CAPITALIZATION	$805,084	$800,478

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

WPL Holdings, Inc. and Subsidiaries

Consolidated Statements of Common Shareowners' Investment

December 31,	1989	1988	1987	1986	198
			(In Thousands)		
Common stock:					
Balance at beginning of year	$ **287**	$ 66,183	$ 66,183	$ 66,183	$ 66,183
Issued in connection with employee benefit plans and other	—	2	—	—	—
Adjustment of par value (Note 1a)	—	(66,051)	—	—	—
Adjustment for two-for-one stock split	—	133	—	—	—
Balance at end of year	**267**	267	66,183	66,183	66,183
Additional paid-in capital:					
Balance at beginning of year	**182,964**	112,799	112,799	112,799	112,765
Adjustment of par value (Note 1a)	—	66,051	—	—	—
Issued in connection with employee benefit plans and other	—	4,247	—	—	34
Adjustment for two-for-one stock split	—	(133)	—	—	—
Balance at end of year	**162,964**	182,964	112,799	112,799	112,799
Reinvested earnings:					
Balance at beginning of year	**234,096**	219,141	204,944	186,668	166,368
Net earnings	**51,482**	57,933	54,965	56,670	56,368
Cash dividends	**(44,793)**	(42,942)	(40,768)	(38,386)	(35,739)
Expense of issuing common stock and other	**(79)**	(36)	—	(8)	(329)
Balance at end of year	**240,706**	234,096	219,141	204,944	186,668
TOTAL COMMON SHAREOWNERS' INVESTMENT	**$423,937**	$417,327	$398,123	$383,926	$365,650

The acoompanying notes are an integral part of the oonsolidated finanoial statements.

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. These consolidated financial statements 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 controls is designed to provide reasonable assurance that the assets of the company are safeguarded and that the transactions are executed according to management's authorizations and are recorded in accordance with the appropriate accounting principles.

The Board of Directors participates in the financial information reporting process through its Audit Committee, whose composition and duties are described on page 6 of this Annual Report.

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

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

February 14, 1990

Report of Independent Public Accountants

To the Shareowners and Board of Directors of WPL Holdings

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, 1989, and 1988, 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, 1989. 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 reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WPL Holdings, Inc. and subsidiaries as of December 31, 1989, and 1988, and the results of their operations and their cash flows for each of the five years in the period ended December 31, 1989, in conformity with generally accepted accounting principles.

Milwaukee, Wisconsin,
February 14, 1990.

ARTHUR ANDERSEN

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES:

a. **Corporate Restructuring:**

On February 25, 1988, the Securities and Exchange Commission (SEC) issued an order approving the purchase by WPL Holdings, Inc. (the company) of all of the outstanding common stock of Wisconsin Power and Light Company (WP&L). In accordance with that order, on March 31, 1988, the company was formed as a holding company. The U.S. District of Columbia Court of Appeals, pursuant to a petition for review filed by Wisconsin's Environmental Decade, Inc., remanded the case to the SEC for further review as to whether the order complied with applicable statutes. Management anticipates that following such additional review, the SEC will affirm its original order.

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 non-operating 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 the company. Consistent with this formation, common stock and additional paid-in capital have been adjusted to reflect the new $.01 par value.

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

Certain prior period amounts in the consolidated financial statements have been reclassified 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 WP&L. Also included are Heartland Development Corporation's subsidiaries, ENSERV, Inc., Heartland Properties, Inc., RMT, Inc. and WP&L Communications, Inc., and WP&L's subsidiaries, South Beloit Water, Gas and Electric Co., Wisconsin Power and Light Nuclear Fuel, Inc., NUFUS Resources, Inc. and REAC, Inc. Companies less than majority owned and other minor subsidiaries are accounted for on the cost and equity methods and are not material. All significant intercompany transactions and accounts have been eliminated.

