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SUBJECT: Advises NRC of proposed business transaction contemplated by Agreement & Plan of Merger 951110 between WPL Holdings Inc, Interstate Power Corp & IES Industries Inc.

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Alvin H. Gutterman  
202-467-7468

October 1, 1996

Document Control Desk  
U.S. Nuclear Regulatory Commission  
Washington, D.C. 20555

Re: Wisconsin Power & Light Company (Kewaunee  
Nuclear Power Plant), NRC License No. DPR-43

This letter is to formally advise the Nuclear Regulatory Commission ("NRC" or "the Commission") of the proposed business transaction contemplated by the Agreement and Plan of Merger ("Merger Agreement") dated November 10, 1995, as amended, between WPL Holdings, Inc. ("Holdings"), Interstate Power Corporation ("IPC") and IES Industries Inc. ("Industries"). To the extent required by Section 184 of the Atomic Energy Act of 1954, as amended ("the Act," 42 U.S.C. § 2011, et seq.), Wisconsin Power & Light Company ("WPL") requests the Commission's consent to any transfer of indirect control of the possession only license held by WPL for Kewaunee Nuclear Power Plant ("Kewaunee"), NRC License No. DPR-43. The effectuation and timing of the merger transactions will depend upon the receipt of various federal and state regulatory approvals. Assuming all regulatory and shareholder approvals, the merger transactions will be effective on that date or as soon thereafter as all the required regulatory approvals are obtained. The parties anticipate completion of the merger transactions in the first half of 1997.

Holdings, a Wisconsin corporation with its headquarters in Madison, Wisconsin, is an intrastate holding company owning electric and gas utilities, and other non-regulated entities engaged in power marketing and business development in the areas of affordable housing, environmental engineering and energy services. Holdings' principal subsidiary, WPL, also a Wisconsin corporation, provides electric, gas and water service in south-central Wisconsin. WPL serves approximately 370,000 electric retail and 140,000 natural gas customers in more than 600 communities over 16,000

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square miles of territory in south central Wisconsin. WPL's rates are subject to regulation by the Wisconsin Public Service Commission. WPL is also a minority owner and co-licensee of Kewaunee, NRC License No. DPR-43, issued pursuant to Section 104(b) (42 U.S.C. § 2134(b)) of the Act. WPL owns a 41.0% interest in Kewaunee. Kewaunee is operated by its principal owner, Wisconsin Public Service Corporation. WPL plays no direct role in the operation or management of Kewaunee.

Industries, an Iowa corporation with its headquarters in Cedar Rapids, Iowa, is an intrastate holding company owning electric and gas utilities and other non-regulated entities engaged in various businesses, including oil and natural gas production and marketing, independent power production, railroad and other transportation services in the Midwest, and local real estate development. Industries' principal subsidiary, IES Utilities Inc. ("IES"), provides electric and gas service to approximately 500,000 customers in Iowa. IES is also the principal owner and the operator of the Duane Arnold Energy Center ("DAEC") for which it holds License No. DPR-49 as a co-licensee with co-owners Central Iowa Power Cooperative and Corn Belt Power Cooperative.<sup>1/</sup>

IPC, a Delaware corporation with its headquarters in Dubuque, Iowa, is an operating public utility providing electric and gas service to approximately 210,000 customers in portions of northwestern Illinois, northeastern Iowa, and southern Minnesota. IPC's only subsidiary, Interstate Development Company, Inc. is engaged principally in real estate acquisitions and sales.

Pursuant to the Merger Agreement, (i) Industries will be merged with and into Holdings, with Holdings as the surviving corporation ("the Industries merger"); (ii) WPLH Acquisition Co., Inc., a wholly-owned subsidiary of Holdings incorporated in Wisconsin ("Acquisition"), will be merged with and into IPC, which merger ("the IPC merger") will result in IPC becoming a wholly-owned subsidiary of Holdings; and (iii) Holdings will then change its name to Interstate Energy Corporation ("Interstate").

According to the terms of the Merger Agreement, Interstate's three utility subsidiaries, WPL, IPC, and IES, will remain separate utility companies for a minimum of three years after the combination takes place. The headquarters

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<sup>1/</sup> IES Utilities is submitting under separate cover its request for NRC consent, to the extent required under Section 184 of the Act, to any transfer of indirect control of its license for DAEC which may result from the proposed merger transactions.

locations of Interstate's three utility subsidiaries will not be affected as a result of these transactions.

A number of changes will be made in the Articles Of Incorporation and/or Bylaws of Holdings<sup>2/</sup> in connection with the merger, including: (1) a change in the name of Holdings to Interstate; (2) an increase in the authorized capital stock of Holdings to allow for the conversion of Industries and IPC common stock into Holdings common stock and to enable Interstate to issue additional shares in the future; and (3) a change in the authorized number of members of the Board of Directors to fifteen, initially comprised of six members each from Holdings and Industries, and three members from IPC.

