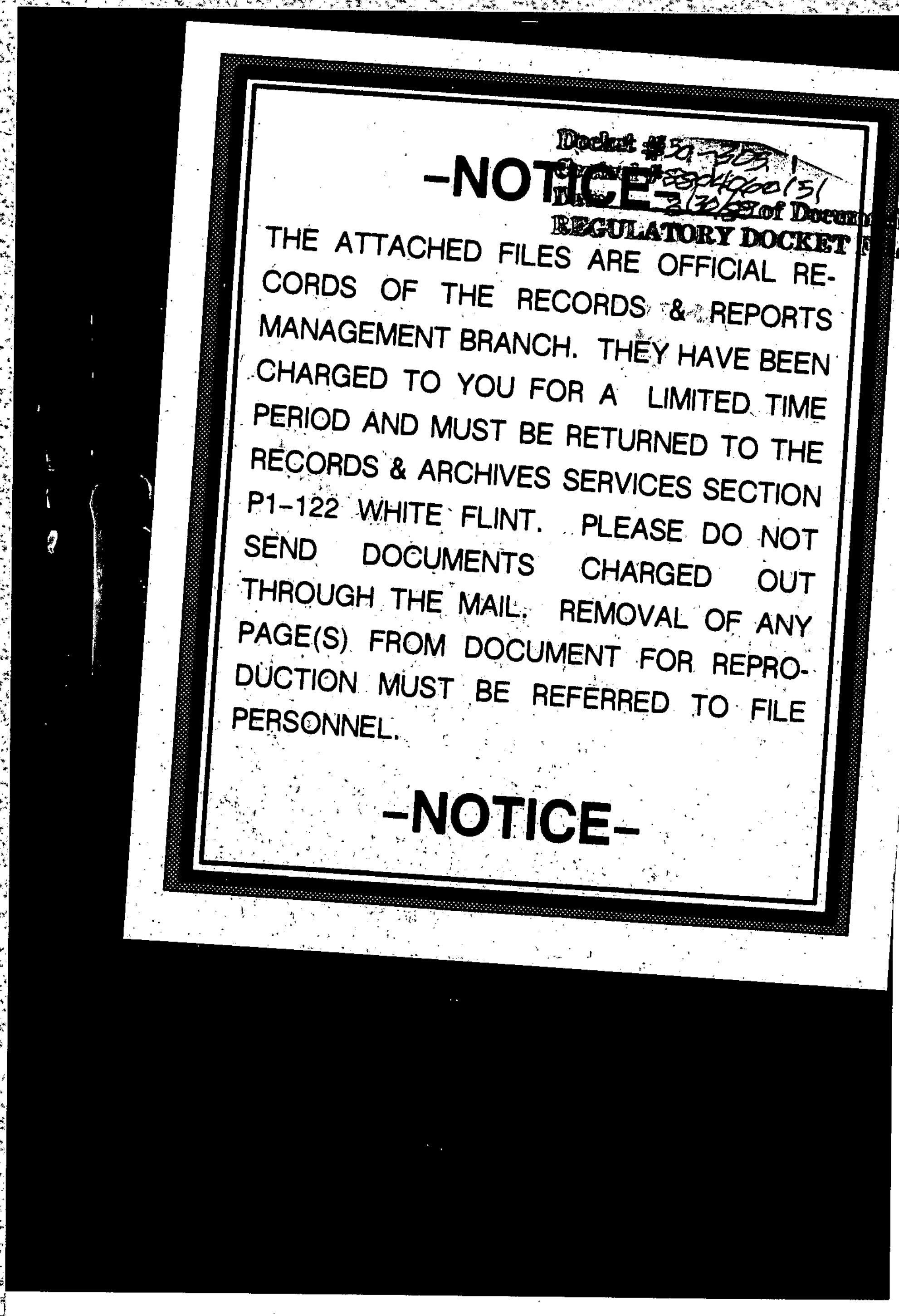
1987 WISCONSIN POWER AND LIGHT COMPANY

ANNUAL REPORT



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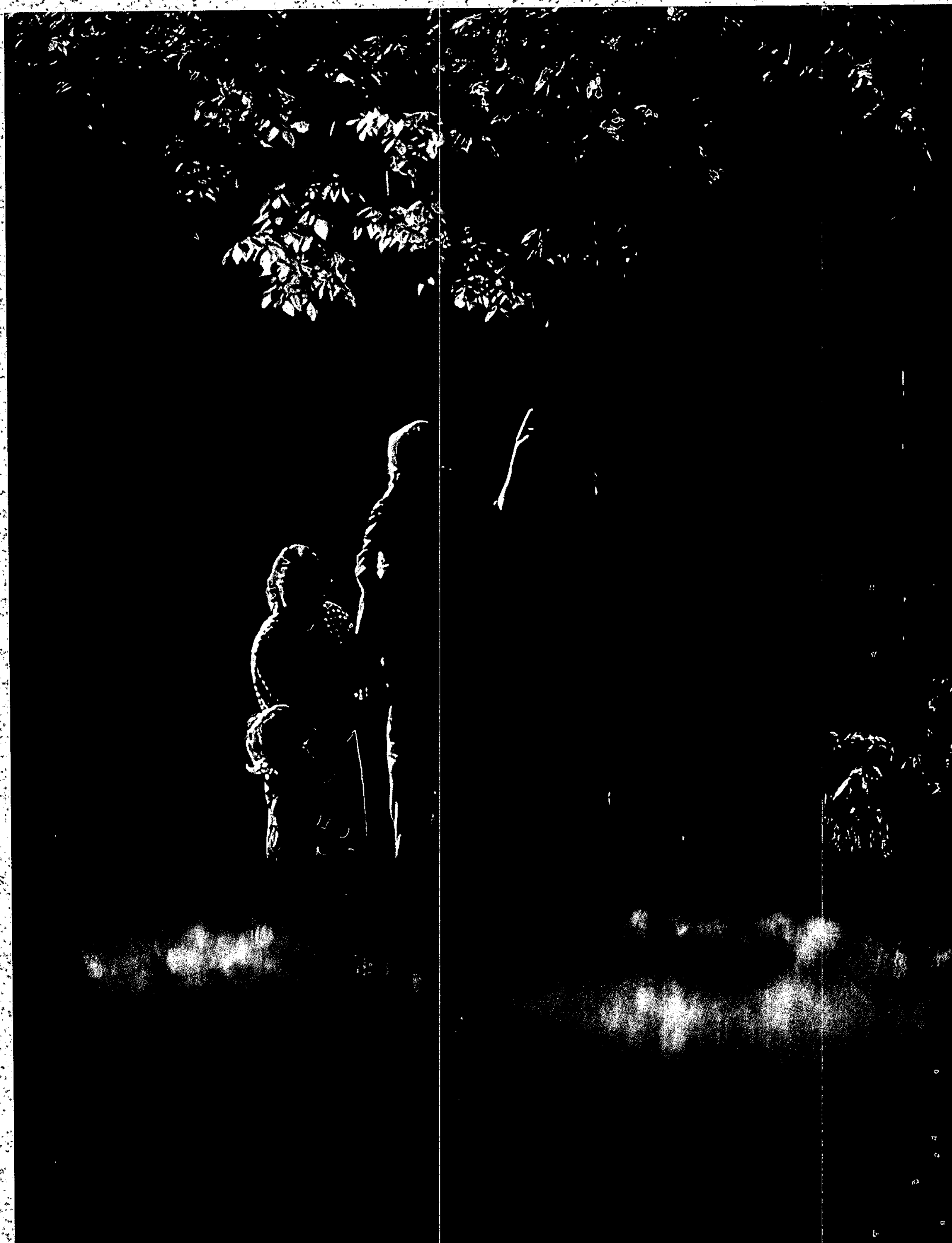
-NOTICE-

Meeting customers' needs
...and then some



Wisconsin Power and Light Company, an energy corporation with assets of nearly $1 billion, is striving to be the best provider of quality energy products and services. Founded in 1924, the Company provides electric power, natural gas and water to 340,000 customers in south-central Wisconsin at prices that are among the lowest in the nation and that produce an attractive return for its shareowners. The Company's non-utility subsidiaries engage in complementary business activities in three basic areas: energy services, telecommunications and environmental services.

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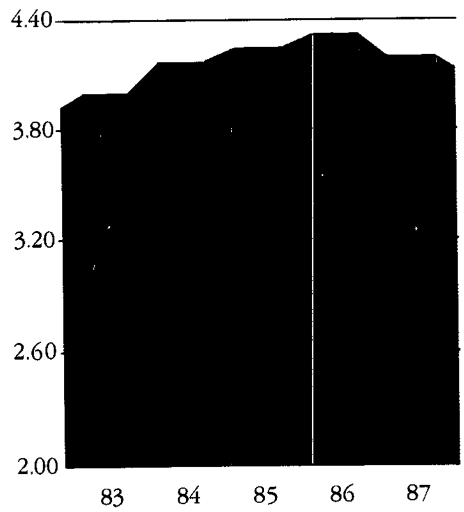
Cover

Iroquois Foundry is more energy efficient, productive and competitive, thanks to WP&L's new Bright Ideas for Business Program.

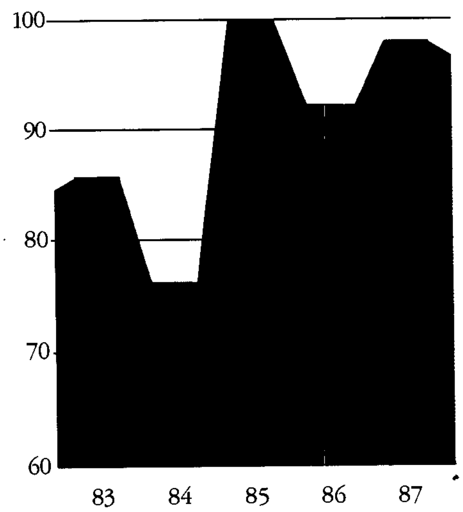
1987 Financial Highlights

- WP&L's quarterly common-stock dividend increased twice since November 1986 by a total of 4 cents per share to 78 cents per share at year-end 1987. The Company has paid 168 consecutive quarterly common-stock dividends since 1946, and has increased the annual dividend payment for the past 15 years.
- 91 percent of total construction capital requirements for the last five years was generated internally.
- Market value per share of common stock exceeded book value at year-end by 45 percent.*
- Return on equity in 1987 was 14.2 percent and has averaged 15.7 percent over the last five years.
- WP&L is one of only four major U.S. electric utilities to receive both Moody's Investor Service's top Aaa rating and Standard & Poor's Corp.'s highest AA+ bond rating. The Company has held the top bond ratings of the nation's two major rating agencies since 1984.
- The electricity prices WP&L charged to industrial customers in August 1987 were among the lowest in the nation, according to a Department of Energy survey. WP&L's price of 3.98 cents per kilowatthour compares with the U.S. average price of 5.28 cents per kWh, the regional average of 5.05 cents per kWh, and the Wisconsin utility average of 4.44 cents per kWh.

Earnings and Dividends Per Share of Common Stock
(in dollars)
■ Earnings 1987: $4.15
■ Dividends 1987: $3.08

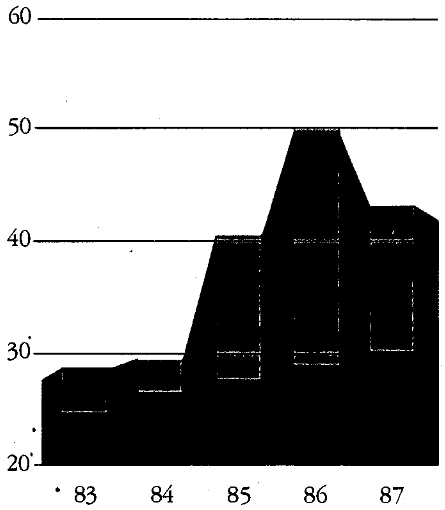


Construction Financed Internally
(in percent)
1987: 98%

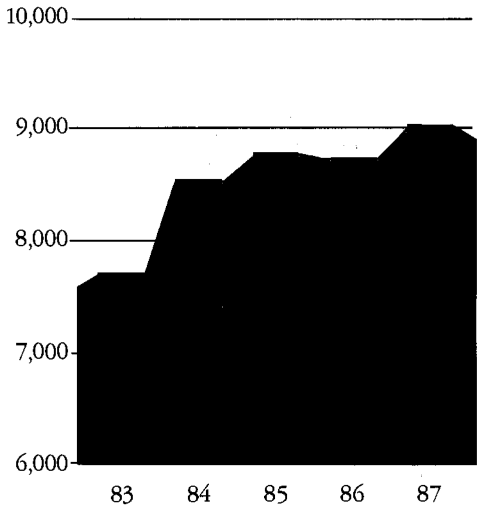


	1987	1986
Operating revenues	**$549,382,000**	**$569,246,000**
Operating expenses	**$461,428,000**	**$480,440,000**
Net income	**$ 58,779,000**	**$ 60,484,000**
Earnings per share of common stock	**$4.15**	**$4.28**
Dividends per share of common stock	**$3.08**	**$2.90**
Total assets	**$996,033,000**	**$987,919,000**
Electric sales (thousand kilowatthours)	**9,057,930**	**8,714,953**
Gas sales, including transported gas (thousand therms)	**243,190**	**250,983**

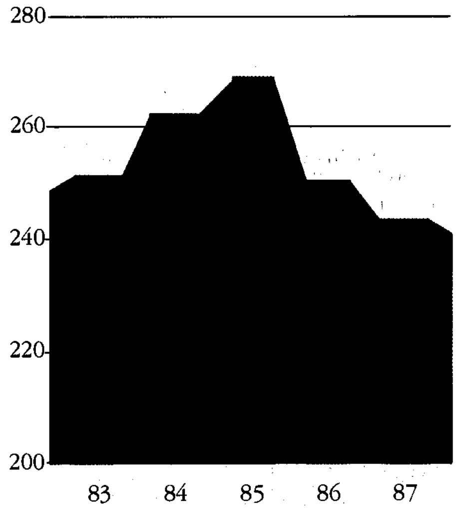
Market-to-Book Value
■ Market Value Per Share of Common Stock 1987: $43.50
■ Book Value Per Share 1987: $30.08
(in dollars at year-end)



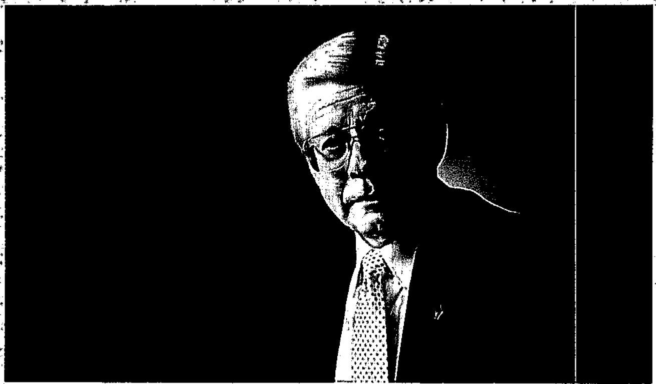
Electric Sales
(in millions of kilowatthours)
1987: 9,058



Gas Sales
(in millions of therms)
1987: 243



The Chairman's Comments



I believe that we are preparing Wisconsin Power and Light Company to compete successfully in the new energy marketplace of the next decade.

Some observers of the utility industry already have labeled that new decade "the roaring '90s" — a time of revolutionary change for the nation's utilities. WP&L and its competitors face a future of unprecedented challenges: increased competition; mergers and takeovers; deregulation in some cases and increased regulatory intervention in others; independent power producers; cogeneration; transmission access and gas transportation; new technology; and diversification.

Wisconsin Power and Light is preparing for this exciting new era by making the Company even stronger. How?

■ First, by building on our strengths.

WP&L's strong financial and operating condition is the base for future profitable growth — sound capitalization, low operating costs, modest new-capital needs, top-performing generating plants, ample capacity and competitive rates.