c. **Regulation:**

WP&L's financial records are maintained in accordance with the uniform systems of accounts prescribed by its regulators. In December 1989, the Public Service Commission of Wisconsin (PSCW) issued an order effective January 1, 1990, making various changes to the uniform system of accounts to more closely follow the Federal Energy Regulatory Commission (FERC) system of accounts. These changes require WP&L to make certain balance sheet reclassifications in the first quarter of 1990 to comply with the order. Any impact on earnings that may arise as a result of these changes are anticipated to be incorporated in future rates. The PSCW and the Illinois Commerce Commission have jurisdiction over retail electric rates, which represent approximately 81 percent of electric sales, and retail gas rates. The 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 (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. In accordance with WP&L's 1989 retail rate order, effective November 1989, WP&L capitalized AFUDC at 10.21 percent on all qualifying construction work in progress (CWIP). For its wholesale jurisdiction, WP&L capitalized AFUDC on qualifying CWIP at 9.35 percent for 1989.

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 capital leases.

e. **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), was 26,662,553 shares and 26,527,652 shares for 1989 and 1988, respectively, and 26,473,202 shares for 1987, 1986 and 1985.

f. **Nuclear Fuel:**

Nuclear fuel is recorded at its original cost and is amortized 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 generated. Under the Nuclear Waste Policy Act of 1982, the U.S. Department of Energy 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,	
	1989	1988
	(In Thousands)	
Original cost of nuclear fuel	**$128,182**	$115,951
Accumulated amortization	**103,170**	94,704
Net nuclear fuel	**$ 22,992**	$ 21,247

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

g. **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 [illegible] results in equal reductions to gas revenues and purchased gas expense, but retains the contribution to earnings. In 1989, 1988, 1987 and 1986, these gas transportation customers accounted for approximately 20 percent, 22 percent, 23 percent and 10 percent of gas therm sales, respectively. In addition, transported gas accounted for approximately 3.7 percent, 5.4 percent, 4.6 percent and 1.8 percent of gas revenues for those same years.

h. **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. These rates are applied to various classes of property as ordered by the PSCW effective January 1, 1986. Lower straight-line rates decreased annual depreciation expense an estimated $3.2 million. The annual composite rates were:

	Electric	Gas	Water	Common
	%	%	%	%
1989	**3.5**	**3.9**	**2.5**	**6.6**
1988	3.3	3.9	2.6	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

On December 29, 1989, WP&L filed its 1990-1994 Depreciation Study with the PSCW. If approved by the PSCW, lower straight-line rates would decrease annual depreciation expense by an estimated $3 million.

Depreciation expense related to the Kewaunee Nuclear Plant includes a provision for the decommissioning of the plant. During 1986, Wisconsin utilities operating nuclear generating plants were required by the PSCW 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 PSCW. 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 PSCW directives, all earnings of the external funds are recognized as other income. The balances in the funds at December 31, 1989, and 19[illegible] totaled $31.2 million and $27 million, respectively, consisting of various investments, at market. Future contributions to the trust funds are anticipated to be $2.5 million annually.

i. **Retirement Plans:**

WP&L has noncontributory defined benefit plans covering substantially all employees. The benefits are based upon 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.

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 were incorporated in WP&L's rates and, as such, did 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, 1989, and 1988:

	1989	1988
	(In Thousands)	
Accumulated benefit obligation		
Vested benefits	$ (86,672)	$ (81,318)
Nonvested benefits	(547)	(302)
	$ (87,219)	$ (81,620)
Projected benefit obligation	$(100,697)	$ (91,304)
Plan assets at fair value, primarily common stocks and fixed income securities	141,593	133,991
Plan assets in excess of projected benefit obligation	40,896	42,687
Unrecognized net transition asset	(31,613)	(34,084)
Unrecognized prior service cost	6,334	8,129
Unrecognized net gain	(8,740)	(13,737)
Prepaid pension costs	$ 6,877	$ 2,995

Net pension benefit for 1989, 1988 and 1987 included the following components:

	1989	1988	1987
		(In Thousands)	
Service cost	$ 2,105	$ 1,907	$ 2,722
Interest cost on projected benefit obligation	8,177	7,831	7,751
Actual return on assets	(17,013)	(15,364)	(10,714)
Net amortization and deferral	2,849	2,449	(4,378)
Net pension benefit	$ (3,882)	$ (3,177)	$ (4,619)

The weighted average discount rate used in determining the actuarial present value of the projected benefit obligation was 8.75 percent for 1989 and 9 percent for 1988 and 1987, 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, 1989, January 1, 1988, and January 1, 1987, was 10 percent.