After the merger transactions, Mr. Lee Liu, Chairman and CEO of Industries, will become Chairman of Interstate; Mr. Wayne Stoppelmoor, Chairman and CEO of IPC, will serve as Vice Chairman of Interstate; and Mr. Erroll Davis, Jr., President and CEO of Holdings, will serve as Director, President and CEO of Interstate. Two years after the combination, Messrs. Liu and Stoppelmoor will step down and Mr. Davis will succeed Mr. Liu as Chairman. All of Interstate's fifteen directors will be U.S. citizens and will be identified prior to the consummation of the merger.

It should be noted that (1) after consummation of the merger transactions, Holdings, renamed Interstate, will remain the corporate parent of WPL and the current shareholders of Holdings will become shareholders of Interstate; Interstate will continue to exercise direct control over WPL and indirect control over WPL's NRC license to own a portion of Kewaunee; Interstate will not be owned, controlled, or dominated by any alien, foreign corporation or foreign government; (2) WPL will continue to hold License No. DPR-43 and own its interest in Kewaunee; (3) no change in the management or operation of Kewaunee will result from the merger; (4) WPL will continue to be an "electric utility" within the meaning of 10 CFR § 50.2 subject to regulation by the Public Service Commission of Wisconsin and the Federal Energy Regulatory Commission ("FERC") after the merger; (5) all of the individuals to be elected to the Board of Directors of Interstate will be U.S. Citizens; (6) the common stocks of Holdings, Industries and IPC are all widely held and no single person or entity currently owns 5% or more of the outstanding shares of any of these companies, so that upon consummation of the merger no former shareholder of any of the companies is expected to acquire more than 5% of the outstanding shares of common stock of Interstate; and (7) the merger has been reviewed by the Department of Justice pursuant

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<sup>2/</sup> There will be no change in the Articles of Incorporation or Bylaws of WPL as a result of the merger transactions.

to the Hart-Scott-Rodino Act, and is subject to the approval of the Public Service Commission of Wisconsin, the Iowa Utilities Board, the Minnesota Public Utilities Commission, the Illinois Commerce Commission, the FERC, the NRC,<sup>3/</sup> and the Securities and Exchange Commission.

In our view, the transaction does not require any action on the part of the NRC with respect to License No. DPR-43. No direct or indirect transfer of control of License No. DPR-43, as contemplated by Section 184 of the Act and 10 CFR § 50.80, will occur as a result of the proposed merger. There will obviously be no "direct" transfer of control of an NRC license from one legal entity to another since WPL will continue to hold License No. DPR-43 and continue to own its interest in Kewaunee after the merger. There will also be no "indirect" transfer of control of the license since WPL will remain a wholly-owned subsidiary of Holdings (renamed Interstate) which will continue to be the "indirect" owner of the license by virtue of its ownership and control of WPL.<sup>4/</sup>

This result is consistent with (a) the position apparently taken by the NRC in the past with respect to a licensee whose holding company parent acquired an additional utility subsidiary,<sup>5/</sup> and (b) the position taken by the NRC in

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<sup>3/</sup> IES is separately requesting NRC consent to any indirect transfer of control resulting from the Industries merger.

<sup>4/</sup> In the past, the NRC has apparently taken the position that a corporate restructuring involving the establishment of a new holding company parent of a utility possessing an NRC license constitutes an indirect transfer of control of a license under Section 184, since the new parent company becomes an indirect owner of the license. See Wisconsin Public Service Corp., 53 Fed. Reg. 1692 (Jan. 21, 1988); Consumers Power Co., 52 Fed. Reg. 18,300 (May 14, 1987); Southern California Edison Co., 52 Fed. Reg. 46,694 (Dec. 9, 1987); Iowa Electric Light & Power Co., 51 Fed. Reg. 23,010 (June 24, 1986); Wisconsin Electric Power Co., 51 Fed. Reg. 35,312 (Oct. 2, 1986). In all of those cases, the consent of the Commission was granted. See, e.g., letter of June 30, 1986, in NRC Docket No. 50-331 from Robert M. Bernero, Director, Division of BWR Licensing, Office of Nuclear Reactor Regulation, to Mr. Lee Liu, Chairman of the Board and Chief Executive Officer, IE. In contrast, in this case, no new corporate entity is being established. Holdings is, and will remain, the parent of WPL and indirect owner of License No. DPR-43 under its new name, Interstate.