To keep rates competitive, we have reduced rates for our retail customers three times in the last three years, and decreased rates for wholesale customers by a total of 10.2 percent as a result of four rate reductions between January 1987 and January 1988. Both our retail and wholesale electric rates are lower today than they were in 1982. And, WP&L's electric rates are among the lowest in the nation and in Wisconsin.

Our greatest strength is our work force — creative, productive and talented employees who meet the needs of our customers. Our management group is an excellent blend of younger managers schooled in modern management techniques and seasoned managers tested by time — both possessing the values necessary for success in the future.

To prepare for that future, I recommended and the Board of Directors elected Erroll B. Davis, Jr., President, effective July 1, 1987. Davis has been part of our management team since 1978, when he joined the Company as Vice President-Finance. He had served as Executive Vice President since 1984.

An electrical engineering graduate of Carnegie-Mellon University with a master's degree in business administration from the University of Chicago, Davis previously was employed by the Xerox Corp. and Ford Motor Co.

As President, he is accountable to me for the operation of Wisconsin Power and Light. He and I, along with the executive vice presidents, also are continuing to work on the formation of the holding company. I will devote more time to long-range projects, such as analyzing the utility organization to make certain that it is ready for future challenges. Davis' appointment is the first phase of an orderly management transition so important for the future.

■ **Second, by forming a holding company, WPL Holdings, Inc.**

We had expected that the holding company would be in place in 1987, but, after prompt action by the Public Service Commission of Wisconsin, we experienced some delays in other regulatory arenas.

As you may recall, in 1981 we announced our plans to form a holding company, but political and regulatory concerns delayed those ambitions. Finally, in 1985 the Wisconsin Legislature clarified the holding-company issue and passed a law establishing the procedure for restructuring public utilities and setting various criteria that must be met.

Our shareowners endorsed our holding-company plan at their 1987 Annual Meeting. That key action was followed by the approvals of the PSC and the Internal Revenue Service. Because of the press of Illinois utility issues, the Illinois Commerce Commission delayed action on our holding-company application until September 1987. That commission's approval was necessary because our South Beloit Water, Gas and Electric Company operates in Illinois. The Federal Energy Regulatory Commission gave us its endorsement December 29, 1987, and the Nuclear Regulatory Commission approved our plan one month later. We still were awaiting the approval of the Securities and Exchange Commission as this report went to press.

We are disappointed with the delays because we continue to believe that the holding-company formation will have a positive impact on our access to capital markets and on our competitive position in the jurisdictions in which we do business. We will keep you informed about future holding-company developments in the *Quarterly Report.*

You will not see a big difference after we form the holding company. Its primary mission will be to strengthen the utility by increasing WP&L's flexibility and responsiveness. Our efforts will provide products and services to customers that will result in a "win-win" situation, with our customers and the Company both achieving their goals.

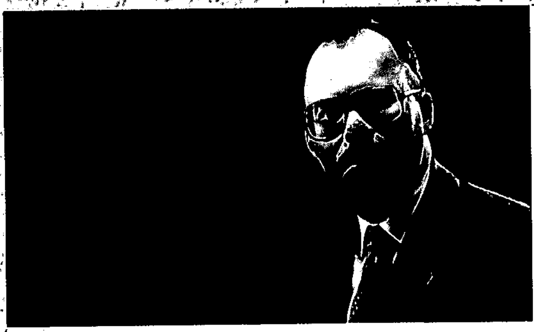
A secondary mission of the holding company will be to nurture our present non-utility businesses and to explore and develop new diversification activities as business opportunities and financial considerations dictate.

WP&L has a 63-year history of outstanding customer service. We will continue that tradition. For example, in 1987 we began a program to ensure that we provide superior value to our customers. Employees are improving their skills, developing new expertise and becoming even more customer focused. You will read more about these efforts later in this report.

By building on its financial and operating strengths; by forming a holding company to increase the flexibility and responsiveness of the utility; and by being the lowest-cost provider of products and services that satisfy customers' needs, Wisconsin Power and Light will progress and prosper in what is shaping up to be a challenging decade ahead. To meet the demands of the fast-paced competitive world, we must meet our customers' needs...and then some.

James R. Underkofler
Chairman and Chief Executive Officer
February 4, 1988

The President's Comments



Wisconsin Power and Light has accepted the competitive challenge of today's marketplace to provide products and services that satisfy customers' needs at the lowest-possible cost.

At the same time, we are aggressively planning for tomorrow's challenges by enhancing our product and service mix without imposing substantial additional costs on our customers.

We will meet the challenges of today and tomorrow in a manner that will lead customers to choose to do business with us instead of our competitors and that will provide an attractive level of profit for our shareowners.

Competition will stimulate the Company and the nation's utility industry to greater heights of creativity and productivity. We strongly believe that increased competition — not increased regulation — will motivate the creation of more and better products and services to meet the changing demands of our customers as we move into the future.

Because Wisconsin Power and Light is committed to prospering in the future, we must make substantial changes in our corporation to successfully compete in that deregulated environment. We cannot wait for the market to force changes in the way we do business.

We face our competition from a position of strength.

We have an excellent and creative work force, an outstanding safety record and efficient and well-maintained generating stations that consistently have exceeded national and state averages of key operating performance indicators. We operate our business in a state with a relatively stable economy that will not require additional generating capacity to satisfy its needs in this century. We are respected by our customers, by government leaders, by the general public and by the communities we serve. Regulation, for the most part, has been responsive and reasonable.

A key accomplishment in 1987 was again decreasing the rates for our electric and natural gas customers. And, with most of the competitive action in the electric utility industry taking place today in the wholesale arena, we further strengthened our position by reducing rates four times between January 1987 and January 1988 for the 29 municipal utilities, four rural electric cooperatives and the WPPI System, which buy wholesale electricity from WP&L.

Although 1987 earnings showed a decline, partially reflecting lower rates, decreased weather-related sales and an allowed rate of return that was reduced in the Wisconsin retail jurisdiction, WP&L's earnings per share were the third-highest in the Company's history.

Our common stock price — consistent with that of the utility industry in general — performed very well during the dramatic market decline in October 1987. WP&L's common stock price declined 1 percent from October 19 ("Black Monday") to October 30. The price of the stock decreased 13 percent in 1987, closing the year at $43.50. In comparison, the weighted average stock price of the 75 major electric utilities, as reported by First Boston Corp., declined 14 percent in 1987.

Wisconsin Power and Light Company today is financially and operationally strong and is in an excellent competitive position from a product priceperspective. Yet, we are struggling to define both the magnitude of the changes necessary to respond effectively to market challenges and the processes by which we will implement those changes.

WP&L and the utility industry must come to grips with the same realities confronting all of American industry: competition and maintaining quality and service. The best thing we can do for our customers is to provide the high-quality products and services they need at the lowest-possible costs consistent with their reliability requirements. This will be the focus of all of our efforts, talents and creativity. We are committed to the efficient use of energy and we will continue to develop innovative programs and services that will promote customers' use of our products in the most efficient manner possible. You will be learning more about our corporate commitment to our customers beginning on page 11 of this report.

What changes must we make to maintain and strengthen the competitive advantage we enjoy because of our low rates?

First, we must streamline the corporate organization.

We are beyond the point of realizing significant additional gains from minor cost-containment and productivity-improvement efforts. Today's market realities demand that we maintain competitive prices. To continue to market a competitively priced product, we must streamline the organization.

Jim Underkofler's current study of the organizational structure is a key part of the restructuring. Another way we have streamlined our operations was through the voluntary early retirement program for nonunion employees that we offered in 1987. Seventy-two nonunion employees (9.5 percent of our salaried work force) — whose combined service totals 2,372 years — took advantage of the program between March 1 and October 1, 1987.

While we are committed to restructuring in a manner that has as little impact as possible on our employees, customers and communities, we also are committed to a streamlined, more efficient and more responsive Wisconsin Power and Light Company.

We must have fewer layers of management between senior managers and those employees ultimately serving the customer if we are to be a more flexible and responsive organization in the future. We also will provide the opportunity for decision-making at lower levels of the organization, and we will give employees responsibility for their decisions. Streamlining the organization will enable us to run the business in innovative ways.

Second, we must create a corporate culture that is even more customer focused.

Competition is mandating a change in our corporate culture. Despite its historic emphasis on customer service and quality, our corporate culture must change to keep pace with an increasingly competitive marketplace. We must refocus our entire corporate culture to serve the needs of our customers before any other needs. Our new corporate culture then will enable us to achieve our goal of being the lowest-cost provider of quality energy products and services.

Third, we must develop the skills and flexibility to anticipate and take advantage of market opportunities.

We are committed to providing the intensive training that will help employees learn the skills required to be leaders and promoters of change in a customer-focused organization. More employees will participate in the management of the Company, broadening their experience and giving them more responsibility earlier in their careers. We will expect employees to contribute their creativity to define new strategies, products and services in a faster-moving, more responsive organization.

I am impressed by the enthusiasm and energy of Wisconsin Power and Light employees. The challenge is to use that enthusiasm and drive for excellence that got us where we are today to guide us through future changes.

I see other challenges ahead:

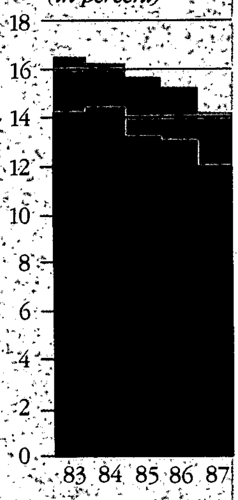
- gaining acceptance throughout the Company of the need to change the direction of Wisconsin Power and Light before we are forced to change,
- improving our ability to respond effectively to changes in the utility marketplace, and
- effectively demonstrating to our regulators the need for greater flexibility in an increasingly risky, competitive business environment. At a time when we see risk increasing on many fronts, our regulators continue to look at traditional ways of measuring and managing risk. Our historically progressive regulators also must change in response to changing marketplace fundamentals.

I am confident that our corporate strategies will strongly position Wisconsin Power and Light to meet these and other challenges we will face in a more competitive utility marketplace. We will remain a strong and vigorous player in the new utility environment.

Erroll B. Davis, Jr.
President
February 4, 1988

WP&L Corporate Commitment

1987 RESULTS



SHAREOWNERS — to earn and pay to shareowners a fair return on their investment

Dividends per share of common stock have increased for 15 consecutive years. The 1987 dividend increase of 6.2 percent exceeded the utility industry average.

WP&L continued to maintain a strong financial profile for 1987 with a return on equity of 14.2 percent, an interest coverage ratio before taxes (excluding AFUDC) of 4.13 times, and a market-to-book ratio of 145 percent. Each of these measures is above the electric utility industry average.

In its comparison of 75 major electric utilities, issued in November 1987, First Boston Corp. ranked WP&L ninth in financial and operating performance. Major factors contributing to the strong performance were the Company's earnings growth, liquidity and cost-control efforts.

The Company moved closer to achieving holding-company status by obtaining the requisite approvals from the Public Service Commission of Wisconsin, the Illinois Commerce Commission, the Internal Revenue Service and the Federal Energy Regulatory Commission. The approval of the Securities and Exchange Commission was pending at year-end 1987. The Nuclear Regulatory Commission endorsed the holding-company plan in early 1988.

CUSTOMERS — to provide reliable utility service at the lowest rates possible

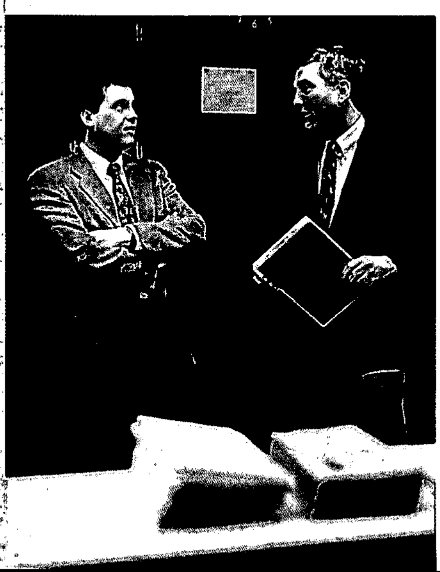
WP&L was able to pass on significant cost savings to its customers in the form of lower rates as a result of lower fuel prices, reductions in federal taxes and debt-refinancing activities. Total retail and wholesale electric rate decreases of 4.1 percent and 10.2 percent, respectively, made WP&L's rates among the lowest in the nation and in Wisconsin and allowed the Company to retain its competitive position.

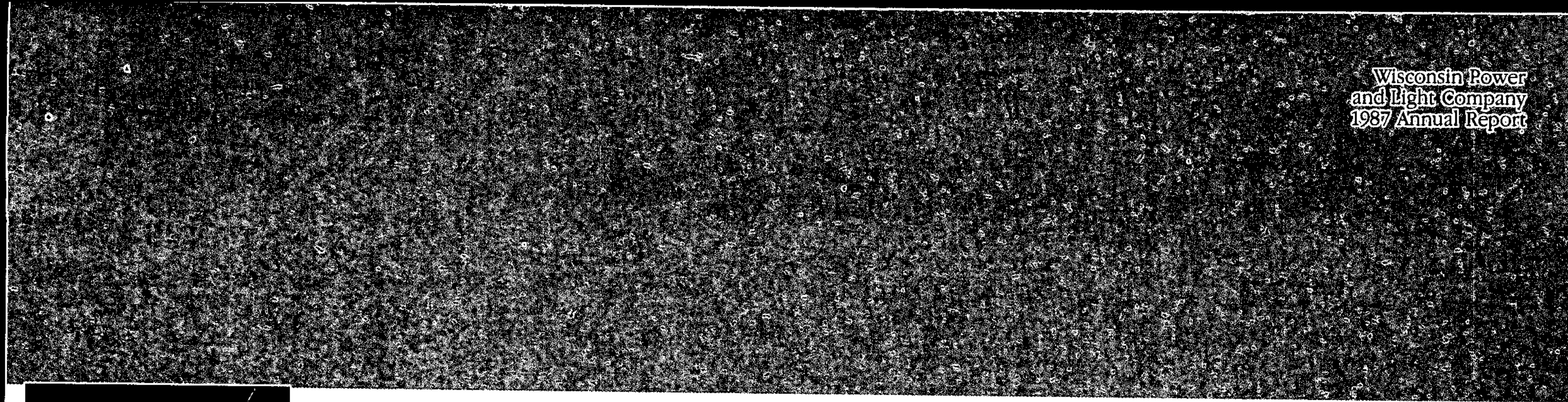
With WP&L's assistance, more than 70 of its most price-sensitive natural gas customers saved approximately $3.9 million during 1987 by purchasing gas on the spot market and using WP&L transportation services to bring it to their businesses and factories.

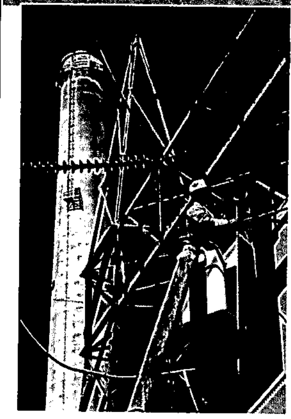
WP&L spot-market purchases for system supply saved nearly $2.9 million for customers receiving natural gas from the ANR Pipeline Co.

For the first time in 20 years, WP&L extended natural gas to new communities — Plain, Merrimac and Lamartine.

A customer focus pilot program identified and eliminated hundreds of obstacles to better serving our customers. A comprehensive service-quality survey identified our customers' needs and the gaps between customers' expectations and the service WP&L now provides. The survey found a high level of satisfaction among the five groups of WP&L customers surveyed (residential, agricultural, commercial, industrial and wholesale). Those customers gave WP&L a service-satisfaction rating of 23.5 on a scale where a rating of 28 represents the best-possible service.







EMPLOYEES — to maintain high standards of working conditions and to provide competitive compensation

The Company initiated quality team training, which involved employees in problem-solving within their work environments. Eighteen quality teams were trained and their projects have resulted in a projected annual savings of more than $300,000.