Summary information related to these plans, when the former accounting and actuarial methods were used, is presented below.

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

Pension expense decreased in 1986, reflecting the favorable earnings on trust fund assets partially offset by plan amendments. The plans used an assumed investment rate of 8.75 percent for 1986 and 1985.

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, $561,000, $631,000, $325,000, $314,000, and $660,000 for 1989, 1988, 1987, 1986 and 1985, 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 other noncontributory supplemental retirement plans to key executives of the company, including post-retirement medical and post-retirement life-insurance plans. To date, no contributions have been made to the plans because they are nonqualified.

j. **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. The state income tax effects of utilizing liberalized depreciation methods are flowed through to income tax expense currently. Beginning January 1, 1990, these deferred taxes will be reclassified into a deferred income tax account to comply with the FERC system of accounts as required by the PSCW. Additionally, this change to the FERC system of accounts will require that a deferred income tax asset or liability be recognized on all cumulative timing differences previously flowed through to income tax expense. This asset or liability is expected to be offset by a receivable from or payable to customers and be incorporated in rates through the rate case process.

As of December 31, 1989, $12.4 million of deferred income taxes at the 34 percent rate had not been provided on cumulative income tax timing differences of $36.5 million. These amounts are recoverable in rates under current regulatory policies.

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

	1989	1988	1987	1986	1985
			(In Thousands)		
Income taxes:					
Current fedoral income	**$18,146**	$18,840	$24,329	$30,559	$28,829
Deferrod	**5,765**	8,936	9,254	13,449	12,589
Investment tax credit —					
Deferred	**—**	—	—	381	6,436
Restored	**(2,685)**	(2,915)	(3,174)	(3,373)	(3,539)
Current state income	**5,829**	6,320	6,068	5,496	4,689
	$26,855	$31,181	$36,477	$46,512	$49,004

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

	1989	1988	1987	1986	1985
Statutory federal income tax rate	**34.0%**	34.0%	40.0%	46.0%	46.0%
Allowance for funds used during construction, which does not constitute current taxable income	**(.8)**	(.6)	(.4)	(.5)	(2.5)
State income taxes and state additional depreciation, net	**3.7**	3.8	3.2	2.2	1.9
Reversals of various plant related timing differences for which deferred taxes had not been provided	**2.4**	1.8	1.9	1.8	2.5
Investment tax credits restored	**(3.4)**	(3.1)	(3.4)	(3.1)	(3.2)
Amortization of excess deferred taxes	**(1.8)**	(1.0)	—	—	—
Other differences, net	**.2**	.1	(1.4)	(1.3)	1.8
Effective income tax rate	**34.3%**	35.0%	39.9%	45.1%	46.5%

The statutory federal income tax rate decreased beginning in 1987 as a result of the Tax Reform Act of 1986.

In December 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96 "Accounting for Income Taxes" (SFAS 96). While the standard must be adopted no later than January 1992, 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 accumulated deferred income taxes that 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. Consistent with the change to the FERC system of accounts, it is expected that additional deferred income tax assets and liabilities will be recorded and 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 rela to these adjustments will depend greatly on the ra making treatment authorized in future ratemaking proceedings.

k. **Accounts Receivable:**

On August 16, 1989, WP&L entered into a contract to sell, with limited recourse, certain accounts receivable to Commercial Industrial Trade - Receivables Investment Company (Citico). The contract expires August 16, 1992, unless it is mutually agreed to be extended, and allows WP&L to sell up to $100 million of receivables at any time. On the initial transaction date, WP&L reacquired accounts receivable (both billed and unbilled) that were previously sold to another credit agent and resold to Citico the majority of these receivables, together with additional receivables, totaling $63 million. During the period of the contract, WP&L sold an average of $59.2 million per month. As of December 31, 1989, proceeds from the sale of accounts receivable totaled $60 million out of a total eligible pooled receivable balance of $83.2 million. Subsequently, on January 30, 1990, WP&L sold an additional $20 million of accounts receivable.