<sup>5/</sup> For example, in 1988, the Southern Company, a public utility  
(continued...)

the past with respect to another licensee whose holding company parent merged with another holding company.<sup>6/</sup>

Finally, since the Kewaunee license was issued under Section 104(b) of the Act, antitrust review of the transaction pursuant to Section 105(c)(1) and (5) of the Act (42 U.S.C. § 2135(c)(1) and (5)) is not required. As specified in Section 105(c)(2) of the Act (42 U.S.C. § 2135(c)(2)), those provisions apply only to licenses issued under Section 103 (42 U.S.C. § 2133). See, Ft. Pierce Utils. Auth. v. United States, 606 F.2d 986, 1000 (D.C. Cir.), cert. denied, 444 U.S. 842 (1979).<sup>7/</sup>

However, should the NRC believe that the proposed transactions entail an indirect transfer of control of WPL's license to own a portion of Kewaunee, WPL requests the Commission's consent to any such transfer and provides in Exhibit B the additional information specified in 10 CFR §§ 50.80 and 30.34(b). Exhibit C contains a list of the current NRC licenses held by WPL.

A copy of the Merger Agreement and the two amendments to it, along with the Proxy Statement and its supplement, are enclosed as Exhibit A. As noted, the parties contemplate that the merger will be effected, subject to regulatory and shareholder approval, by the first half of 1997. In the event the NRC has any questions or requires additional information, please contact the undersigned at your earliest convenience.

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(...continued)

holding company with several utility subsidiaries holding NRC licenses (i.e. Alabama Power Company, Georgia Power Company), issued additional shares of common stock and acquired Savannah Electric & Power Company as part of a merger transaction. See Southern Company, Holding Company Act Release No. 24579, 40 SEC Docket No. 6 (CCH) 350 (Feb. 12, 1988). No NRC consent was apparently obtained or required in connection with this transaction.

<sup>6/</sup> In May 1991, NRC determined that no NRC action was required in connection with the merger of IE Industries, the holding company and parent of Iowa Electric Light and Power Company (owner and operator of DAEC) with Iowa Southern, Inc. See letter from T. Murley to L. Liu dated May 6, 1991, Dkt. No. 50-331.

<sup>7/</sup> The NRC has recently confirmed that plants licensed under Section 104(b) are not subject to this antitrust review requirement. See Safety Evaluation for Proposed Organization and Financial Restructuring of SDG&E, San Onofre Nuclear Generating Station, note 1, April 20, 1990.

We will be pleased to cooperate fully in providing any additional information that the NRC may require.

Sincerely,



Alvin H. Gutterman  
Morgan, Lewis & Bockius LLP  
Attorneys for Wisconsin Power & Light Company

cc: Regional Administrator - NRC Region III  
NRR Project Manager - Kewaunee  
NRC Senior Resident Inspector, Kewaunee

Attachments:

Affidavit to U.S. Nuclear Regulatory Commission  
Exhibit A - Proxy Statement and Merger Agreement Executed  
Between WPL Holding, Inc., Interstate Power  
Corp. and IES Industries Inc., and Supplement  
to the Proxy Statement with Amendment No. 2 to  
the Merger Agreement.

Exhibit B - Request for NRC Consent to Indirect Transfer  
of Control of License No. DPR-43

Exhibit C - Current NRC Licenses Held by WPL

UNITED STATES NUCLEAR REGULATORY COMMISSION

Wisconsin Power & Light Company

Docket Nos. 50-305, 3009260  
3014155 and 3032136

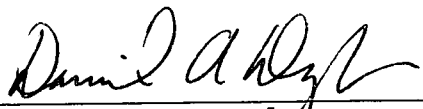
INDIRECT TRANSFER OF CONTROL OF NRC LICENSES

Wisconsin Power & Light Company ("WPL"), a Wisconsin corporation, is seeking the Commission's consent, to the extent required by Section 184 of the Atomic Energy Act of 1954, and pursuant to 10 CFR § 50.80 and 30.34(b), for transfer from WPL Holdings of indirect control over the NRC license currently held by WPL to Interstate Energy Corporation ("Interstate"). Exhibit A contains a copy of the merger agreement executed among WPL Holdings, Inc. ("Holdings"), Interstate Power Corporation ("IPC"), and IES Industries Inc. ("Industries"). Exhibit B provides the necessary information to support the request for the Commission's consent to the transfer of indirect control. Exhibit C contains a list of WPL's NRC licenses.



This letter contains no Restricted Data or other Defense Information.

Wisconsin Power & Light Company

By:   
Daniel A. Doyle  
Vice President - Power Production

On this 26th day of September, 1996 before me a notary public in and for said County, personally appeared Daniel A. Doyle, and being duly sworn acknowledged that he is authorized to execute this document on behalf of Wisconsin Power & Light Company, that he knows the contents thereof, and that to the best of his knowledge, information and belief the statements made in it are true and that it is not interposed for delay.