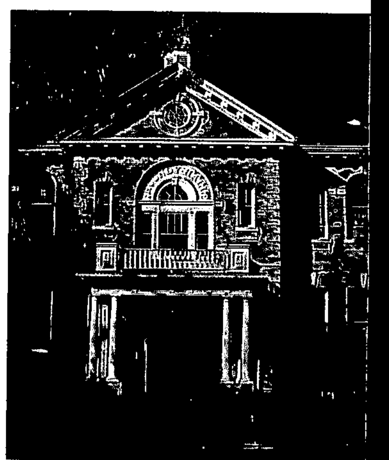
WP&L conducted customer-focus workshops and included customer-focus training in several Company-sponsored courses.

The Company continued its commitment to upgrade the work environment at Company facilities consistent with employee needs and the financial resources available to meet those needs. In 1987, WP&L spent more than $5 million to modernize physical facilities.

WP&L negotiated a competitive wage and benefits settlement with Local 965 of the International Brotherhood of Electrical Workers. The innovative and cost-effective three-year plan includes numerous benefit improvements as well as measures designed to increase productivity.

WP&L was a utility industry leader in implementing a successful Early Retirement Incentive Program for salaried employees. The program's objective was to recognize the contributions of employees who have served the Company for many years and to provide advancement opportunities to those employees who will continue to serve the Company in the future.

COMMUNITIES — to be a responsible member of each community we serve and to promote its social and economic well-being



WP&L received the Governor's Award for Promoting Minority Business Development, and was recognized by the U.S. Small Business Administration as the Small Business Advocate of the Year for assisting businesses in selling their products and services to the federal and state governments.

The Company aided Wisconsin's entrepreneurial development by donating the use of a 45,000-square-foot manufacturing facility to house the Sheboygan County Enterprise Center, a new business incubator serving the northeast portion of the WP&L service area.

At the request of Wisconsin's governor, the Company granted a leave-of-absence to one of its employees to serve as president of Forward Wisconsin, Inc., the public-private economic marketing corporation for the state. In 1987 Forward Wisconsin was successful in attracting hundreds of new jobs to Wisconsin and in strengthening the public-private partnership between industry and state and local governments.

The Company developed and promoted the FASTeam (Facilities And Services Team) pilot program to help prepare communities to respond in partnership with WP&L to the needs of new and expanding business and industry.

The Wisconsin Power and Light Foundation increased its contributions 12.5 percent to more than $575,000. Through its contributions program, the foundation continued its emphasis on the support of educational activities and doubled its support of programs that broadened public access to the arts. In addition, WP&L employees throughout the service area donated thousands of hours of service to community organizations.

Through the Hometown Energy Fund, WP&L and its shareowners contributed $250,000 to assist more than 1,900 needy electric and natural gas heating customers throughout the Company's service area in meeting their energy needs during the winter months.

WP&L Corporate Commitment

1988 PLANS

SHAREOWNERS — to earn and pay to shareowners a fair return on their investment

Complete the reorganization of the Company into a holding-company structure.

■ Maintain WP&L's record of competitive dividend payments.

■ Continue to control operating costs to maintain competitive pricing levels.

CUSTOMERS — to provide reliable utility service at the lowest rates possible

Implement services that will help our customers be more efficient and offer selective value-added services.

■ Expand WP&L's customer base to further strengthen the Company's competitive position in its operating region.

■ Enhance long-term price competition and stability of supply by constructing a pipeline to bring an alternative source of natural gas into the Beloit-Janesville area.

■ Restructure natural gas rates to give customers a choice in the levels of service and reliability they purchase from WP&L.

■ Introduce new natural gas programs and technologies for cooling and for multifamily housing.

EMPLOYEES — to maintain high standards of working conditions and to provide competitive compensation

Using as a base the quality team training initially designed for WP&L's power plant employees, develop a quality-team training program for employees in the Company's service and staff areas and expand this successful program Company-wide.

■ Continue WP&L's commitment to a safe and productive work environment with the modernization of physical facilities at an estimated annual cost of more than $10 million.

■ Maintain WP&L's commitment to provide progressive benefit programs that meet both the Company's and the employees' needs.

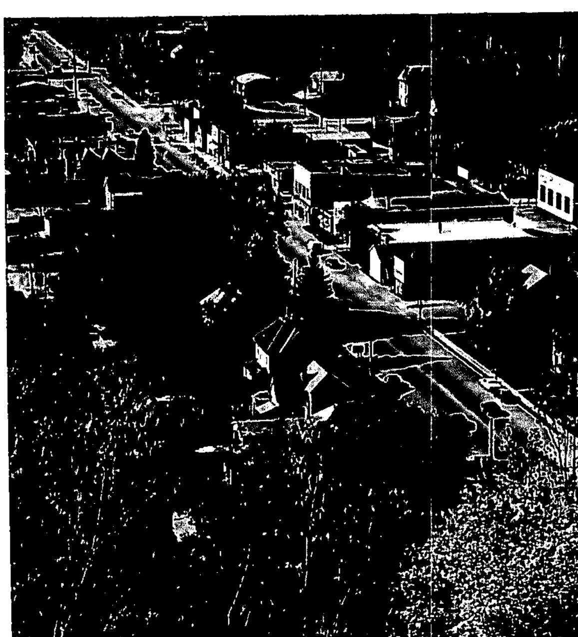
COMMUNITIES — to be a responsible member of each community we serve and to promote its social and economic well-being

Promote and assist communities' participation in the Main Street Program, recently approved by the Wisconsin Legislature to aid in the revitalization of the rural economy.

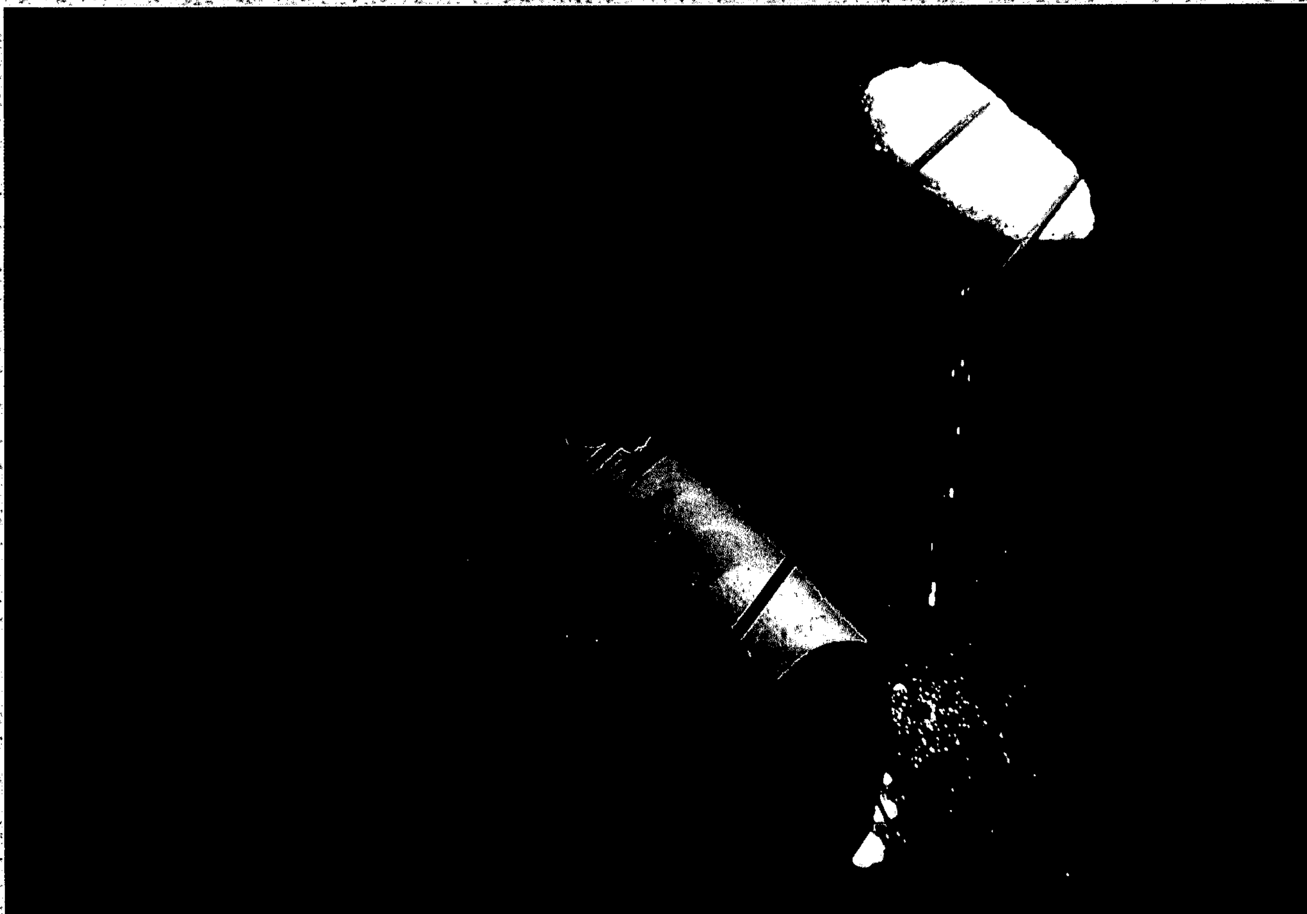
■ Work in partnership with communities to target the recruitment of industries that complement existing manufacturing, utilize agricultural products and address the individual needs of the local economies.

■ Expand the WP&L FASTeam Network throughout the service area to facilitate the coordination of state and local economic-development activities, and serve as a resource to communities in such areas as business retention, industrial recruitment and entrepreneurial development.

■ Increase the Wisconsin Power and Light Foundation's total contributions by nearly 30 percent. Contributions in support of education will increase substantially over 1987 to represent 30 percent of the foundation's total contributions. Donations to culture and the arts will continue to increase and will represent a minimum of 15 percent of total foundation contributions.



Meeting customers' needs ...and then some



Becoming the most responsive provider of high-quality energy products and services will require Wisconsin Power and Light Company's total commitment to a more customer-focused organization. WP&L made that commitment in late 1986 and accelerated the momentum in 1987, involving more and more employees in all areas of the Company. Customer focus is not the new corporate cliché or fad; it is Wisconsin Power and Light's corporate philosophy.

WP&L assisted Iroquois Foundry in the design and financing of a new energy-efficient furnace, which has enabled the southern Wisconsin business to enter a new market and to reduce its energy costs. That's being customer focused.

Meeting customers' needs ...and then some

The objective of WP&L's plan to become a more customer-focused organization is to establish the Company as the energy supplier of first choice for existing and potential customers in a marketplace that is growing increasingly more competitive. Simply stated, the goal of the Company's customer-focus commitment is to ensure that present and future customers consider WP&L the best utility in the business.

Being the utility of choice requires:

- a precise understanding of customers' needs,
- a commitment to be more responsive to customers,
- creative thinking and planning,
- a corporate culture that encourages and rewards employees who find better ways to meet customers' needs,
- a dedication to providing superior value to all customers, and
- the ability — and willingness — to measure success in terms of customer satisfaction as well as sales growth and profitability.

Is the customer-focus commitment making a difference? What does it mean to be customer focused?

Ask WP&L's Beaver Dam District employees. The district changed the day of the month it reads the meter of one of its commercial customers, Wiscold, Inc., making it easier for the business to figure its energy cost per unit of product. The district changed its procedure to help the customer operate more efficiently. That's being customer focused.

Ask WP&L employees in the Lake Geneva District. They installed a special kind of street lighting near the Yerkes Observatory in Williams Bay, Wis. WP&L equipped the high-pressure sodium lights with special reflectors to illuminate the street, not the sky. WP&L employees met with customers and took the extra effort to ensure that the observatory has a clear view of the night sky and that the village residents have the efficient street lighting they need. That's being customer focused.

Ask a Tomah District line crew. The crew members responded to a customer's anxious request and retrieved a frightened kitten from a tree. It took the crew, working nearby, only 10 minutes to rescue the kitten, but the customer remembers that WP&L helped after the police, fire department and humane society refused. That's being customer focused.

Empowering the individual employee to do what is right for the customer. Adapting standard procedures to meet customers' needs. Meeting with customers and understanding their special problems. Those are the characteristics of a customer-focused company.

Becoming more customer focused requires WP&L to provide reliable utility service at competitive prices. But that alone is not enough to guarantee that WP&L will be the utility of first choice both today and in the future as its marketplaces become increasingly competitive.

All customers — residential, rural, commercial, industrial and wholesale — expect and are demanding a wider selection of energy services. They want advice about how to use WP&L's products as efficiently as possible. They want to choose the level of service they buy. And, they're looking for that intangible "goodwill" — the Company's commitment to make customer satisfaction its top priority.

WP&L is anticipating and meeting customers' needs in today's competitive environment.

In 1987 the Company again decreased the rates for electric and natural gas customers because of its commitment to keeping the price of its products competitive. WP&L also requested regulatory approval to construct a natural-gas pipeline in southern Wisconsin. When completed in 1988, the new pipeline will enable WP&L to reduce costs for its natural gas customers on the ANR Pipeline system. Aggressive operating cost control has been successful at WP&L, but now we are looking beyond that approach as we plan how to streamline the corporate organization. Our goal: to provide our customers with even better service and greater savings.

WP&L also is taking creative new approaches to meeting the competition while maintaining stable prices in the electric utility industry's most competitive segment —

Robert Searles has dedicated the past 15 years to developing the art of sculpturing birds of porcelain in his studio in Union Center, Wis. He does not create just any birds, however. His subjects are the 60 species native to the 50-acre wildlife refuge that surrounds his home and studio and the 60 migratory species that stop in the refuge. Each of his customers — individual collectors throughout the United States — has visited the refuge to see firsthand the source of his artistic inspiration. With an all-electric home and studio — including the kiln in which he fires his dellcate, unique porcelain sculpture — Searles' livelihood is dependent upon the reliable electric service WP&L has provided for 27 years. Now the Company's Tomah District employees are exploring ways to reduce the artist's energy costs through a time-of-day rate that is ideally suited to Searle's all-night work schedule. "WP&L is a godsend as far as I'm concerned," said Searles. "I've had nothing but marvelous experiences with the Company and its people." That's being customer focused.

the wholesale marketplace. Sales to wholesale customers represent nearly one-fifth of WP&L's total electric sales. Of the $63 million in wholesale business in 1987, 78 percent was to 29 municipal utilities and the WPPI System and 22 percent to four rural electric cooperatives.

The rates WP&L charged wholesale customers were 10.2 percent lower in January 1988 then they were in January 1987, reflecting four rate decreases during the year. In addition to competitive rates, WP&L is offering its municipal and co-op customers a smorgasbord of new services.

Wholesale customers can take advantage of WP&L's computer training center; emergency assistance during storms and power outages; sophisticated infrared scanner that pinpoints "hot spots" — potential equipment failures — in a community's electrical system; and the expertise of WP&L employees in areas as diverse as customer energy-efficiency program design and implementation, stray voltage and fleet vehicle management.