Prior to the Citico arrangement, WP&L had entered into a Purchase and Administration Agreement w

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 provided that utility receivables would be sold on a daily basis net of any cash collected by WP&L. All billing and collection functions remained the responsibility of WP&L. Under the agreement, certain receivables were not sold until the month following the month in which they were billed. Cash collections from prior receivables sold were also remitted at that time. As of December 31, 1988, $41 million of accounts receivable were sold.

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 as reflected on the Consolidated Balance Sheets at December 31, 1989, and 1988:

		1989		1988	
	Ownership Interest	Plant In Service	Accumulated Provision For Depreciation	Plant In Service	Accumulated Provision for Depreciation
	%	(In Thousands)			
Coal:					
Columbia Energy Center	46.2	$162,427	$ 88,403	$162,322	$ 83,385
Edgewater Unit 4	68.2	41,914	25,840	41,748	24,948
Edgewater Unit 5	75.0	233,276	62,948	233,142	53,408
Nuclear:					
Kewaunee Nuclear Plant	41.0	118,840	99,384	118,244	94,130
Total		$556,457	$276,573	$555,456	$255,871

WP&L's share of other operation and maintenance expenses is included in the appropriate expense categories in the Consolidated Statements of Income.

Construction and net removal cost expenditures for 1990 are estimated to be $85.3 million. Substantial commitments have been incurred in connection with such expenditures.

NOTE 3. CAPITALIZATION:

a. **Common Stock:**

In July 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, distributed in September 1988. All cash dividend per share data and earnings per share data have been retroactively adjusted to reflect the split.

As a result of the corporate restructuring in 1988, 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 1989, all shares issued through the plan were 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.

In February 1989, the Board of Directors of the company declared a dividend distribution of one common stock purchase right (right) on each outstanding share of the company's common stock. Each right would initially entitle shareowners to buy one-half of one share of the company's common stock at an exercise price of $60.00 per share, subject to adjustment. The rights are not currently exercisable, but would become exercisable if certain events occurred related to a person or group acquiring or attempting to acquire 20 percent or more of the outstanding shares of common stock. The rights expire on February 22, 1999, unless the rights are earlier redeemed or exchanged by the company. Given this plan, authorized shares of common stock were increased from 50,000,000 to 100,000,000 and as of December 31, 1989, can be categorized as follows:

	Shares
Issued and outstanding	26,662,553
Reserved for issuance for:	
Dividend Reinvestment and Stock Purchase Plan	3,810,649
Common Stock Rights Agreement	15,238,791
Unreserved	54,288,007
Total authorized	100,000,000

A retail rate order effective November 13, 1989, requires WP&L to maintain a utility common equity level of an average of 49.50 percent of total utility capitalization. Also, the order states that 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 49.50 percent average over the August 1, 1989, to July 31, 1990, test-year period. Based upon actual results through December 31, 1989, and projections for the remainder of the test-year period ending July 31, 1990, management expects to be in compliance with the PSCW utility capitalization requirement.

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

There were no issues of preferred stock during the years ended December 31, 1989, and 1988.

During 1989, there were no redemptions of preferred stock. 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 percent, 4.50 percent, 4.76 percent, 4.80 percent, 4.96 percent and 8.48 percent preferred stock.

c. **WP&L Bonds:**

As of December 31, 1988, $2.0 million principal amount of Series U Bonds had been purchased by WP&L and retired. To satisfy the remaining 1989 Series U sinking fund obligation, WP&L purchased and retired $7.6 million of Series U Bonds on January 24, 1989. On March 1, 1989, WP&L retired, at maturity, $6.3 million of First Mortgage Bonds, Series J. Accordingly, such bonds were classified as short-term at December 31, 1988. In early 1990, WP&L purchased and retired $2.35 million of Series U Bonds.