  
Sandra L. Turk  
Notary Public, Dane County, WI  
My Commission expires 6/21/98

EXHIBIT B

Indirect Transfer of Control of NRC Licenses

Information Requested by  
10 CFR Part 50, Section 50.80; and  
10 CFR Part 30, Section 30.34(b)  
for Transfer of License

This submittal requests, to the extent required by Section 184 of the Atomic Energy Act of 1954, as amended ("the Act", 42 U.S.C. 2011 et seq.), the consent of the Nuclear Regulatory Commission ("NRC" or "the Commission"), pursuant to 10 CFR §§ 50.80, 30.34(b) for transfer of indirect control over the NRC licenses currently held by Wisconsin Power & Light Company ("WPL") as listed in Exhibit C.

I. DESCRIPTION OF THE PROPOSED MERGER TRANSACTIONS

On November 10, 1995, WPL Holdings, Inc. ("Holdings"), IES Industries Inc. ("Industries"), and Interstate Power Company ("IPC"), executed an Agreement and Plan of Merger ("Merger Agreement"). WPL is a wholly-owned subsidiary of Holdings. IES Utilities ("IES") is a wholly-owned subsidiary of Industries. This merger will enable IES, WPL and IPC to provide more efficient and economic utility services,

thereby benefitting the customers and shareholders, and the communities in which IES, WPL and IPC provide utility services.

Holdings, a Wisconsin corporation with its headquarters in Madison, Wisconsin, is an intrastate holding company owning electric and gas utilities, and other non-regulated entities engaged in power marketing and business development in the areas of affordable housing, environmental engineering and energy services. Holdings' principal subsidiary, WPL, provides electric, gas and water service in south-central Wisconsin. WPL serves approximately 370,000 electric retail and 140,000 natural gas customers in more than 600 communities over 16,000 square miles of territory in south-central Wisconsin. WPL's rates are subject to the Wisconsin Public Service Commission. WPL is a minority owner and co-licensee of the Kewaunee Nuclear Power Plant ("Kewaunee"), NRC License No. DPR-43, and holds materials license, as identified in Appendix C.

Industries, an Iowa corporation with its headquarters in Cedar Rapids, Iowa, is an intrastate holding company owning electric and gas utilities and other non-regulated entities engaged in various businesses, including oil and natural gas production and marketing, independent power production, railroad and other transportation services in the Midwest,

and local real estate development. Industries' principal subsidiary, IES, provides electric and gas service to approximately 500,000 customers in Iowa. IES is also the principal owner and the operator of the Duane Arnold Energy Center (DAEC) for which it holds License No. DPR-49 as a co-licensee with co-owners Central Iowa Power Cooperative and Corn Belt Power Corporation.

IPC, a Delaware corporation with its headquarters in Dubuque, Iowa, is an operating public utility providing electric and gas service to approximately 210,000 customers in portions of northwestern Illinois, northeastern Iowa, and southern Minnesota. IPC has one subsidiary, IPC Development Company, Inc. engaged in real estate acquisitions and sales. Neither IPC nor Interstate Development possesses any NRC materials licenses.

Under the Merger Agreement, Industries will merge into Holdings. Also, in connection with this merger, IPC will merge with a newly created subsidiary of Holdings. IPC will survive as a subsidiary of Holdings. Holdings will then change its name to Interstate Energy Corporation ("Interstate"), which will become a registered holding company under the Public Utility Holding Company Act. Upon completion of the merger transactions, WPL, IES and IPC will become separate, wholly-owned subsidiaries of Interstate.

Also as a result of the merger, the non-regulated subsidiaries of Holdings and Industries will become organized under a separate, wholly-owned, non-regulated subsidiary of Interstate. Figures A-1 and A-2 show the organizational structure before and after the merger agreement.

The merger transactions will be a merger of equals.<sup>1/</sup> Thus, upon completion of the transactions, the former stockholders of Industries and IPC will become stockholders of Holdings. All Holdings stockholders will then exchange their shares for shares of Interstate. WPL, IES and IPC will be wholly-owned subsidiaries of Interstate.

In addition to the approvals required from the NRC, the proposed merger will require the following major regulatory approvals:

#### Federal Approvals

1. Federal Energy Regulatory Commission (FERC). The parties are required to obtain authorization and

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<sup>1/</sup> Holders of common stock of Industries will exchange their shares for 1.14 shares of Holdings. IPC shareholders will exchange their shares for 1.11 shares of Holdings. Each share of Holdings common stock will be transferred into exactly one share of Interstate stock when Holdings changes its name to Interstate.

approval of the merger from FERC. Application for this approval was submitted on March 1, 1996. On June 4, 1996, the parties filed a supplement to the original application. On July 29, 1996, the parties filed a Second Supplemental Application. On September 12, 1996, the parties filed a Third Supplemental Application.