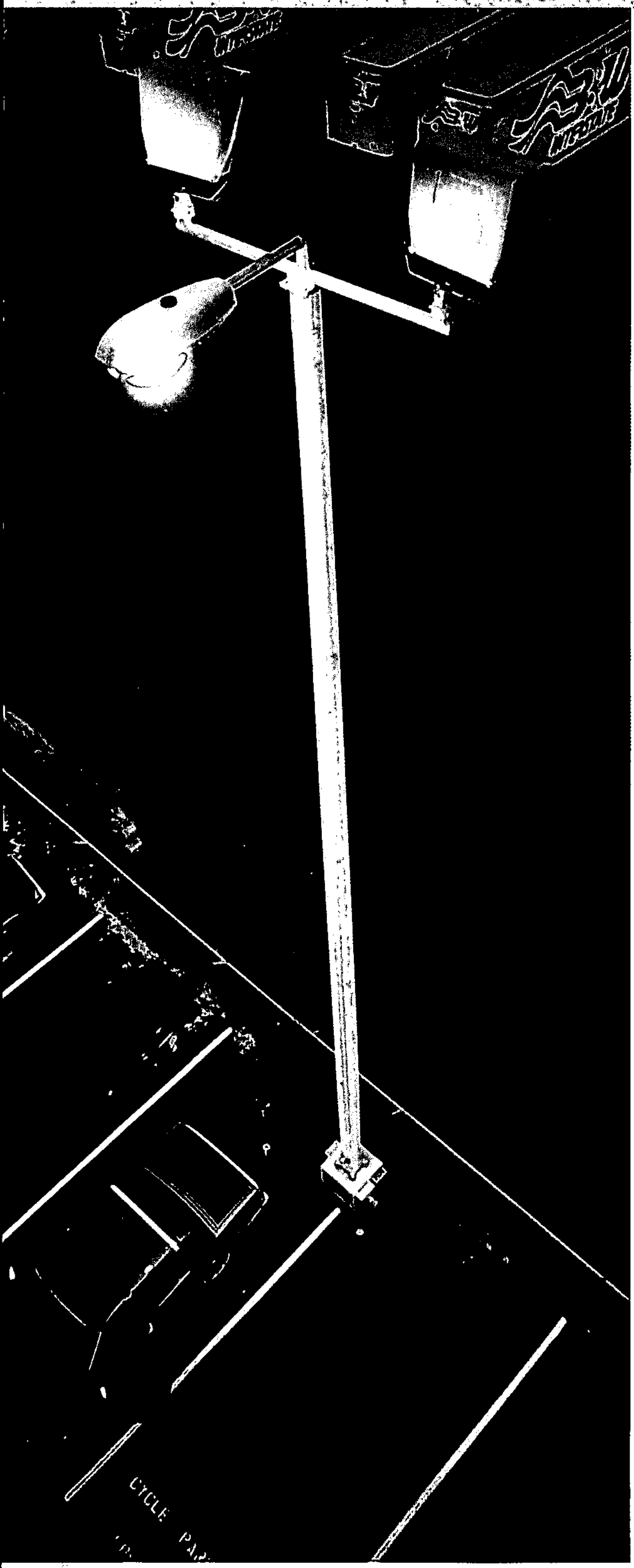
The Company recently began offering municipal utilities and co-ops the opportunity to combine their orders for major material and equipment purchases with WP&L's to enable the customers to share in WP&L's purchasing expertise and discounts. These are just a few of the many services that WP&L offers to wholesale customers to distinguish its product from that of its competitors.

In the future, the residential and rural markets also may have other choices of power supply. In preparation for that future, the Company continues to expand the array of services it offers residential and rural customers to ensure that WP&L is their energy supplier of first choice in a more competitive marketplace. These services include innovative rate options, farm energy management and new-home energy-efficiency design and consultation.

A number of WP&L's large commercial and industrial customers already have a choice as competition for their business heightens.

To stay competitive, WP&L now is offering commercial and industrial customers new rate options and supply and efficiency services based on customer size and service needs. These options include new gas-transportation rates and services. (The Federal Energy Regulatory Commission's 1985 transportation rule opened up natural gas pipelines for transportation purposes. Large gas users now can shop around for the best deal on natural gas, buy directly from the producer, and pay the pipelines and the distribution utilities to transport the gas to their facilities. At year-end 1987, WP&L was transporting customer-owned gas that amounted to 23 percent of its annual gas sales.)

Many of WP&L's large industrial customers are competing in a world market that has low wage rates and, in some cases, subsidized energy costs. Because energy costs are a large part of many American-made products, WP&L's utility services must be competitively priced to enable its customers to compete in a global marketplace.



WP&L's experience with Iroquois Foundry is an example of how the Company can help a business become more productive and competitive.

Although located in the southern Wisconsin community of Browntown, population 300, Iroquois Foundry is part of a highly competitive industry with a vast and varied worldwide market. The foundry was a perfect candidate for WP&L's new Bright Ideas for Business — a program for commercial and industrial customers using a shared-savings concept. The new service reduces customers' operating costs by helping them invest in energy efficiency and by coordinating the installation of energy-efficiency measures for the customer.

A privately held company in business since 1930, Iroquois Foundry's 190 employees have produced commercial gray iron castings for four major markets: power transmission, electric motors, off-road equipment and pumps.

When Iroquois management told a Company representative in November 1986 of its intention to expand the foundry's production into a new market, WP&L became actively involved.

"Ductile iron has been produced since World War II, so it's not new, but it is a growing segment of the foundry industry," explained Art Gibeaut, Iroquois' Vice President-Manufacturing. "We decided that there was a niche in the market for medium-production ductile iron castings in the 250-pound-to-1,000-pound range.

"But to enter the market, we needed a new furnace. That's where WP&L's engineering staff, Monroe District and Southern Area employees, and corporate management got involved and provided outstanding support in the design and selection of energy-efficient equipment."

WP&L used the shared-savings concept of the Bright Ideas for Business Program to assist Iroquois in obtaining financing for the

Chrysler/Acustar produces industrial and marine engines and does parts assembly work for new luxury cars that are manufactured at Chrysler Corp.'s Belvidere, Ill., plant. The company's request for assistance in installing new, energy-efficient outdoor lighting at its plant in Beaver Dam, Wis., did not meet the criteria for WP&L's existing programs for industrial and commercial customers. But thanks to the creativity and responsiveness of WP&L employees Jeff Hardy and Jon Hart, the Company adapted its Bright Ideas for Business Program to meet the customer's needs. The employees designed a lighting plan that not only met the customer's primary concern for parking-lot safety, but also enhanced the appearance of the building. Best of all, the lighting they recommended is the most efficient available today. WP&L saved Chrysler/Acustar time and money by helping the Company invest in energy efficiency with no up-front costs and by coordinating the installation of the efficient lighting for the customer. That's being customer focused.

energy-efficient equipment selected. In addition to enabling Iroquois to enter a new market, the furnace has reduced the foundry's energy costs.

November 25, 1987, was a red-letter day for both Iroquois and for WP&L. That day, after weeks of test-firing, the new furnace produced the first ductile iron that Iroquois sold to its new market.

"WP&L's excellent support at all levels of the Company allowed us to speed up our expansion project by at least one year and to be competitive in the new market," said Gibeaut. "The expansion also will result in 25 new jobs for Iroquois and the community."

For WP&L, the project marked the first time the Company used Bright Ideas for Business to help an industrial customer become more energy efficient, productive and competitive.

That's being customer focused.

Flexible, market-responsive pricing and an array of services for customers both within WP&L's service area and outside it will turn the competition of other utilities, independent power producers, alternate fuels and gas transportation from a threat into an opportunity for the Company.

As an aggressive competitor in the new utility marketplace, Wisconsin Power and Light is committing the resources necessary to create a more customer-focused organization. We are meeting customers' needs...and then some.

"I've been milking cows for 25 years, so I knew the terrible problems I was having with my 50 milk cows weren't my fault. But milk production was very inconsistent and the cows were getting so hard to handle that I didn't even want to milk them anymore," said Joe Binder, whose dairy farm is located in WP&L's Berlin District. "I spent a lot of time and several thousand dollars trying to solve the problem, but nothing helped." Finally, suspecting stray voltage, Binder contacted WP&L Agri-Business Representative Bob Schmitz. "Bob came right away and analyzed the problem, confirming stray voltage. He recommended an equipotential plane, which was installed the same week. I'm very satisfied with the results: Milk production is consistent again and the cows are back to normal. With WP&L sharing some of the cost, the plane cost about the same as two cows, and it's saved many more than that. I think the world of Bob. He's one in a million." That's being customer focused.

Financial Section

SELECTED FINANCIAL DATA

	1987	1986	1985	1984	1983
	(In Millions Except for Per Share Data)				
Operating revenues	**$ 549**	$ 569	$ 589	$ 575	$ 556
Net income	**$ 59**	$ 60	$ 61	$ 58	$ 55
Earnings per share of common stock	**$4.15**	$4.28	$4.26	$4.12	$3.97
Total assets (at December 31)	**$ 996**	$ 988	$ 977	$ 925	$ 881
Long-term obligations and preferred stock with mandatory redemption (at December 31)	**$ 323**	$ 333	$ 333	$ 306	$ 295
Cash dividends declared per share of common stock	**$3.08**	$2.90	$2.70	$2.52	$2.36

1987 FINANCIAL REVIEW

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

FINANCIAL CONDITION

Financial position and changes in financial position of the Company are reflected in the consolidated balance sheets and consolidated statements of changes in cash. These financial statements portray the Company's capital resources and liquidity. As we use the term, liquidity means the ability of the Company to generate adequate amounts of cash to meet its needs. This concept is very important to the Company because our needs for cash include expenditures for construction, taxes, research and development, environmental programs, other operating expenses and dividends. Because the Company is capital intensive and requires large investments in long-lived assets, long-term liquidity is more important than short-term liquidity. Many of the measures of short-term liquidity that are important in other industries, such as the amount of working capital or the ratio of current assets to current liabilities, are less important in evaluating the financial condition of a public utility such as the Company.

The Company has achieved a high degree of long-term liquidity by minimizing cost increases, aggressively pursuing appropriate rate adjustments and obtaining adequate depreciation rates.

The Company has continued to maintain an excellent bond rating by Standard & Poor's Corp. and by Moody's Investor Service over the last five years, enabling it to take advantage of lower interest rates when issuing high-quality debt.

The Company's solid financial condition has enabled it to pay interest charges, preferred stock dividends and common stock dividends out of current earnings. The Company's ratio of earnings to fixed charges and preferred dividend requirements after taxes was 2.62 for 1987 and has averaged 2.66 over the last five years. The Company's common stock dividend coverage ratio was 2.89 for 1987 and averaged 3.29 over the last five years.

With the high cost of construction and uncertainties in the capital markets, an important measure of financial strength is the percentage of the Company's construction expenditures financed by internal sources. In addition to paying interest and dividends, the Company was able to finance 98 percent of its construction expenditures from internally generated funds for 1987 and has averaged 91 percent over the last five years.

The Company does not anticipate the need for any new major construction projects for the rest of the century and expects to be able to finance a substantial portion of construction expenditures internally over the next five years.

RESULTS OF OPERATIONS

The results of operations of the Company are reflected in the Consolidated Statements of Income.

The Company has increased its dividends over each of the last five years. Earnings on common stock and earnings per share have increased from 1983 through 1986 and have decreased in 1987.

	1987	1986	1985	1984	1983
Earnings per share of common stock	**$4.15**	$4.28	$4.26	$4.12	$3.97
Cash dividends per share of common stock	**$3.08**	$2.90	$2.70	$2.52	$2.36

Electric revenues in 1987 were comparable to 1986 due primarily to increased sales that were offset by rate decreases reflecting lower authorized returns on equity and the impacts of lower income tax rates. Retail rate changes during the five-year period include a $15.0 million annual decrease in April 1987, a $5.4 million annual decrease in August 1986, a $17.4 million annual increase in September 1985, a $14.4 million annual decrease in October 1984 and a $5.7 million annual increase in September 1983. Settlements were reached in August 1987, September 1985 and July 1983 with the Company's wholesale customers, providing for annual increases (decreases) of ($5.9 million) in 1987, $3.0 million in 1986, $1.5 million in 1985 and $.3 million in 1984. Increased kilowatthour (kWh) sales of 3.9 percent in 1987 were the result of the hot, humid weather experienced during the summer. On July 20, 1987, the Company recorded a record peak demand of 1,634 megawatts, representing an increase of 11 percent over the 1986 peak demand.

Gas revenues decreased $21.6 million in 1987 compared with 1986, resulting from transported gas, warmer weather and decreased rates. Starting in 1986, various industrial gas customers began purchasing their gas directly from suppliers and transporting it through the Company's distribution system at applicable transportation rates. This continued during 1987 with additional customers being added. Transportation rates are designed to recover all costs of gas distribution and a return on gas plant investment. This transportation of gas by the Company, instead of purchasing from suppliers and reselling to industrial customers, results in equal reductions of gas revenues and purchased gas expense but retains the contribution to earnings. Transporting gas for our customers allows them to take advantage of reduced gas costs, while at the same time the Company is able to retain these customers. During 1987 and 1986, approximately 23 percent and 10 percent, respectively, of gas therm sales were transportation sales and should be considered when comparing gas revenues with prior years. Base rate changes during the period included an annual decrease of $1.3 million in 1987, and annual increases of $0.6 million in August 1986, $0.6 million in September 1985, $1.8 million in October 1984 and $2.1 million in September 1983.

Total fuel expense, including fossil fuels and purchased power, increased 3.9 percent from the year before. This increase was the direct result of increased kWh sales and the record high demand experienced during the year.

Straight-line depreciation expense increased due to additional utility plant in service in 1987 and the decreased 1986 expense as a result of lower provisions including adjustments for decommissioning the Kewaunee Nuclear Plant at the end of its operating license.

Allowance for funds used during construction (AFUDC) continued to decrease in 1987, reflecting lower construction activity. See "Notes to Consolidated Financial Statements," Note 1d, for additional information about AFUDC.

Interest on bonds decreased in 1987 compared with 1986, resulting from retirement of $9.5 million of Series U first mortgage bonds and retirement in early 1987 of the remaining Series S first mortgage bonds (see "Notes to Consolidated Financial Statements," Note 3c).

Other interest expense increased in 1987, as a result of the increase in short-term borrowings (see "Notes to Consolidated Financial Statements," Note 7).

The Tax Reform Act of 1986 ("the Act") effected several changes in federal taxation including lower rates effective in 1987, repeal of the investment tax credit effective January 1, 1986, and modifications to the accelerated cost recovery system in 1987. The repeal of the investment tax credit has resulted in a substantial decrease in investment tax credits deferred while the modifications to the accelerated cost recovery system have resulted in slower tax depreciation. The overall effect of the Act has been to eliminate deferred investment tax credits and reduce the current Federal income tax expense resulting in changes in rates charged customers.

In December 1987 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" (SFAS 96). The accounting standard requires the Company to use an asset and liability approach for financial accounting and reporting for income taxes, replacing the deferred method. The standard must be adopted by the Company no later than January 1989. See Note 1j of Notes to Consolidated Financial Statements for additional information.

During the third quarter, the Company started recording on the equity method its share (33 percent) of the earnings or losses of Wisconsin River Power Company (WRP); WRP is primarily involved in hydro generation sold to Wisconsin utilities. The Company also recorded its share of prior net earnings of WRP, resulting in an increase in Other income, net, of approximately $1.9 million. However, this increase was offset by adjustments related to non-utility operations.

Current financial statements report operating results in terms of historic cost and provide a reasonable, objective, quantifiable statement of financial results, but do not evaluate the impact of inflation. Under ratemaking prescribed by the various commissions regulating the company, projected operating costs, including the impacts of inflation, are recoverable in rates. However, the effects of inflation on utility plant depreciation are not recoverable in rates, but are generally offset by the holding gain resulting from the use of debt to finance utility plant.

Report on the Financial Information

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

Through a well-developed system of internal controls, management seeks to assure the integrity and objectivity of the financial information presented in this report. This system of internal control provides 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 35 of this Annual Report.

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

Edward M. Gleason
Vice President-Finance and Treasurer

February 4, 1988

Auditors' Report

To the Shareowners and Board of Directors of Wisconsin Power and Light Company:

We have examined the consolidated balance sheets and statements of capitalization of WISCONSIN POWER AND LIGHT COMPANY (a Wisconsin corporation) and subsidiaries as of December 31, 1987 and 1986, and the related consolidated statements of income, common shareowners' investment and changes in cash for each of the five years in the period ended December 31, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Wisconsin Power and Light Company and subsidiaries as of December 31, 1987 and 1986, and the results of their operations and their changes in cash for each of the five years in the period ended December 31, 1987, in conformity with generally accepted accounting principles applied on a consistent basis.