During 1988, WP&L issued $15.5 million of pollution control revenue bonds 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 mortgage bond issues outstanding as of December 31, 1989, are:

	1990	1991	1992	1993	1994
			(In Thousands)		
Nonsubstitutable sinking fund obligations:					
Series U, 8.0%	$9,410	$ —	$ —	$—	$—
1975 Series A, 7.75%	—	700	700	700	700
Mandatory retirements:					
Series K, 4.25%	—	—	3,827	—	—
Series U, 8.0%	—	9,500	—	—	—
Total	$9,410	$10,200	$4,527	$700	$700

NOTE 4. OTHER INTEREST EXPENSE:

On August 29, 1985, the PSCW 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. COMMITMENTS:

a. **Coal Contract Assessment:**

The PSCW concluded that WP&L did not properly administer a coal contract for the Columbia Energy Center (of which WP&L owns 46.2 percent), resulting in an assessment of a $9 million penalty to compensate ratepayers for excess fuel costs having been incurred over the 1974-1988 time frame. In the final rate order, effective November 13, 1989, the PSCW indicated that a refund should be made by WP&L to its customers and to Wisconsin Public Service Corporation and Madison Gas and Electric Company for refund to their customers. As a result of this decision, the company has recorded a reserve, which had the effect of reducing net earnings by $4.3 million on an after-tax basis. The company has appealed the order in the Dane County Circuit Court (the court). As a preliminary step in the appeal, the company asked the court to delay the issuing of refunds until the appeal of the whole case finally is decided. On February 14, 1990, the court denied the motion for such a delay, concluding that the company would not be irreparably harmed by being required to refund money to customers and then recovering the money later, should the company ultimately win the appeal.

b. **Coal Contract Commitments:**

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 currently is making such payments to a coal supplier due to the alternative purchases of favorably priced coal on the open market. Any take-or-pay payments are expected to be offset by price savings from spot-market purchases.

In the opinion of management, it exercised reasonable and prudent judgment in entering into such long-term coal contracts and, therefore, any such costs incurred for take-or-pay provisions would be considered a legitimate cost-of-service item subject to recovery in rates.

c. **Acid Rain Legislation:**

Contract commitments also are affected by the acid rain legislation enacted by the Wisconsin Legislature in 1986 and currently by Congress' proposed amendments to the Clean Air Act related to acid rain control. The Wisconsin legislation, which becomes effective January 1, 1993, establishes annual system-wide sulfur emissions limits for each utility system in the state. To meet these limits, it will be necessary to install between $8 million and $16 million of boiler and pollution control equipment prior to January 1, 1993. WP&L estimates that the increased fuel costs to comply with this legislation will be less than $3.5 million in 1993 and 1994. After 1994, WP&L estimates that there will be no increase in fuel costs compared with current costs.

President Bush introduced an acid rain proposal in June 1989. A likely U.S. Congressional bill related to acid rain will contain two phases, with phase-1 to be effective in 1995 or 1996 and phase-2 to be effective in 2000 or 2001.

Wisconsin's 1986 Acid Rain Law is more stringent than the phase-1 requirements of the federal proposal. As a result, phase-1 requirements of any federal bill are not expected to result in a substantial increase in compliance costs above those that are required by Wisconsin law.

Proposed phase-2 federal requirements are currently more stringent than Wisconsin's Acid Rain Law and initial costs to comply may range between $50 million and $60 million. Additional annual fuel costs are estimated to be between $5 million and $7 million.