2. Securities and Exchange Commission (SEC). On July 11, 1996, the parties filed an immediately-effective S-4 registration under the Securities Act. After the execution of Amendment No. 2 to the Merger Agreement, the parties again filed an S-4 registration on August 19, 1996. On August 22, 1996, following the filing of an amendment, the S-4 was declared effective by the SEC. On July 26, 1996, the parties filed form U-1, requesting approval of acquisition of securities and utility assets under Sections 9 and 10 of PUHCA. Immediately prior to consummation of the merger, the parties will file for U-5A notification of registration as a holding company. Within 90 days of that notification, the parties will file the required registration statement, form U-5B.
  
3. Department of Justice/Federal Trade Commission. The parties to the transactions filed Premerger

Notification and Report Forms with the Federal Trade Commission and the Antitrust Division of the Department of Justice, as required by the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (HSR Act), on June 7, 1996. The statutorily mandated 30-day waiting period expired without the issuance of a Request for Additional Information at 11:59 p.m. on July 7, 1996. The requirements of the HSR Act thus no longer are an impediment to consummation of the proposed transaction and there are no remaining obligations under the antitrust laws that must be satisfied in order to consummate the transaction.

#### State Approvals

1. Public Service Commission of Wisconsin. The parties filed for approval of the holding company structure and for approval of the merger on March 1, 1996.
2. Minnesota Public Utilities Commission. The parties filed for approval of the merger on March 1, 1996.
3. Iowa Utilities Board. The parties submitted an application for approval of the merger on March 6, 1996. That application was subsequently withdrawn on

May 1, 1996, pending re-filing after completion of the proposed operating and service agreements.

4. Illinois Commerce Commission. The parties filed for approval of the merger on March 7, 1996.

## II. REQUESTED CONSENT

The merger described in this request does not require any change in the design, operation, technical specifications, or conditions of the licenses of Kewaunee. However, it does expand the ownership of WPL from Holdings' current shareholders to include the combined former shareholders of Holdings, Industries, and IPC. Additionally, Holdings will change its name to Interstate. Accordingly, to the extent required by Section 184 of the Act, WPL requests the timely consent of the NRC, pursuant to 10 CFR §§ 50.80 and 30.34(b) for transfer of indirect control over the NRC licenses currently held by WPL.

10 CFR § 50.80 requires an application for transfer of a license to include as much of the information with respect to the identity and technical and financial qualifications of the proposed transferee as would be required if the application were for an initial license under that Part.



While 10 CFR § 30.34(b) does not specify the particular information required for a license transfer, the information requested in Information Notice 89-25 Rev. 1 is provided within this request for consent. The information required by these provisions is set forth below. This information demonstrates that WPL remains qualified to be the holder of its license for Kewaunee and that any transfer of indirect control to Interstate is consistent with all applicable provisions of law, NRC regulations, and orders issued by the Commission.

III. INFORMATION PER 10 CFR SECTIONS 50.33 AND 30.34(B)

A. Name of Licensee:

Wisconsin Power and Light Company

B. Address of Applicant:

Wisconsin Power and Light Company

222 West Washington Avenue

Madison, WI 53703

C. Description of Business or Occupation of Licensee:

WPL, a Wisconsin corporation, is a wholly-owned subsidiary of Holdings. While also a holding company, WPL is predominately a utility company exempt from registration under PUHCA. WPL provides electric energy and gas in Southern and Central Wisconsin. WPL is engaged principally in generating, purchasing, distributing and selling electric energy at retail and at wholesale.

D. Organization and Management of Licensee

WPL is a wholly-owned subsidiary of Holdings. Upon consummation of the merger transactions, WPL will remain a wholly-owned subsidiary of Holdings (renamed Interstate). WPL plays no direct role in the operations or management of Kewaunee. WPL's principal offices will remain in Madison, WI.

The current principal officers of WPL, who are all citizens of the United States, and can be reached at 222 West Washington Avenue, Madison, WI, 53703, are as set forth below:

Mr. Erroll B. Davis, Jr.  
President & Chief Executive Officer

A.J. (Nino) Amato  
Senior Vice President

William D. Harvey  
Senior Vice President

Elliot G. Protsch  
Senior Vice President

Edward M. Gleason  
Corporate Secretary, Controller and Treasurer

Daniel A. Doyle  
Vice President - Power Production and Wholesale Services

Barbara J. Swan  
Vice President and General Counsel

Pamela J. Wegner  
Vice President - Information Technology  
and Administration

Kim K. Zuhlke  
Vice President - Customer Sales & Service

The current directors of WPL, who are also citizens of the United States, and can be reached at 222 West Washington Avenue, Madison, WI, 53703, are as set forth below:

Erroll B. Davis, Jr.