Milwaukee, Wisconsin,
February 4, 1988.

ARTHUR ANDERSEN & CO.

Wisconsin Power and Light Company and Subsidiaries
Consolidated Statements of Income

Year Ended December 31,	1987	1986	1985	1984	1983
	(In Thousands Except For Per Share Data)				
Operating revenues (Note 1g):					
Electric	**$438,561**	$437,033	$432,314	$425,004	$406,466
Gas	**106,643**	128,201	152,588	146,809	145,663
Water	**4,178**	4,012	4,029	3,663	3,373
	549,382	569,246	588,931	575,476	555,502
Operating expenses:					
Electric production fuels	**129,276**	127,476	126,957	119,817	122,908
Purchased power	**15,913**	12,262	22,764	34,230	19,225
Purchased gas	**67,988**	88,763	112,364	111,694	112,574
Other operation	**102,610**	101,545	96,191	91,776	87,545
Maintenance	**36,328**	34,807	33,673	30,827	29,855
Depreciation (Notes 1h and 1j)—					
Straight-line	**49,448**	45,139	50,945	42,147	37,144
Deferred income taxes	**9,254**	13,449	12,589	11,926	10,849
Taxes (Note 1j)—					
Current Federal income	**24,647**	31,082	30,232	21,055	26,447
Investment tax credit—					
Deferred	**—**	381	6,436	10,437	8,809
Restored	**(3,174)**	(3,373)	(3,539)	(2,751)	(2,555)
Current state income	**6,102**	5,978	4,936	6,100	8,001
Other	**23,036**	22,931	14,975	22,251	19,887
	461,428	480,440	508,523	499,509	480,689
Net operating income	**87,954**	88,806	80,408	75,967	74,813
Other income and (deductions):					
Allowance for equity funds used during construction (Note 1d)	**—**	769	2,646	8,421	2,766
Other	**(415)**	694	(3,155)	(2,699)	(1,120)
Income tax benefit	**352**	1,005	1,650	126	1,459
	(63)	2,468	1,141	5,848	3,105
Income before interest expense	**87,891**	91,274	81,549	81,815	77,918
Interest expense:					
Interest on bonds	**28,107**	30,520	26,938	27,023	26,926
Allowance for borrowed funds used during construction (Note 1d)	**(1,018)**	(535)	(3,181)	(5,384)	(4,512)
Other (Note 4)	**2,023**	805	(2,936)	1,844	917
	29,112	30,790	20,821	23,483	23,331
Net income	**58,779**	60,484	60,728	58,332	54,587
Cash dividends on preferred stock	**3,814**	3,814	4,360	4,780	4,963
Earnings on common stock	**$ 54,965**	$ 56,670	$ 56,368	$ 53,552	$ 49,624
Earnings per share of common stock (Note 1e)	**$4.15**	$4.28	$4.26	$4.12	$3.97
Cash dividends paid per share of common stock	**$3.08**	$2.90	$2.70	$2.52	$2.36

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

Wisconsin Power and Light Company and Subsidiaries

Consolidated Balance Sheets

December 31,	1987	1986
Assets	*(In Thousands)*	
Utility plant (Notes 1c, 1d and 2):		
Plant in service —		
Electric	$1,188,582	$1,154,074
Gas	132,918	122,643
Water	15,902	15,004
Common	70,032	60,341
	1,407,434	1,352,062
Dedicated decommissioning funds (Note 1h)	23,110	20,000
	1,430,544	1,372,062
Less — Accumulated provision for depreciation (Note 1h)	544,250	595,130
	786,294	776,932
Construction work in progress	15,325	10,180
Nuclear fuel, net (Note 1f)	19,627	21,423
Total utility plant	821,246	808,535
Investments (Note 1b)	16,027	16,221
Current assets:		
Cash	828	790
Temporary cash investments, at cost which approximates market	1,500	3,500
Accounts receivable, less allowance for doubtful accounts of $1,200,000 and $2,020,000, respectively	44,060	48,282
Unbilled revenue (Note 1g)	39,273	37,869
Fossil fuel, at average cost (Note 6)	24,623	28,527
Materials and supplies, at average cost	18,923	18,892
Prepayments	18,379	15,409
	147,586	153,269
Deferred charges	11,174	9,894
TOTAL ASSETS	$ 996,033	$ 987,919

Capitalization and Liabilities		
Capitalization (See statements on page 23):		
Common shareowners' investment	$ 398,123	$ 383,926
Preferred stock without mandatory redemption	60,000	60,000
First mortgage bonds, net	322,797	333,182
Total capitalization	780,920	777,108
Current liabilities:		
First mortgage bonds to be retired (Note 3c)	—	12,726
Short-term debt (Note 7)	51,800	6,000
Accounts payable	47,293	63,755
Accrued payroll and vacations	8,500	7,477
Accrued taxes	5,931	15,121
Accrued interest	7,612	7,114
Other	13,401	16,925
	134,537	129,118
Other credits:		
Accumulated deferred investment tax credits (Note 1j)	57,507	59,698
Other	23,069	21,995
	80,576	81,693
Construction commitments (Note 2)		
TOTAL CAPITALIZATION AND LIABILITIES	$ 996,033	$ 987,919

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

Wisconsin Power and Light Company and Subsidiaries

Consolidated Statements of Changes in Cash

Year Ended December 31,	1987	1986	1985	1984	1983
	(In Thousands)				
Operating activities:					
Net income	$ 58,779	$ 60,484	$ 60,728	$ 58,332	$ 54,587
Items not affecting working capital:					
Depreciation	58,702	58,588	63,534	54,073	47,993
Investment tax credit deferred (restored), net	(2,191)	(3,660)	2,433	7,089	5,998
Amortization of nuclear fuel	5,594	5,776	6,230	7,086	12,748
Amortization of unbilled revenue	—	(1,231)	(1,291)	(1,291)	(1,290)
Equity component of allowance for funds used during construction (AFUDC)	—	(769)	(2,646)	(8,421)	(2,766)
Other	1,882	1,918	1,956	1,889	2,906
Working capital provided by operations	122,766	121,106	130,944	118,757	120,176
Cash dividends on stock	(44,582)	(42,200)	(40,099)	(37,417)	(34,389)
Working capital generated internally	78,184	78,906	90,845	81,340	85,787
Changes in working capital other than cash:					
Accounts receivable	4,222	5,607	(6,153)	3,433	(8,065)
Unbilled revenue	(1,404)	10,177	(8,538)	5,301	(10,340)
Fossil fuel	3,904	(2,161)	832	(5,671)	5,468
Materials and supplies	(31)	(684)	(1,878)	(3,244)	(1,331)
Prepayments	(2,970)	(826)	(13,508)	(371)	32
Accounts payable	(16,462)	5,888	8,724	(17,815)	8,818
Accrued taxes	(9,190)	(5,844)	4,484	(1,444)	(12,521)
Accrued interest	498	(2,557)	556	(1,735)	1,147
Other	(2,501)	56	71	5,183	1,607
Cash generated internally	54,250	88,562	75,435	64,977	70,602
Financing activities:					
Sale of first mortgage bonds	—	88,000	—	8,500	—
Sale of common stock	—	—	—	12,614	11,989
Net change in total short-term debt and temporary cash investments	47,800	(47,600)	19,000	20,100	6,000
Bond maturities, redemptions and sinking fund retirements	(23,237)	(44,704)	(742)	(13,276)	(5)
Preferred stock redemptions	—	—	(6,672)	(1,531)	(1,511)
Net change in pollution control construction fund	—	—	3,326	4,621	5,133
	24,563	(4,304)	14,912	31,028	21,606
Construction and nuclear fuel expenditures:					
Additions to utility plant, excluding AFUDC	(68,774)	(56,943)	(62,010)	(81,921)	(85,706)
Additions to nuclear fuel	(7,186)	(6,936)	(4,878)	(9,791)	(6,833)
Dedicated decommissioning funds (Note 1h)	(3,110)	(20,000)	—	—	—
Payments for nuclear fuel disposal	—	—	(15,369)	—	—
AFUDC	(1,018)	(1,304)	(5,827)	(13,805)	(7,278)
	(80,088)	(85,183)	(88,084)	(105,517)	(99,817)
Other activities	1,313	291	(1,700)	9,642	5,826
Changes in cash	$ 38	$ (634)	$ 563	$ 130	$ (1,783)

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

Wisconsin Power and Light Company and Subsidiaries

Consolidated Statements of Capitalization

December 31,	1987	1986
	(In Thousands)	
Common shareowners' investment (Notes 3a and 5):		
Common stock, $5 par value, authorized — 18,000,000 shares; issued and outstanding — 13,236,601 shares	**$ 66,183**	$ 66,183
Premium on capital stock	**111,052**	111,052
Capital surplus	**1,747**	1,747
Reinvested earnings	**219,141**	204,944
Total common shareowners' investment	**398,123**	383,926
Preferred stock without mandatory redemption (Note 3b):		
Cumulative, without par value, authorized 3,750,000 shares, maximum aggregate stated value $150,000,000; issued and outstanding 600,000 shares, $100 stated value:		
4.50% series, 100,000 shares outstanding	**10,000**	10,000
4.80% series, 75,000 shares outstanding	**7,500**	7,500
4.96% series, 65,000 shares outstanding	**6,500**	6,500
4.40% series, 30,000 shares outstanding	**3,000**	3,000
4.76% series, 30,000 shares outstanding	**3,000**	3,000
8.48% series, 150,000 shares outstanding	**15,000**	15,000
7.56% series, 150,000 shares outstanding	**15,000**	15,000
Total preferred stock	**60,000**	60,000
First mortgage bonds, net (Note 3c):		
Series J, 4⅝%, due 1989	**6,303**	6,303
Series K, 4¼%, due 1992	**3,827**	4,437
Series L, 6¼%, due 1998	**8,899**	9,299
Series M, 8%, due 1999	**24,509**	24,509
Series N, 8⅞%, due 2000	**24,900**	24,900
Series O, 8%, due 2001	**29,995**	29,995
Series P, 8⅞%, due 2004	**35,000**	35,000
1975 Series A, 7¾%, due 1991-2005	**16,000**	16,000
1975 Series B, 7¾%, due 2000	**875**	875
1975 Series C, 7¾%, due 2000	**1,000**	1,000
Series Q, 8⅞%, due 2006	**35,000**	35,000
Series R, 9⅛%, due 2008	**35,000**	35,000
1980 Series A, 8%, due 2000	**9,000**	9,000
1980 Series A, 8¼%, due 2007-2010	**7,000**	7,000
1984 Series A, floating rate, due 2014 (8¼% at December 31, 1987)	**8,500**	8,500
1986 Series T, 10% due 2016	**50,000**	50,000
1986 Series U, 8% due 1991	**28,500**	38,000
	324,308	334,818
Unamortized discount and premium, net	**(1,511)**	(1,636)
Total first mortgage bonds, net	**322,797**	333,182
TOTAL CAPITALIZATION	**$780,920**	$777,108

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

Wisconsin Power and Light Company and Subsidiaries

Consolidated Statements of Common Shareowners' Investment

Year Ended December 31,	1987	1986	1985	1984	1983
	(In Thousands)				
Common stock:					
Balance at beginning of year	$66,183	$66,183	$66,183	$63,787	$61,416
Par value of common stock issued	—	—	—	2,396	2,369
Balance at end of year	66,183	66,183	66,183	66,183	63,787
Premium on capital stock:					
Balance at beginning of year	111,052	111,052	111,018	100,834	91,222
Excess of amount received over par value of common stock issued and other	—	—	34	10,184	9,612
Balance at end of year	111,052	111,052	111,052	111,018	100,834
Capital surplus:					
Balance at beginning and end of year	1,747	1,747	1,747	1,747	1,747
Reinvested earnings:					
Balance at beginning of year	204,944	186,668	166,368	145,501	125,310
Add—Net income	58,779	60,484	60,728	58,332	54,587
	263,723	247,152	227,096	203,833	179,897
Deduct—					
Cash dividends on preferred stock	3,814	3,814	4,360	4,780	4,963
Cash dividends on common stock	40,768	38,386	35,739	32,637	29,426
Expense of issuing common stock and other	—	8	329	48	7
	44,582	42,208	40,428	37,465	34,396
Balance at end of year	219,141	204,944	186,668	166,368	145,501
TOTAL COMMON SHAREOWNERS' INVESTMENT (Note 5)	$398,123	$383,926	$365,650	$345,316	$311,869

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES:

a. **Accounting Policies:**

Our books and records are maintained in accordance with the uniform systems of accounts prescribed by our regulators. The Public Service Commission (PSC) of Wisconsin and the Illinois Commerce Commission have jurisdiction over our retail rates, which represent approximately 82 percent of our electric revenues, and the Federal Energy Regulatory Commission (FERC) has jurisdiction over our wholesale rates representing approximately 18 percent of our electric revenues.

b. **Consolidation and Investment in Subsidiaries:**

The consolidated financial statements include the Company and its wholly owned consolidated subsidiaries — South Beloit Water, Gas and Electric Co. and Wisconsin Power and Light Nuclear Fuel, Inc. Other subsidiaries are accounted for on the equity method and are not material. All significant inter-company transactions and accounts have been eliminated in these statements.

c. **Utility Plant:**

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

d. **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 the Company.

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

For its wholesale jurisdiction, the Company capitalized AFUDC on qualifying CWIP at 7 percent, 11.3 percent, 10.1 percent, 10.6 percent and 6.8 percent for the years 1983, 1984, 1985, 1986 and 1987, respectively.

e. **Earnings Per Share:**

Earnings per share of common stock are computed by dividing earnings on common stock by the weighted average number of common shares outstanding, which were:

	(In Thousands)
1987	**13,237**
1986	13,237
1985	13,237
1984	12,998
1983	12,507

f. **Nuclear Fuel:**

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

Net nuclear fuel consists of:

	December 31,	
	1987	1986
	(In Thousands)	
Original cost of nuclear fuel	**$106,053**	$98,805
Accumulated amortization	**86,426**	77,382
Net nuclear fuel	**$ 19,627**	$21,423

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.

Nuclear fuel obtained from NUFUS Resources, Inc. is recorded at cost, which includes the cost of operations of this subsidiary.

g. **Revenue:**

The Company 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 the Company'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. This transportation of gas by the Company, instead of purchasing gas from suppliers and reselling it to industrial customers, results in equal reductions to gas revenues and purchased gas expense but retains the contribution to earnings. In 1987 and 1986 these gas transportation customers accounted for approximately 23 percent and 10 percent of gas therm sales, respectively.

h. **Depreciation:**

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

	Electric	Gas	Water	Common
	%	%	%	%
1987	**3.3**	**3.9**	**2.5**	**7.0**
1986	3.3	3.9	2.5	6.5
1985	4.2	4.2	2.3	6.3
1984	4.3	4.2	2.2	6.1
1983	4.0	4.2	2.2	5.9

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

i. **Retirement Plans:**

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

The Company 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. Because the Company's rates were adjusted to reflect both the revised pension expense (benefit) and the early retirement program, these adjustments did not have a material impact on net income.

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

	(In Thousands)
Accumulated benefit obligation	
Vested benefits	$(70,428)
Nonvested benefits	(138)
	$(70,566)
Projected benefit obligation	$(88,185)
Plan assets at fair value, primarily common stocks and fixed income securities	126,443
Plan assets in excess of projected benefit obligation	38,258
Unrecognized net asset at December 31, 1986, being recognized over approximately 16 years	(36,248)
Unrecognized prior service cost	10,023
Unrecognized net (gain) loss	(13,783)
Accrued pension liability	$ (1,750)

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

	(In Thousands)
Service cost	$ 2,722
Interest cost on projected benefit obligation	7,751
Actual return on assets	(10,714)
Net amortization and deferral	(4,378)
Net pension expense (benefit)	$(4,619)

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

The plans used an assumed investment rate of 8.75 percent for 1986 and 1985, and 7.5 percent prior to 1985. Summary information related to these plans, when the former accounting and actuarial methods were used in prior years, is presented below.