In the opinion of management, any such costs incurred to meet mandatory emission limits would be considered a legitimate cost of service item subject to recovery in rates.

d. **Combustion Turbine Generator:**

During 1989, WP&L and Wisconsin Public Power, Inc. System (WPPI) signed an agreement to jointly participate in the development of a combustion turbine generator site at WP&L's existing substation in the town of Fond du Lac. WPPI will own the generator to be built at the site, while WP&L intends to locate one or more of its own units at the same site in the future. The agreement follows the April 6, 1989, Advance Plan order issued by the PSCW, which identified the need for the additional combustion turbine peaking capacity by 1993. Construction by WPPI and initial site development is not expected to commence until mid-1991, following additional environmental and engineering studies and approval from the PSCW and the Wisconsin Department of Natural Resources.

e. **Price-Anderson Act:**

The Price-Anderson Act provides for the payment of funds for public liability claims arising out of a nuclear incident. Accordingly, in the event of a nuclear incident, WP&L, as a 41 percent owner of the Kewaunee Nuclear Power Plant, is subject to an assessment of approximately $26.8 million per incident for this reactor, not to exceed $4.1 million per incident per calendar year.

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

The company maintains bank lines of credit to obtain short-term borrowing flexibility. Amounts available under these lines of credit totaled $60 million and $56.5 million at December 31, 1989, and 1988, respectively. 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 generally may 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:

	1989	1988
	(In Thousands)	
As of end of year —		
Lines of credit outstanding	**$ 1,170**	$ 185
Commercial paper outstanding	**$19,000**	$10,023
Notes payable	**$21,974**	$14,182
Compensating balance requirements	**$ 225**	$ 238
For the year ended —		
Maximum month-end amount of short-term borrowings	**$51,406**	$51,805
Average amount of short-term borrowings (based on daily outstanding balances)	**$32,280**	$28,563
Average interest rate on short-term borrowings	**9.40%**	7.50%

NOTE 7. SEGMENT INFORMATION:

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

	Year Ended December 31,				
	1989	1988	1987	1986	1985
	(In Thousands)				
OPERATION INFORMATION:					
Customer revenues —					
Electric	$ 461,957	$ 453,147	$437,582	$436,047	$431,333
Gas	106,925	115,455	105,595	127,144	152,106
Other	33,953	29,674	4,169	4,005	4,004
Interdepartmental revenues —					
Electric	1,118	1,122	979	986	981
Gas	858	1,527	1,048	1,057	482
Other	7	8	9	7	25
Total operating revenues	$ 604,818	$ 600,933	$549,382	$569,246	$588,931
Operating income (loss) —					
Electric	$ 104,121	$ 110,928	$115,130	$126,616	$117,224
Gas	13,935	9,242	8,134	8,426	12,306
Other	(1,879)	757	1,519	1,281	1,532
Other income and (deductions), net	(8,527)	(2,555)	(4,229)	(2,351)	(4,869)
Interest expense, net	(29,313)	(29,258)	(29,112)	(30,790)	(20,821)
Income taxes	(26,855)	(31,181)	(36,477)	(46,512)	(49,004)
Net earnings	$ 51,482	$ 57,933	$ 54,965	$ 56,670	$ 56,368
INVESTMENT INFORMATION:					
Identifiable assets including allocated common plant at December 31 —					
Electric	$ 824,824	$ 836,484	$839,767	$841,334	$827,309
Gas	113,004	116,023	107,930	101,331	107,084
Other	109,788	79,153	48,336	45,254	42,327
Total assets	$1,047,414	$1,031,660	$996,033	$987,919	$976,720
OTHER INFORMATION:					
Construction and nuclear fuel expenditures —					
Electric	$ 81,448	$ 83,150	$ 65,448	$ 74,917	$ 77,276
Gas	13,803	17,553	13,682	9,453	9,698
Other	1,572	2,446	958	813	1,110
Total construction and nuclear fuel expenditures	$ 98,823	$ 103,149	$ 80,088	$ 85,183	$ 88,084
Provision for depreciation —					
Electric	$ 46,614	$ 45,194	$ 43,462	$ 39,703	$ 45,575
Gas	6,582	6,123	5,556	5,033	5,023
Other	1,176	955	430	403	347
Total provision for depreciation	$ 54,572	$ 52,272	$ 49,448	$ 45,139	$ 50,945

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 audited by independent public accountants, but reflect all adjustments necessary, in the opinion of the company, for a fair presentation of the data. Included in the fourth quarter net earnings was an adjustment to reduce income tax expense by $1.7 million to properly reflect the actual effective income tax rate experienced for the year. Also, a fourth quarter adjustment was made to increase gas revenues by $1.8 million to properly reflect actual gas costs recovered from customers for the year. Finally, gas revenues and purchased gas expense was reduced in the fourth quarter by $14.3 million due to a refund received from the company's major pipeline supplier.