Katharine C. Lyall

Henry F. Scheig

Milton E. Neshek

Henry C. Prange

Carol T. Toussaint

Rockne G. Flowers

L. David Carley

Judith D. Pyle

Donald R. Haldeman

The Merger Agreement provides that, at the time Holdings becomes Interstate, the Board of Directors of

Interstate will be comprised of 15 members, divided into three classes of 5 members each. Of the 15 members, 6 will be designated by Holdings, 6 will be designated by Industries, and 3 will be designated by IPC. The first class of directors will serve for a 1-year term. The second class will serve for a 2-year term. The third class will serve for a 3-year term. After the merger transactions, Mr. Lee Liu, Chairman and CEO of Industries, will become Chairman of Interstate; Mr. Wayne Stoppelmoor, Chairman and CEO of IPC, will serve as Vice Chairman of Interstate, and Mr. Davis, President and CEO of Holdings, will serve as Director, President and CEO of Interstate. The remainder of the Interstate Board of Directors, upon consummation of the merger, will be identified prior to the consummation of the merger. All of the Directors will be U.S. citizens.

Following the proposed business combination and transfer, Interstate will not be owned, controlled, or dominated by any alien, foreign corporation or foreign government. WPL is not acting as agent or representative of any other person in this request for a license transfer.

IV. INFORMATION PER 10 CFR SECTIONS 50.33(f) AND 30.34(b) -  
FINANCIAL QUALIFICATIONS

As specified in Facility Operating License DPR-43, WPL is licensed, pursuant to Section 104(b) of the Act and 10 CFR Part 50, to own a portion of Kewaunee. 10 CFR § 50.33(f) exempts "electric utilities" licensed pursuant to Section 103 or Subsection 104(b) of the Act from the requirement to demonstrate financial qualifications. Moreover, WPL is and will remain an "electric utility" within the meaning of 10 CFR § 50.2 following consummation of the merger, in that it will remain an "entity that generates or distributes electricity and which recovers the cost of this electricity, either directly or indirectly, through rates established by the entity itself or by a separate regulatory authority". The business of WPL will remain essentially unchanged upon consummation of the merger and it will continue to be regulated by the Public Service Commission of Wisconsin and the FERC.

The merger, therefore, will not adversely affect WPL's ability to obtain the funds necessary to cover its share of costs for the safe operation, maintenance, repair, decontamination and decommissioning of Kewaunee. WPL's liability for such costs and for its obligations under 10 CFR Part 140 and 10 CFR § 50.54(w) will not be affected by the merger.

Although WPL is exempt from the requirement to submit financial qualification information in accordance with 10 CFR § 50.33(f), additional information pertaining to decommissioning funding is provided in Section VI below.

V. INFORMATION PER 10 CFR PART 50, SECTIONS 50.33(i) AND 50.37  
- AGREEMENT LIMITING ACCESS TO RESTRICTED DATA

This request does not contain any Restricted Data or other classified Defense Information and it is not expected that any such information will become involved.

VI. INFORMATION PER 10 CFR PART 50, SECTION 50.33(k) AND 10 CFR  
PART 30, SECTION 30.34(b) - DECOMMISSIONING

As explained above, the financial qualifications of WPL will not be adversely affected by the proposed merger. Similarly, the merger will not affect the ability of WPL to ensure funds necessary to cover its share of the costs for decontamination and decommissioning of Kewaunee. No changes in the decommissioning funding plan are anticipated due to this proposed action. However, to provide additional assurance of the availability of funds for decommissioning, WPL agrees to provide the Director of Nuclear Reactor Regulation a copy of its application to any other regulatory authority, at the time it is filed, to transfer (excluding

grants of a security interest or liens) from WPL to Interstate or any other corporate affiliate, facilities for the production, transmission or distribution of electric energy having a depreciated book value exceeding one percent (1%) of WPL's consolidated net utility plant as recorded on its books of accounts.

VII. INFORMATION PER 10 CFR PART 50, SECTION 50.34 AND 10 CFR PART 30, SECTION 30.34(b) - TECHNICAL QUALIFICATIONS

This submittal does not involve a request for any change in the design or operation of Kewaunee, nor any change in the terms and conditions of the existing license or technical specifications. WPL does not have a direct role in the operation or management of the facility. Wisconsin Public Service Corporation, the owner and licensed operator of Kewaunee, will not be affected by this merger. There will be no changes in the management or operations of Kewaunee as a result of this merger.