Summary Retirement Plans Information As of January 1,

	1986	1985	1984	1983
		(In Thousands)		
Actuarial value of accumulated plan benefits:				
Vested	$ 62,128	$48,821	$48,342	$43,125
Nonvested	1,183	1,181	2,016	1,791
Total	$ 63,311	$50,002	$50,358	$44,916
Net assets available for benefits	$115,628	$97,337	$90,933	$76,852
Total plan provisions (credit) for the year	$ (384)	$ 869	$ 2,756	$ 3,766

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

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

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j. **Income Taxes:**

Depreciation expenses computed for tax purposes reflect the use of various available liberalized depreciation methods. Under PSC rules, the estimated reduction of federal income taxes due to the use of these practices is recorded as additional depreciation, described as deferred income taxes in the income statement. Beginning in October 1984, the state income tax effects of such timing differences are flowed through currently.

The amounts recorded as deferred income tax and the amount of previously deferred state income taxes now reversing as well as the cumulative balances were:

	Federal	State	Total	Year-End Balances
		($ In Thousands)		
1987	**9,857**	**(603)**	**9,254**	**153,930**
1986	14,053	(603)	13,450	144,676
1985	13,068	(479)	12,589	131,226
1984	11,579	347	11,926	118,637
1983	10,133	716	10,849	106,711

The Tax Reform Act of 1986 contained numerous provisions, including the reduction of the maximum corporate tax rate from 46 percent to 40 percent in 1987 and 34 percent thereafter, as well as the elimination of the investment tax credit effective January 1, 1986. The impacts of the act were included in rate changes made effective in 1987.

As of December 31, 1987, $14.7 million of deferred income taxes at the 40 percent rate ($12.5 million at the 34 percent rate) have not been provided on cumulative income tax timing differences of $36.8 million. These amounts are recoverable in rates under current regulatory policies.

The Company formerly received tax credits from the federal government for investing in certain types of property. The investment tax credit for this property was repealed, as noted above, except for certain transitional property. The benefits of former investment tax credits deferred are being restored over the useful lives of the property.

In December 1987 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96 "Accounting for Income Taxes" (SFAS 96). The accounting standard requires an asset and liability approach for financial accounting and reporting for income taxes rather than the deferred method. While the standard must be adopted no later than January 1989, 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.

When the standard is adopted, adjustments to balances of accumulated deferred income taxes will be made to record additional deferred income tax liabilities related to items previously recorded on an after-tax basis and other temporary differences, the taxes on which were not previously deferred. Significant adjustments also will be recorded for the net reduction in previously recorded deferred income taxes resulting from income tax rate changes. Finally, the Company will defer income tax assets arising from reducing the book basis of property by the amount of unamortized investment tax credits. The Company has not yet determined the amount of these adjustments. It is expected that the additional deferred income tax assets and liabilities will be offset primarily by regulatory assets and liabilities representing the expected future revenue requirement impact of these adjustments. However, as in the past, the ultimate impact on net income related to these adjustments will depend greatly on the ratemaking treatment authorized in future ratemaking proceedings.

The Company's effective income-tax rate can be computed by dividing total income-tax expense, investment tax credits deferred and restored, and deferred income taxes by the sum of such expense and net income. The following table reconciles the effective income-tax rate to the statutory federal income-tax rate:

	1987	1986	1985	1984	1983
Effective income-tax rate	**38.3%**	43.5%	44.7%	44.4%	47.9%
Allowance for funds used during construction, which does not constitute current taxable income	**.4**	.5	2.5	5.5	3.2
State income taxes and state additional depreciation, net	**(3.2)**	(2.2)	(1.9)	(3.5)	(4.7)
Reversals of various plant-related timing differences for which deferred taxes had not been provided	**(1.9)**	(1.8)	(2.5)	(2.0)	(2.0)
Investment tax credits restored	**3.4**	3.1	3.2	2.6	2.4
Other differences, net	**3.0**	2.9	—	(1.0)	(0.8)
Statutory federal income-tax rate	**40.0%**	46.0%	46.0%	46.0%	46.0%

NOTE 2. JOINTLY OWNED UTILITY PLANTS AND CONSTRUCTION COMMITMENTS:

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

	Ownership Interest	**Plant in Service**	**Accumulated Provision For Depreciation**
	%	(In Thousands)	
Coal:			
Columbia Energy Center	46.2	$153,688	$ 78,331
Edgewater Unit 4	68.2	42,113	22,692
Edgewater Unit 5	75.0	231,223	43,681
Nuclear:			
Kewaunee Nuclear Plant	41.0	115,956	84,595
TOTAL		$542,980	$229,299

The Company's share of operations and maintenance expenses is included in the appropriate expense categories in the statements of income.

Utility plant construction and net removal costs expenditures for 1988 are estimated to be $102.7 million, and substantial commitments have been incurred in connection with such expenditures.

NOTE 3. CAPITALIZATION:

a. **Common Stock:**

The Company issued 479,000 and 474,000 new shares of common stock through its Dividend Reinvestment and Stock Purchase Plan (DR Plan) and Employee Stock Ownership Plan (ESOP), generating proceeds of $12.6 million and $12.0 million for 1984 and 1983, respectively.

A retail rate order issued by the PSC in October 1984 required that no new shares of stock be issued under the Company's DR Plan after January 1, 1985. Accordingly, the Company changed the DR Plan to an open-market-purchase plan effective as of that date and issued no new shares of common stock after 1984.

A retail rate order effective April 1, 1987, requires the Company to maintain a utility common equity level of between 46.45 percent and 51.25 percent of total utility capitalization. This requirement would restrict dividends in order to maintain the minimum utility equity level. As of December 31, 1987, the Company's utility common equity was $390.1 million or 47.21 percent of total utility capitalization. The rate order would allow the utility common equity level to drop as low as $378.3 million (assuming no other changes in utility capitalization) without further action by the PSC. See Note 5 for additional equity level information.

b. **Preferred Stock:**
There were no issues of preferred stock during the five years ended December 31, 1987. Pursuant to a 1985 PSC order, the Company called and retired all of the remaining 12% preferred stock during 1985.

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

Bond sinking fund requirements for the next five years not satisfied as of December 31, 1987, include $9.5 million in both 1989 and 1990 and $.7 million in 1991 and 1992. Bonds maturing for the next five years include $6.3 million in 1989, $9.5 million in 1991 and $3.8 million in 1992.

NOTE 4. OTHER INTEREST EXPENSE:

On August 29, 1985, the PSC issued a final retail rate order that contained a provision for recovery over five years of interest charges paid on income tax deficiencies. As a result, the Company discontinued expensing such items and reversed all previous interest accruals, increasing earnings per share by approximately 23 cents in 1985.

NOTE 5. PROPOSED RESTRUCTURING:

In 1985 the Wisconsin Legislature approved and the governor signed into law a bill providing for the regulation of utilities that diversify through a holding-company structure. On November 17, 1986, the Company filed an application with the PSC seeking authority to form a parent holding company. The proposal was presented to the shareowners for vote and approved at the Annual Meeting of shareowners, held April 22, 1987.

On April 30, 1987, the PSC entered its Findings of Fact, Certificate and Order, approving the formation of a holding company to be known as WPL Holdings, Inc. The approval granted by the order is subject to various terms and conditions including, among others, the following: that the board of directors of the Company set a dividend policy based solely upon the capital needs and financial health of the Company and without regard to the need for capital on the part of WPL Holdings, Inc., or any non-utility affiliate; that WPL Holdings, Inc., not use any funds from the Company for investment in non-utility businesses until the Company reaches and can maintain a 50 percent common equity level in its utility capital structure; that, until the Company's utility common equity ratio reaches 50 percent, all dividends paid by the Company to WPL Holdings, Inc., be immediately passed through to the shareowners of WPL Holdings, Inc., except for the retention of a reasonable amount to cover reasonable operating expenses of WPL Holdings, Inc., and a newly formed, wholly owned, non-utility subsidiary called Heartland Development Corporation; that no affiliated interest transaction be entered into prior to approval by the PSC of an affiliated interest agreement; that the sum of assets of all non-utility affiliates in the holding company system not exceed the sum of 25 percent of the assets of the Company; that the Company and WPL Holdings, Inc., provide the PSC full access to those books, records, documents and other information of the holding company and non-utility affiliates that the PSC staff believes are relevant to fulfill the PSC's statutory duties; that the Company and WPL Holdings, Inc., submit a plan describing the ways in which they intend to achieve maximum possible separation of officers and employees, as well as plans for staffing of WPL Holdings, Inc., Heartland Development Corporation and, when formed or purchased, new ventures; and that certain reports be submitted to the PSC.

On June 5 and June 29, 1987, the IRS issued rulings approving the tax-free exchange of stock associated with the proposed formation of WPL Holdings, Inc., and Heartland Development Corporation.

On September 30, 1987, the Illinois Commerce Commission (ICC) issued an order approving the proposed restructuring. The ICC approval was requested by WP&L since an existing wholly owned subsidiary of WP&L, South Beloit Water, Gas and Electric Company, operates in the state of Illinois. The ICC order was substantially similar to the PSC order endorsing the 50 percent common equity level. It, however, contained no limitations on dividend pass through.

On December 29, 1987, the Federal Energy Regulatory Commission (FERC) issued an order approving the WPL Holdings application as submitted. The FERC order contained no restrictions or limitations on the restructuring other than those contained in the company's application.

On January 29, 1988, the Nuclear Regulatory Commission (NRC) consented to the proposed restructuring of Wisconsin Power and Light Company.

The Company continues to actively pursue approval from the Securities and Exchange Commission, as required under the Public Utility Holding Company Act of 1935. This is the only major approval still remaining. The Company anticipates approval in early 1988 and upon that approval will move to form the holding company structure discussed above.

NOTE 6. ACID RAIN REGULATION:

In April 1986 new acid rain legislation was enacted by the Wisconsin Legislature that established systemwide sulfur emissions limits for all utilities in the state. Under the legislation, the Company estimates that it will be required to make additional capital expenditures prior to January 1, 1993, of not more than $8,500,000 for pollution-control equipment and to incur additional annual fuel costs in 1993 and 1994, principally to pay for lower sulfur coal, of not more than $37,000,000 (including demand charges for coal contracts for the Columbia 1 and Edgewater 4 plants which the Company is required to pay even if it is unable to fully utilize all contracted quantities under the contracts and the recently approved legislation) and $19,000,000 thereafter. In the opinion of management, it exercised reasonable and prudent management judgment in entering into such contracts and, therefore, any such costs incurred to meet mandatory emission limits would be considered a legitimate cost-of-service item subject to recovery in rates. WP&L has established a planning team to review coal supplies and emerging technologies in order to manage and reduce these projected impacts. Present coal contracts are also being reviewed to mitigate the potential total impact.

NOTE 7. SHORT-TERM DEBT AND LINES OF CREDIT:

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

	1987	1986
	(In Thousands)	
As of end of year —		
Unused lines of credit	**$43,000**	$30,000
Commercial paper outstanding	**$35,800**	—
Notes payable to financial institutions	**$16,000**	$ 6,000
For the year ended —		
Maximum month-end amount of short-term borrowings	**$51,800**	$36,000
Average amount of short-term borrowings (based on daily outstanding balances)	**$16,764**	$ 5,188
Average interest rate on short-term borrowings	**6.99%**	7.92%

NOTE 8. SEGMENT INFORMATION:

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

	Year Ended December 31,				
	1987	1986	1985	1984	1983
	(In Thousands)				
OPERATION INFORMATION:					
Customer revenues —					
Electric	$437,582	$436,047	$431,333	$424,212	$405,637
Gas	105,595	127,144	152,106	146,134	144,627
Water	4,169	4,005	4,004	3,655	3,368
Interdepartmental revenues —					
Electric	979	986	981	792	829
Gas	1,048	1,057	482	675	1,036
Water	9	7	25	8	5
Total operating revenues	$549,382	$569,246	$588,931	$575,476	$555,502
Operating profit —					
Electric	$115,130	$126,616	$117,224	$112,131	$116,264
Gas	8,134	8,426	12,306	9,373	8,984
Water	1,519	1,281	1,532	1,230	1,116
Income taxes, current and deferred (see Note 1j)	(36,829)	(47,517)	(50,654)	(46,767)	(51,551)
Other income and deductions, net	(63)	2,468	1,141	5,848	3,105
Interest expense, net	(29,112)	(30,790)	(20,821)	(23,483)	(23,331)
Net income per consolidated statements of income	$ 58,779	$ 60,484	$ 60,728	$ 58,332	$ 54,587
INVESTMENT INFORMATION:					
Identifiable assets including allocated common plant at Dec. 31 —					
Electric	$839,767	$841,334	$827,309	$802,074	$757,608
Gas	107,930	101,331	107,084	99,273	100,372
Water	12,324	11,978	11,720	11,013	10,617
Assets not allocated (cash, prepayments and other)	36,012	33,276	30,607	12,742	12,570
Total assets	$996,033	$987,919	$976,720	$925,102	$881,167
OTHER INFORMATION:					
Construction and nuclear fuel expenditures —					
Electric	$ 85,448	$74,917	$ 77,276	$ 96,759	$ 92,402
Gas	13,682	9,453	9,698	8,024	6,604
Water	958	813	1,110	734	811
Total construction and nuclear fuel expenditures	$ 80,088	$ 85,183	$ 88,084	$105,517	$ 99,817
Provision for straight-line depreciation —					
Electric	$ 43,462	$ 39,703	$ 45,575	$ 37,141	$ 32,433
Gas	5,556	5,033	5,023	4,687	4,419
Water	430	403	347	319	292
Total provision for straight-line depreciation	$ 49,448	$ 45,139	$ 50,945	$ 42,147	$ 37,144

NOTE 9. CONSOLIDATED QUARTERLY FINANCIAL DATA (Unaudited):

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

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

Quarter Ended	Operating Revenues	Net Operating Income	Net Income	Earnings on Common Stock	Earnings Per Share of Common Stock
	($ In Thousands except for Per Share Data)				
1987:					
March 31	157,368	23,732	16,027	15,073	1.14
June 30	123,332	18,245	11,013	10,059	0.76
September 30	127,251	20,478	14,513	13,560	1.02
December 31	141,431	25,499	17,226	16,273	1.23
1986:					
March 31	170,202	25,467	17,597	16,643	1.26
June 30	123,759	16,740	9,525	8,571	0.65
September 30	126,157	21,209	14,063	13,109	0.99
December 31	149,127	25,390	19,300	18,346	1.39