Quarter Ended	Operating Revenues	Operating Income	Net Earnings	Earnings Per Share
	(In Thousands Except for Per Share Data)			
1989:				
March 31	**$178,204**	**$34,912**	**$16,987**	**$.64**
June 30	**131,914**	**19,290**	**8,358**	**.31**
September 30	**138,512**	**27,589**	**6,916**	**.26**
December 31	**156,188**	**34,386**	**19,223**	**.72**
1988:				
March 31	$171,889	$36,865	$17,602	$.66
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	.47

Comparative Data and Statistics

	Year Ended December 31,					
FINANCIAL:	**1989**	1988	1987	1986	1985	1979
	(In Thousands Except for Per Share Data and Customer Data)					
Consolidated Statements of Income						
Operating revenues	**$ 804,818**	$ 600,933	$549,382	$569,246	$588,931	$362,278
Operating expenses	**488,641**	480,006	424,599	432,923	457,869	273,023
Operating income	**116,177**	120,927	124,783	136,323	131,062	89,255
Other income and (deductions)	**(8,527)**	(2,555)	(4,229)	(2,351)	(4,869)	(4,045)
Interest expense	**29,313**	29,258	29,112	30,790	20,821	22,090
Income before income taxes	**78,337**	89,114	91,442	103,182	105,372	63,120
Income taxes	**26,855**	31,181	36,477	46,512	49,004	35,457
Net earnings	**$ 51,482**	$ 57,933	$ 54,965	$ 56,670	$ 56,368	$ 27,663
Earnings per share	**$ 1.93**	$ 2.18	$ 2.08	$ 2.14	$ 2.13	$ 1.25
Cash dividends paid per share	**$ 1.68**	$ 1.62	$ 1.54	$ 1.45	$ 1.35	$ 0.90
Consolidated Balance Sheets						
Utility plant	**$ 861,957**	$ 852,799	$821,246	$808,535	$791,240	$574,270
Current assets	**112,141**	141,753	147,586	153,269	162,516	98,576
Other assets	**53,316**	37,108	27,201	26,115	22,964	13,920
Total assets	**$1,047,414**	$1 031,660	$996,033	$987,919	$976,720	$686,766
Capitalization	**$ 805,084**	$ 800,478	$780,920	$777,108	$758,527	$552,426
Current liabilities	**160,879**	151,630	134,537	129,118	132,949	86,173
Other credits	**81,451**	79,552	80,576	81,693	85,244	48,167
Total capitalization and liabilities	**$1 047,414**	$1 031,660	$996,033	$987,919	$976,720	$686,766
STATISTICAL:						
Consolidated Electric Statistics						
Customers served (end of period)	**336,259**	332,923	327,930	323,085	319,397	296,439
Sales — megawatthours:						
Residential and farm	**2,533**	2,515	2,352	2,289	2,276	2,053
Industrial and commercial	**4,571**	4,522	4,177	3,834	3,750	3,170
Wholesale, class A and other	**2,496**	2,186	2,529	2,592	2,766	1,999
Total	**9,600**	9,223	9,058	8,715	8,792	7,222
Electric operating revenues:						
Residential and farm	**$ 166,787**	$ 165,034	$156,064	$157,611	$154,416	$ 97,262
Industrial and commercial	**211,026**	210,367	197,786	192,430	187,859	114,277
Wholesale, class A and other	**63,262**	78,868	84,711	86,992	90,039	60,949
Total	**$ 463,075**	$ 454,269	$438,561	$437,033	$432,314	$272,488
Consolidated Gas Statistics						
Customers served (end of period)	**121,111**	117,940	114,788	112,042	109,432	97,462
Sales — therms:						
Residential	**116,232**	109,678	94,690	101,808	106,424	115,208
Firm	**84,235**	76,957	67,116	81,243	89,550	93,620
Interruptible	**33,297**	24,844	21,688	40,391	72,024	82,699
Transportation and other	**60,456**	65,085	59,696	27,542	1,155	11,500
Total	**294,220**	276,564	243,190	250,984	269,153	303,027
Gas operating revenues:						
Residential	**$ 61,158**	$ 65,190	$ 59,939	$ 66,082	$ 70,758	$ 35,188
Firm	**33,507**	35,871	34,280	42,945	49,831	27,304
Interruptible	**8,399**	8,051	6,492	15,453	31,025	20,026
Transportation and other	**4,719**	7,870	5,932	3,721	974	5,070
Total	**$ 107,783**	$ 116,982	$106,643	$128,201	$152,588	$ 87,588