VIII. INFORMATION FOR ANTITRUST REVIEW PER 10 CFR PART 50, SECTION 50.80(b)

As noted above, WPL is licensed, pursuant to Section 104(b) of the Act to own a portion of Kewaunee. Accordingly, the antitrust information required by 10 CFR § 50.33a, for

transfer of a license is not required.<sup>2/</sup> The merger is, of course, subject to separate federal antitrust reviews addressing its potential effect on competition. This is among the issues that will be considered by the FERC, and certain state regulatory agencies. As noted above, the parties filed appropriate notifications to the FERC and DOJ under the HSR Act. The requirements of the HSR Act are no longer an impediment to this merger.

IX. EFFECTIVE DATE

Consummation of the business combination requires the approval of other regulatory agencies identified in Section I above. Industries, Holdings and IPC intend that the business combination will take place as soon as possible after all regulatory and shareholder approvals have been obtained. WPL requests that the NRC review this request, to the extent NRC consent is required, on a schedule that will permit final action on it as promptly as possible and in any event before January 1, 1997.

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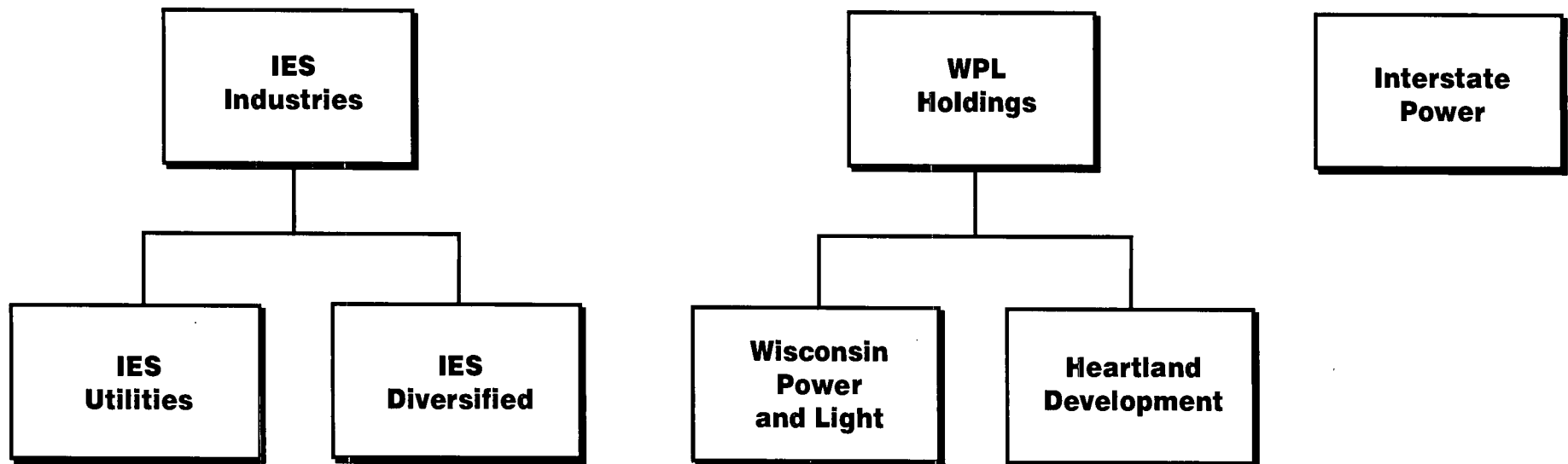
<sup>2/</sup> The NRC has recently confirmed that Section 104(b) plants are not subject to this antitrust review requirement. See Safety Evaluation for Proposed Organization and Financial Restructuring of SDG&E, San Onofre Nuclear Generating Station, note 1, April 20, 1995.