Five-Year Comparative Data and Statistics

	Year Ended December 31,					Four-Year Change	
	1987	1986	1985	1984	1983	Amount	Percent
CONSOLIDATED ELECTRIC STATISTICS							
Customers served (end of period):							
Residential and rural	**287,857**	283,977	281,056	277,521	274,253	13,604	5.0%
Industrial	**597**	576	560	534	511	86	16.8
Commercial	**38,516**	37,573	36,830	35,905	35,019	3,497	10.0
Wholesale	**35**	37	37	37	42	(7)	(16.7)
Class A	**8**	6	6	6	6	0	0.0
Other	**919**	916	908	892	893	26	2.9
Total	**327,930**	323,085	319,397	314,895	310,724	17,206	5.5%
Sales—kilowatthours (in thousands):							
Residential and rural	**2,352,529**	2,288,790	2,276,424	2,222,626	2,232,331	120,198	5.4%
Industrial	**2,767,726**	2,489,158	2,430,487	2,337,477	2,134,768	632,958	29.6
Commercial	**1,408,803**	1,344,783	1,319,511	1,273,430	1,232,932	175,871	14.3
Wholesale	**1,633,597**	1,577,405	1,468,945	1,465,144	1,379,151	254,446	18.4
Class A	**838,869**	958,587	1,235,951	1,235,939	691,796	147,073	17.5
Other	**56,406**	56,230	60,578	54,874	58,759	(2,353)	(4.0)
Total	**9,057,930**	8 714,953	8 791,896	8 589,490	7 729,737	1 328,193	17.2%
Electric operating revenues (in thousands):							
Residential and rural	**$156,064**	$157,611	$154,416	$149,734	$152,075	$ 3,989	2.6%
Industrial	**112,491**	107,477	105,518	99,996	94,587	17,904	18.9
Commercial	**85,296**	84,953	82,341	80,588	80,566	4,730	5.9
Wholesale	**62,793**	62,019	55,393	54,831	51,893	10,900	21.0
Class A	**15,603**	17,802	27,526	33,299	19,398	(3,795)	(19.6)
Other	**6,314**	7,171	7,120	6,556	7,947	(1,633)	(20.5)
Total	**$438,561**	$437,033	$432,314	$425,004	$406,466	$32,095	7.9%
System capacity—at time of system peak (kWs):							
Company plants (including jointly owned)	**1,904,000**	1,901,000	1,889,100	1,621,100	1,637,200	266,800	16.3%
Firm purchased power	**(6,000)**	60,000	41,700	162,700	184,700	(190,700)	(103.2)
Total	**1,898,000**	1,961,000	1,930,800	1,783,800	1,821,900	76,100	4.2
System peak demand	**1,634,000**	1 470,000	1 371,000	1,427,000	1,403,000	231,000	16.5
Reserve margin at time of peak	**264,000**	491,000	559,800	356,800	418,900	(154,900)	(37.0%)
CONSOLIDATED GAS STATISTICS:							
Customers served (end of period):							
Residential	**102,074**	99,713	97,436	95,159	93,498	8,576	9.2%
Commercial firm	**12,142**	11,786	11,472	11,167	10,812	1,330	12.3
Industrial firm	**387**	383	383	372	384	3	0.1
Interruptible	**114**	109	139	139	144	(30)	(20.8)
Transportation	**71**	51	—	—	—	71	100.0
Total	**114,788**	112,042	109,430	106,837	104,838	9,950	9.5%
Sales—therms (in thousands):							
Residential	**94,690**	101,807	106,424	101,846	101,427	(6,737)	(6.6%)
Commercial firm	**53,693**	59,998	63,786	59,783	58,284	(4,591)	(7.9)
Industrial firm	**13,423**	21,245	25,764	26,510	25,757	(12,334)	(47.9)
Interruptible	**21,688**	40,391	72,024	72,449	64,425	(42,737)	(66.3)
Interdepartmental sales	**2,592**	2,444	1,033	1,329	2,252	340	15.1
Transported gas	**57,104**	25,098	122	—	—	57,104	100.0
Total	**243,190**	250,983	269,153	261,917	252,145	(8,955)	(3.6%)
Gas operating revenues (in thousands):							
Residential	**$ 59,939**	$ 66,082	$ 70,758	$ 66,763	$ 66,359	$ (6,420)	(9.7%)
Commercial firm	**27,653**	32,270	34,832	34,566	34,072	(6,419)	(18.8)
Industrial firm	**6,627**	10,675	14,999	13,969	14,577	(7,950)	(54.5)
Interruptible	**6,492**	15,453	31,025	30,463	28,998	(22,506)	(77.6)
Interdepartmental sales and other	**1,064**	1,449	966	1,048	1,657	(593)	(35.8)
Transported gas	**4,868**	2,272	8	—	—	4,868	100.0
Total	**$106,643**	$128,201	$152,588	$146,809	$145,663	$(39,020)	(26.8%)

Corporate Profile

Total assets $996 million

Operating revenues $549 million

Percentage of operating revenues

electric	79.8%
natural gas	19.4%
water	0.8%

Net income $59 million

Customers
340,000 (electric, gas and water)

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

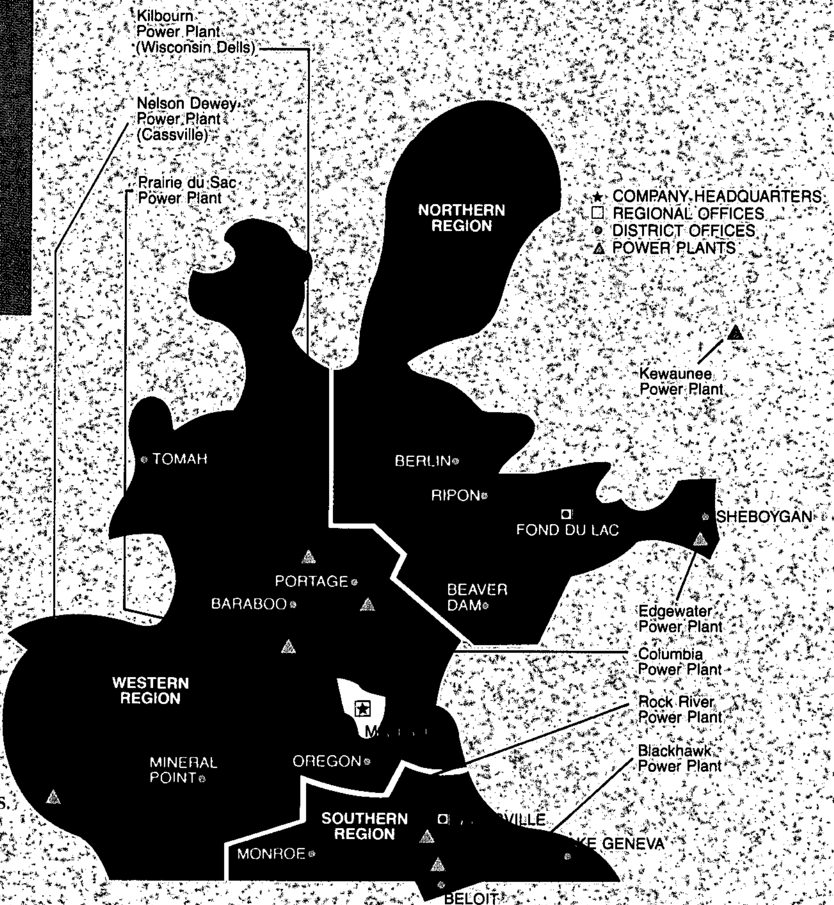
Full-time employees 2,500

Organization
- Corporate headquarters, Madison, Wis.
- Three regions
- 14 district offices
- 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
1,904 megawatts

Percent of generation by fuel

coal	78.86%
nuclear	18.73%
hydroelectric	2.05%
natural gas	0.24%
oil	0.12%



Stock

Earnings per share of common stock	$4.15
Book value per share of common stock	$30.08
Year-end stock price	$43.50
Total shareowners	45,816
Percent of individual shareowners who are Wisconsin residents*	
common	55%
preferred	80%
Average common-stock holding	364 shares
Holdings by individual investors*	approx. 83% of total shares

*Including Dividend Reinvestment Plan and Employee Stock Ownership Plan participants

Subsidiaries
- South Beloit Water, Gas & Electric Co. — 1926 — public utility
- NUFUS Resources, Inc. — 1976 — uranium fuel supply
- RMT, Inc. — 1983 — environmental and engineering consulting
- ENSERV, Inc. — 1984 — energy services
- WP&L Communications, Inc. — 1985 — fiber optics

Board of Directors

(as of December 31, 1987)

Each year Wisconsin Power and Light Company's Board of Directors holds one or more of its meetings in conjunction with a field trip to an area served by the Company. A 1987 field trip focused on the lower Wisconsin River and upper Mississippi River region, which plays a prominent role in WP&L's operations and in the economy of the Company's service area. One stop on the field trip was the F. G. Wilson State Nursery, shown in the photos on these pages. Operated by the state of Wisconsin as part of its forestry-management program, the Boscobel, Wis., nursery raised and shipped 5.6 million trees and shrubs in 1987.

The 13-member Board of Directors is composed of nine outside directors; the Chief Executive Officer of Wisconsin Power and Light, who serves as its Chairman; and three inside directors, who, along with the CEO, constitute senior management.

Milton E. Neshek

Katharine C. Lyall **Gerard E. Veneman** **L. David Carley** **Rockne G. Flowers**

James R. Underkofler, 64
Chairman of the Board and
Chief Executive Officer,
Wisconsin Power and Light Company
A director since 1965

Erroll B. Davis, Jr., 43
President,
Wisconsin Power and Light Company
A director since 1984

L. David Carley, 59
Partner, Carley Capital Group
(a venture-capital group),
Washington, D.C.
A director since 1983;
also was a director
from 1975 to 1977

Rockne G. Flowers, 56
President, Nelson Industries, Inc.
(a muffler, filter and industrial-silencer manufacturing firm),
Stoughton, Wisconsin
A director since 1979

Eugene O. Gehl, 64
Executive Vice President and
General Counsel,
Wisconsin Power and Light Company
A director since 1977

Donald R. Haldeman, 51
President, Wisconsin Farm Bureau
Federation (Wisconsin's largest
general farm organization),
Madison, Wisconsin;
and farm owner and operator,
Norwalk, Wisconsin
A director since 1985

William L. Keepers, 49
Executive Vice President - Operations,
Wisconsin Power and Light Company
A director since 1984

Katharine C. Lyall, 46
Executive Vice President,
University of Wisconsin System,
Madison, Wisconsin
A director since 1986

Milton E. Neshek, 57
President and Chief Executive Officer,
Godfrey, Pfeil & Neshek, S.C.
(a law firm), Elkhorn, Wisconsin;
and General Counsel and Assistant
Secretary, Kikkoman Foods, Inc.
(a food-products manufacturer),
Walworth, Wisconsin
A director since 1984

Henry C. Prange, 60
Chairman of the Board, President
and Chief Executive Officer,
H.C. Prange Company
(retail department stores),
Sheboygan, Wisconsin
A director since 1965

Henry F. Scheig, 63
Chairman of the Board,
Aid Association for Lutherans
(a fraternal benefit society),
Appleton, Wisconsin
A director since 1980

Carol T. Toussaint, 58
Consultant, public-policy issues,
Madison, Wisconsin
A director since 1976

Gerard E. Veneman, 67
Director, Great Northern Nekoosa
Corporation (a paper and pulp
manufacturer and distributor),
Stamford, Connecticut; and retired
Executive Vice President of
Great Northern and President
and Chief Executive Officer
of one of its subsidiaries,
Nekoosa Papers, Inc.,
Port Edwards, Wisconsin
A director since 1980

James R. Underkofler

Eugene O. Gehl

Erroll B. Davis, Jr. Donald R. Haldeman

Henry C. Prange William L. Keepers Henry F. Scheig

Carol T. Tonssaint

COMMITTEES OF THE BOARD

The Board of Directors met 11 times in 1987. The board comprises four 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 1987 the committee held two meetings.

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 four times in 1987.

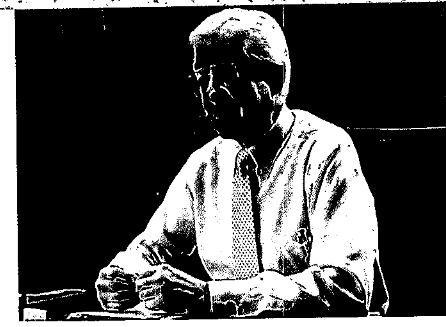
The Personnel Committee functions as an executive review group, evaluating overall management performance and efficiency. The committee also reviews human-resource development and affirmative-action programs, benefit plans and changes and major provisions of negotiated employment contracts. It approves the salaries of officers and managers. The committee consists of all board members who are not employees or officers of the Company, the chief executive officer and the president, the latter two as non-voting members. The committee held five meetings in 1987.

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 chief executive officer and two members of the board who are not employees or officers of the Company. The committee met once in 1987.

Corporate Officers

As of December 31, 1987
(Date in parenthesis indicates year the person joined WP&L)

James R. Underkofler, 64 (1941)
Chairman of the Board
and Chief Executive Officer

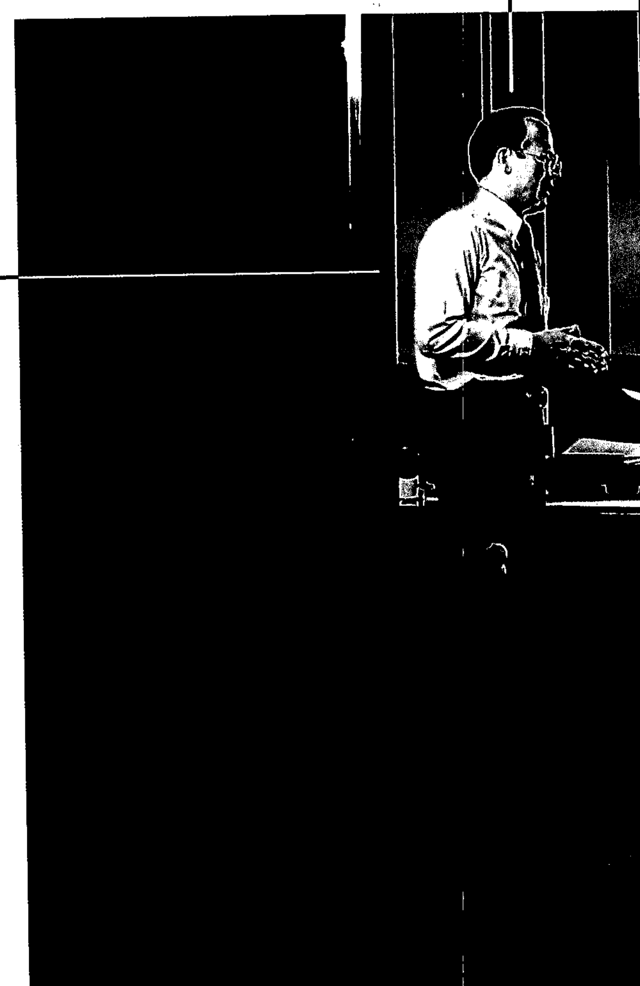


James E. Johnson, 55 (1960)
Vice President - Natural Gas

Edward F. Killeen, 57 (1976)
Vice President - Administration

David E. Ellestad, 47 (1960)
Vice President - Electrical Engineering
and Procurement

Robert A. Carlsen, 63 (1951)
Vice President - Customer Service
and Corporate Communications



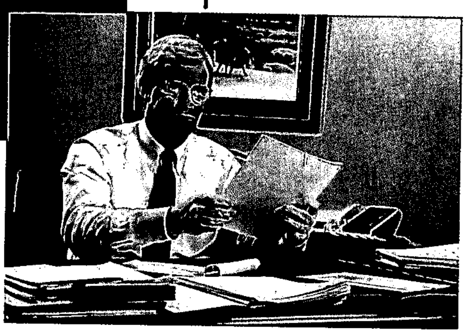
William L. Keepers, 49 (1962)
Executive Vice President - Operations

Erroll B. Davis, Jr., 43 (1978)
President

Edward M. Gleason, 47 (1977)
Vice President - Finance and Treasurer

Thomas L. Consigny, 53 (1968)
Assistant Vice President - Public Affairs

Eugene O. Gehl, 64 (1985)
Executive Vice President
and General Counsel



William D. Harvey, 38 (1986)
Vice President - Associate General Counsel

1987 MANAGEMENT CHANGES

Erroll B. Davis, Jr.'s election to the office of President of Wisconsin Power and Light Company was 1987's most significant management change. **James R. Underkofler** remains Chairman of the Board and Chief Executive Officer. Davis, who had been a WP&L Executive Vice President and member of the Board of Directors since 1984, assumed his new responsibilities July 1. An electrical engineering graduate of Carnegie-Mellon University with a master's degree in business administration from the University of Chicago, Davis previously was employed by the Xerox Corp. and Ford Motor Co. He joined WP&L in 1978 as Vice President-Finance.