Shareowner Information

The company's Shareowner Services representatives are available to assist you from 8 a.m. to 4:30 p.m. (Central Standard Time) each business day at one of the following toll-free numbers:

252-3110	in Madison
1-800-362-5490	in Wisconsin
1-800-356-5343	outside Wisconsin

Please direct written inquiries to:

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

DO YOU WANT TO RECEIVE YOUR ANNUAL REPORTS, QUARTERLY REPORTS AND PROXY MATERIAL ON A MORE TIMELY BASIS AND SAVE YOUR COMPANY MONEY?

Timeliness in receiving shareowner communications may depend upon how your stock is held. Only *registered shareowners* enjoy the ability to have their mailings sent to them directly by the company.

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.* 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.

A survey of the company's registered and beneficial shareowners found that a frequent reason why stock was held beneficially was that shareowners did not want to worry about the safekeeping of their 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, Inc. common	New York Stock Exchange	WPH	WPL Hldg
Wisconsin Power and 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	57%
WP&L preferred	79%
Average common-stock holding	670 shares
Holdings by individual investors*	Approximately of total shares

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

Quarterly Common Stock Price Ranges and Dividends*

	1989			1988		
Quarter	**High**	**Low**	**Dividend**	**High**	**Low**	**Dividend**
First	$23⅛	$21⅞	$ .42	$23⅞	$21⅝	$ .405
Second	24	21⅞	.42	23½	21⅜	.405
Third	24½	22½	.42	23⅝	21½	.405
Fourth	24⅜	22½	.42	23¾	22¼	.405
Year	$24½	$21⅞	$1.68	$23⅞	$21⅜	$1.620

Year-end stock price $24⅜

*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 1989 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		

Editor: Mary Lynn Jartz, Wisconsin Power and Light Company
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R D AND DIVIDEND PAYMENT DATES

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

WPL Holdings, Inc. Common Stock

Record Dates	Payment Dates
Jan. 31	Feb. 15
April 30	May 15
July 31	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 Co. 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 th h of each month. To encourage participation, there are n kerage commissions, fees or service charges for purc 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:

First Chicago Trust Company of New York
30 W. Broadway
New York, NY 10015

Registrars

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

First Chicago Trust Company of New York
30 W. Broadway
New York, NY 10015

ANNUAL MEETING

Shareowners of WPL Holdings, Inc. and Wisconsin Power and L o. are cordially invited to attend the corporate Annual M g Wednesday, May 16, 1990. This year's Annual Meeting wi e held in Baraboo, Wis., at the Circus World Museum. Details about the meeting, its location and agenda will be included in proxy materials, which 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:

1-800-362-5311 in Wisconsin
1-800-622-2258 outside Wisconsin

FORM 10-K INFORMATION

Upon request, the company will provide without charge copies of Form 10-K, as filed with the Securities and Exchange Commission. 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 should 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 certificates, we recommend that you send them by insured 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.

WPL Holdings, Inc.

1989 WPL Holdings, Inc. Annual Report

P.O. Box 2568
Madison, Wisconsin 53701-2568

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