In 1987 WP&L offered a voluntary early retirement program for nonunion employees. The 72 nonunion employees who took advantage of the program included **William C. Register**, Vice President-Power Production and System Planning, who retired with 33 years of service, and six department heads:

Donald L. Brown, Director of Generation and System Planning, 37 years of service;
George E. Gibert, Director of Gas Supply and Engineering, 37 years of service;
Merlin E. Horn, Director of Environmental Affairs, 10 years of service;
Henry R. Hosterman, Director of Generating Station Performance and Planning, 33 years of service;
Theodore J. Iltis, Director of Advanced Technology and Nuclear Affairs, nine years of service; and
David W. Thompson, Director of Generating Station Operations, 35 years of service.

The following are other major organizational changes:

William L. Keepers was elected Executive Vice President-Operations. He previously had served as Executive Vice President.

Thomas A. Landgraf was elected Corporate Secretary and Assistant to the Chairman. He had been Corporate Secretary and Director of Risk Management and Shareowner Services.

Mary Fujimoto was named Assistant Secretary and Risk Management Assistant. She previously had served as Assistant Secretary.

Norman E. Boys was named Director of Power Production. He had been Generating Station Manager at Edgewater. **Kenneth J. Koele** succeeded Boys. He previously had served as Assistant Generating Station Manager at Columbia.

Glen R. Kielley was named Director of Personnel and Safety. He had been Director of Personnel.

Robert G. Lindenau was named Director of Buildings and Real Estate. He previously had served as Director of Safety and Real Estate.

Barbara J. Swan was named Associate General Counsel. She previously had been engaged in the private practice of law in Madison, Wis.

Susan M. Tikalsky was named Director of Environmental Affairs. She had been Environmental Scientist 1.

George E. Wennerlyn was named Director of Gas Supply and Engineering. He previously had served as Northern Region Manager.

Corporate Management

OTHER OFFICERS

Edward G. Young, Jr., 48 (1986)
Controller

Thomas A. Landgraf, 39 (1979)
Corporate Secretary and
Assistant to the Chairman

Mary Fujimoto, 58 (1971)
Assistant Secretary and
Risk Management Assistant

Thomas M. Regner, 35 (1978)
Assistant Treasurer

REGION MANAGERS

Roger L. Baumanu, 45 (1970)
(Acting Manager)
Northern Region (Fond du Lac)

Duaine L. Mossman, 61 (1950)
Western Region (Madison)

Suzette M. Mullooly, 40 (1972)
Southern Region (Janesville)

DISTRICT MANAGERS

Thomas L. Adelman, 43 (1968)
Lake Geneva

Roger L. Baumaun, 45 (1970)
Fond du Lac

Ronald L. Cowan, 41 (1971)
Baraboo

Philip E. Crawford, 46 (1960)
Mineral Point

John D. Grawe, 39 (1971)
Janesville

Jules A. Nicolet, 44 (1977)
Sheboygan

W. Keith Penniston, 52 (1957)
Berlin

Eliot G. Protsch, 34 (1978)
Dane County (Oregon)

Kenneth L. Robenolt, 58 (1953)
Portage

Larry L. Studesville, 40 (1973)
Beloit

Michael J. Wish, 41 (1974)
Tomah

Kim K. Zuhlke, 34 (1978)
Beaver Dam

GENERATING STATION MANAGERS

Carl R. Diehls, 52 (1955)
Columbia (Portage)

William A. Frederick, 61 (1959)
Nelson Dewey (Cassville)

Kenneth J. Koele, 39 (1974)
Edgewater (Sheboygan)

Thomas M. Schroeder, 42 (1971)
Blackhawk and Rock River (Beloit)

GENERAL OFFICE DEPARTMENT HEADS

Daniel L. Bartel, 43 (1967)
Director of Electrical Operations

James W. Bindl, 43 (1976)
Director of Human Resource Planning
and Development

Norman E. Boys, 43 (1973)
Director of Power Production

James E. Emerick, 42 (1978)
Director of Budgets and
Financial Planning

John G. Fabie, 49 (1966)
Director of Electrical Engineering

Daniel A. Gomez-Ibanez, 44 (1977)
Director of Strategic Business Planning

Richard M. Gregory, 61 (1951)
Director of Fuel Services

William J. Holewinski, 41 (1973)
Director of Generating Station Engineering

Glen R. Kielley, 44 (1983)
Director of Personnel and Safety

LuAnn G. Killeen, 49 (1965)
Director of Gas Marketing and
Customer Service

Paul F. Koeppe, 38 (1974)
Director of Electric Marketing and
Customer Service

John W. Laub, 48 (1967)
Director of Information and
Administrative Services

Robert G. Lindenau, 60 (1951)
Director of Buildings and Real Estate

Thaddeus A. Miller, 45 (1974)
Director of Materials Management

Dale G. Moody, 43 (1966)
Director of Gas Operations

Donald R. Piepenhurg, 54 (1970)
Director of Corporate Communications

Barhara J. Swan, 36 (1987)
Associate General Counsel

Susan M. Tikalsky, 33 (1983)
Director of Environmental Affairs

George E. Wenneriyn, 44 (1968)
Director of Gas Supply and Engineering

Charlotte O. Woods, 45 (1980)
Director of Internal Audits

NON-UTILITY SUBSIDIARIES

RMT, INC.
1406 E. Washington Ave.
Suite 124
Madison, WI 53703
608-255-2134

E. Brooks Becker
President

John J. Reinhardt
Executive Vice President,
Treasurer and Assistant Secretary

Thomas P. Kunes
Executive Vice President

WP&L COMMUNICATIONS, INC.
P.O. Box 192
222 W. Washington Ave.
Madison, WI 53701
608-252-3259

James R. Underkofler
President

Erroll B. Davis, Jr.
Vice President

Daniel A. Gomez-Ibanez
Treasurer

Thomas A. Landgraf
Secretary

ENSERV, INC.
P.O. Box 192
222 W. Washington Ave.
Madison, WI 53701
608-252-3257

James R. Underkofler
President

Erroll B. Davis, Jr.
Vice President

Daniel A. Gomez-Ibanez
Treasurer

Thomas A. Landgraf
Secretary

Highlights 1987

Economic development — The U.S. Small Business Administration named WP&L the Wisconsin Small Business Development Advocate for 1987. The Company was cited for its efforts to help businesses in its service area learn to bid for and acquire government contracts. Working together with state development groups and local community leaders, the Company continued its service-area business-development efforts in 1987. Seventeen new industries located in WP&L's service territory and 64 expanded their operations here, resulting in more than 3,000 new jobs for Wisconsin.

Labor contract — WP&L and Local 965 of the International Brotherhood of Electrical Workers reached agreement in July on a new three-year collective bargaining agreement. The package includes lump-sum payments of 2.0 percent, 3.5 percent and 4.0 percent during the three-year agreement and eliminates employees' contributions to the pension plan. The new contract covers 70 percent of WP&L's employees.

Record peak — WP&L set a new system peak demand on July 20, 1987, of 1,634 megawatts — 118 megawatts more than the former record set the previous month. Just how much has the Company's system demand grown? Twenty years ago, the system peak was a mere 620 megawatts. In the era before widespread energy conservation, the peak jumped to 1,189 megawatts by 1977.

Fiber optics — NorLight completed the construction of its 670-mile fiber-optics network in February and began providing telecommunications services to customers in Wisconsin, Illinois and Minnesota. Because of delays in securing the necessary regulatory approvals to enter the market and aggressive competition, NorLight's results to date have been disappointing. Since October, a new management team has made marketing its top priority, and NorLight had signed agreements with more than 30 customers by year-end 1987. Reliability of the $45-million fiber-optics system has been outstanding, surpassing NorLight's goal. WP&L, three other Wisconsin utilities and a Minnesota utility own an interest in NorLight through their subsidiaries.

Subsidiary growth — RMT, Inc., a WP&L subsidiary acquired in 1983, celebrated its 10th anniversary in November. From a small group of employees who founded the company in Madison, Wis., RMT has grown to employ more than 260 at five locations across the country. Revenues set a new record in 1987, surpassing last year's revenues by more than 50 percent. RMT offers its clients full-service environmental and facility-design engineering consulting services. At left is a new underground petroleum storage system designed by RMT.

The rare peregrine — Nine WP&L employees donated their time in May to construct a 44-foot-high platform that was used as a temporary home for peregrine falcon chicks while they adjusted to their new Wisconsin River Valley habitat near Muscoda, Wis. In August, the young birds were transferred to Milwaukee before they migrated south in October. The Wisconsin Department of Natural Resources plans to introduce more chicks to the WP&L site in the spring of 1988. The peregrine falcon has not successfully nested in Wisconsin since 1964 after its population slowly diminished due to pesticide contamination.

Expanding customer base — WP&L added 350 retail customers in April when the village of Footville sold its municipal electric utility to the Company. WP&L added 260 natural gas customers later in the year, when the Public Service Commission of Wisconsin granted the Company permission to extend natural gas service into the villages of Plain and Merrimac.

SHAREOWNER INFORMATION

On December 31, 1987, there were 45,816 shareowners of Wisconsin Power and Light Company. Whether you are a new shareowner of the Company or a shareowner of long standing, we recognize that occasionally you will have questions about your investment. Shareowner account records are maintained in the corporate general offices. Inquiries may be directed to:

Wisconsin Power and Light Company
Attn: Shareowner Services
P.O. Box 192
Madison, WI 53701

Toll-free shareowner information numbers are:

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

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

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

Registered Ownership

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

Beneficial Ownership

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

Based on a 1986 Company survey of its registered and beneficial shareowners, a frequent reason why stock was held beneficially was that shareowners did not want to worry about the safekeeping of their stock certificates.

For those shareowners who presently have their WP&L common stock held beneficially for safekeeping reasons but would like to enjoy more timely receipt of their annual and quarterly reports and proxy materials, the Company's Dividend Reinvestment and Stock Purchase Plan may be the answer. Shareowners could have their WP&L common stock certificates transferred into the Company's 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 under the Plan. Shareowners can withdraw all or a portion of their shares from the Plan pursuant to the provisions outlined in the Plan Description. Participants in the Plan will receive proxy material and annual and quarterly reports and any other important shareowner material directly from the Company. Complete information about the Plan is presented in the Plan Description, which is available from the Company.

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

MARKET INFORMATION

Stock Exchange Listings		Trading Symbols
Common	New York Stock Exchange	WiscPL
4.50% Preferred	American Stock Exchange	WisP

All other preferred series are traded on the over-the-counter market.

Quarterly Common Stock Information

	1987			1986		
Quarter	High	Low	Dividend	High	Low	Dividend
First	$54¾	$48¾	$ .76	$46⅞	$39	$ .71
Second	50	42½	.76	49⅞	44¾	.71
Third	48¾	45⅝	.78	60¼	48½	.74
Fourth	48	42½	.78	55	50	.74
Year	$54¾	$42½	$3.08	$60¼	$39	$2.90

Preferred stock dividends paid per share for each quarter during 1987 were as follows:

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		

RECORD AND DIVIDEND PAYMENT DATES

As authorized by the Board of Directors, dividends normally are payable as follows:

Common Dividend Payment Dates:
15th of February, May, August and November

Common Dividend Record Dates:
Last business day of January, April, July and October

Preferred Dividend Payment Dates:
15th of March, June, September and December

Preferred Dividend Record Dates:
Last business day of February, May, August and November

DIVIDEND REINVESTMENT PLAN

WP&L offers its shareowners and employees the opportunity to purchase shares of its common stock through the investment of common and preferred dividends and optional cash payments. Investment dates normally occur on the 15th of each month. Optional cash payments of up to $3,000 per month may be made to purchase common stock under the Plan. The price per share of shares purchased under the Plan is the weighted average price (including brokerage commissions) at which the shares are acquired for participants.

Plan Descriptions are available upon request from Shareowner Services.

STOCK TRANSFER AGENTS AND REGISTRARS

Transfer Agents

For Common and Preferred Stock:
Illinois Stock Transfer Company
223 W. Jackson Blvd.
Chicago, IL 60606

For Common Stock Only:
Morgan Shareholder Services Trust Company
30 W. Broadway
New York, NY 10015

Registrars

Continental Illinois National Bank
& Trust Company of Chicago
231 S. LaSalle St.
Chicago, IL 60693

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

INVESTOR RELATIONS INFORMATION

Inquiries from the financial community may be directed to:
Thomas L. Hanson
Wisconsin Power and Light Company
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FORM 10-K INFORMATION

A copy of Form 10-K as filed with the Securities and Exchange Commission will be provided without charge upon request. Requests may be directed to Shareowner Services.

ANNUAL MEETING

The date of the 1988 corporate Annual Meeting of shareowners will be announced in the proxy statement. The date of the meeting will be determined by the date the Company receives all necessary regulatory approvals (including the approval of the Securities and Exchange Commission) to form a holding company.

Depending upon when the restructuring is completed, the 1988 Annual Meeting may be the first public Annual Meeting of WPL Holdings, Inc. In that case, this Annual Report will be deemed to be the Annual Report of WPL Holdings, Inc.

Editor: Mary Lynn Jartz, Wisconsin Power and Light Company
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QUESTIONS YOU MAY HAVE ABOUT YOUR STOCK UNDER THE PROPOSED HOLDING COMPANY

Q. Will shareowners he required to turn in their Wisconsin Power and Light Company stock certificates for new WPL Holdings, Inc. stock certificates?

A. No. It will not be necessary for holders of common and/or preferred stock to be issued new certificates. Shares of Wisconsin Power and Light Company common stock will automatically convert to WPL Holdings, Inc. common stock. All common stock that may be acquired in the future will be issued on WPL Holdings, Inc. certificates. Preferred stock will not be affected by the restructuring and will remain as preferred stock of Wisconsin Power and Light Company.

Q. How will dividends be affected?

A. It is expected that dividends on WPL Holdings, Inc. common stock will be paid on the same quarterly cycle at a rate per share at least equal to the rate per share most recently paid on Wisconsin Power and Light Company common stock. The amount of the dividends on WPL Holdings, Inc. common stock will be based on the holding company's earnings, financial condition and other factors, as has been the basis for determining the rate of common dividends paid on Wisconsin Power and Light Company common stock. Because the business primarily will be utility in nature, management expects dividends to be typical for a utility of Wisconsin Power and Light Company's size and financial condition.

Dividends will continue to be paid on Wisconsin Power and Light Company preferred stock at the indicated dividend rates when declared by its Board of Directors.

Q. Will there continue to be a Dividend Reinvestment and Stock Purchase Plan?

A. Yes. The Company expects the Plan to continue under WPL Holdings, Inc. in substantially the same form as Wisconsin Power and Light Company's Plan with the following changes:

- The Plan will invest in the common stock of WPL Holdings, Inc., whereas the Plan of Wisconsin Power and Light Company now invests in the common stock of Wisconsin Power and Light Company.
- Shares purchased under the Plan may come from authorized, but unissued, shares of common stock of WPL Holdings, Inc. or through the purchase, by the Plan, of outstanding shares of WPL Holdings, Inc. common stock on the open market.

Current participants in the Plan of Wisconsin Power and Light Company who wish to continue participation in the Plan under WPL Holdings, Inc. need not take any action. Participants in the Wisconsin Power and Light Company Plan automatically will become participants in the new Plan. On the effective date of the corporate reorganization, all shares credited to participants' accounts will convert automatically to shares of WPL Holdings, Inc. common stock.

All participants in the current Plan will receive a prospectus describing the new Plan of WPL Holdings, Inc..

Q. Will the Dividend Reinvestment and Stock Purchase Plan have a custodial feature for stock certificates?

A. Yes. Plan participants who hold common stock certificates will be able to transfer them to the Plan for safekeeping. There will be no fee for this transaction. All dividends on shares held in the Plan will automatically be reinvested pursuant to the provisions of the Plan. A complete description of the Plan will be provided in a prospectus, which will be available from the Company upon request.

Wisconsin Power & Light Company
Wisconsin's heartland . . . on the grow.

1987 WISCONSIN POWER & LIGHT COMPANY
ANNUAL REPORT

P.O. BOX 192
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