**Figure A1**

**PRE MERGER**

*Simplified Corporate Organization*



**Figure A2**

**POST MERGER**

*Simplified Corporate Organization*

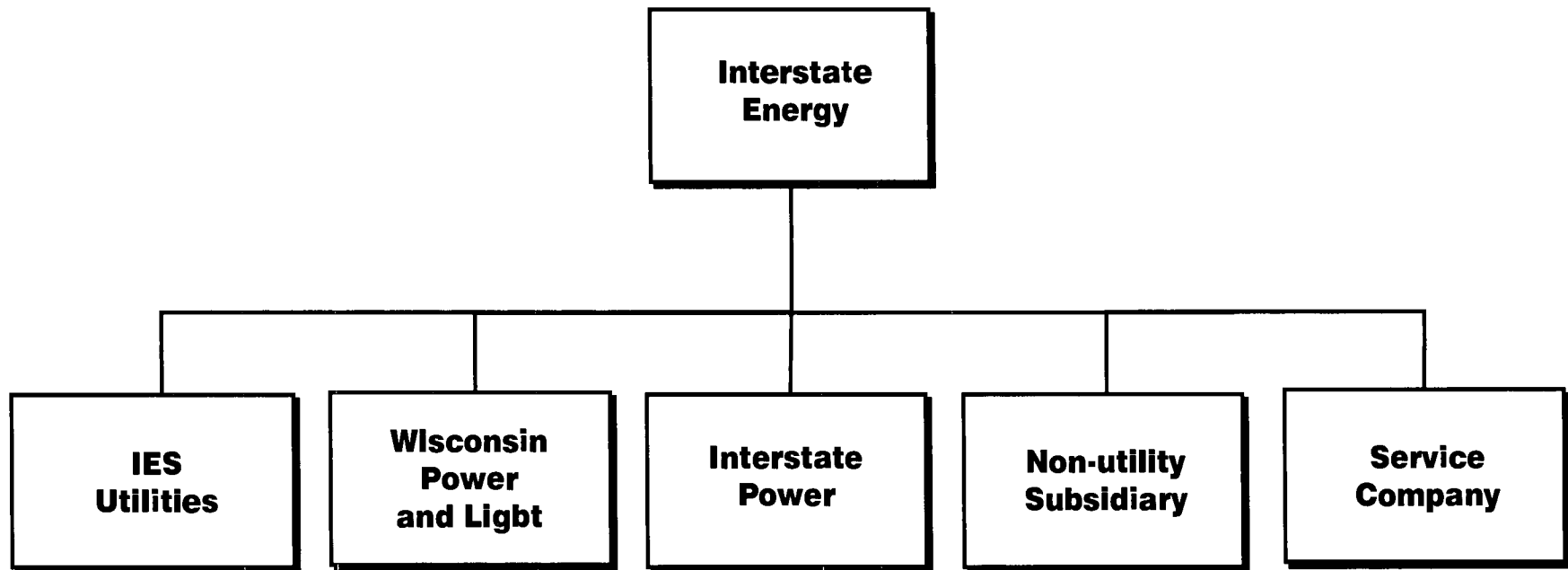


EXHIBIT C

The following NRC Licenses are currently held by WPL:

Facility Operating License

Kewaunee Nuclear Power Plant

Docket No. 50-305 License No. DPR-43

Materials Licenses

- 1) License #48-18772-02, Docket #3014155, Edgewater Generating Station, 3739 Lakeshore Drive, Sheboygan, WI, License expires 3/31/2001
- 2) License #48-26304-01, Docket #3032136, Nelson-Dewey Generating Station, Cassville, WI, License expired 7/30/96, but is under timely renewal
- 3) License #48-15518-01, Docket #3009260, Columbia Energy Center, Portage, WI. License expires 4/30/2000.

50-305

KEWAUNEE

WPSC

PROPOSED BUSINESS TRANSACTION

Rec'd w/ ltr dtd 10/1/96.....9610040051

**- NOTICE -**

THE ATTACHED FILES ARE OFFICIAL RECORDS OF THE INFORMATION & RECORDS MANAGEMENT BRANCH. THEY HAVE BEEN CHARGED TO YOU FOR A LIMITED TIME PERIOD AND MUST BE RETURNED TO THE RECORDS & ARCHIVES SERVICES SECTION, T5 C3. PLEASE DO NOT SEND DOCUMENTS CHARGED OUT THROUGH THE MAIL. REMOVAL OF ANY PAGE(S) FROM DOCUMENT FOR REPRODUCTION MUST BE REFERRED TO FILE PERSONNEL.

**- NOTICE -**



**WPL Holdings, Inc.**

The parent of Wisconsin Power and Light Company  
and Heartland Development Corporation

222 West Washington Avenue  
PO Box 2568  
Madison WI 53701-2568  
608/252-4888

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

July 23, 1996

Dear WPL Holdings, Inc. Shareowner:

We extend a cordial invitation to you to join us at the 1996 Annual Meeting of Shareowners of WPL Holdings, Inc. ("WPLH"). The WPLH Annual Meeting will be held immediately following the Annual Meeting of Shareowners of Wisconsin Power and Light Company at the Exhibition Hall at the Dane County Expo Center, 1881 Expo Mall, Madison, Wisconsin, on September 5, 1996, at 10:00 a.m. (Central Time). A lunch will be served following the meeting.

At this important meeting, the WPLH shareowners will be asked to approve a strategic three-way business combination among WPLH, Cedar Rapids, Iowa-based IES Industries Inc. ("IES") and Dubuque, Iowa-based Interstate Power Company ("IPC"). WPLH, as the surviving holding company in the merger transaction, will be renamed Interstate Energy Corporation.

The utility industry continues to undergo rapid change and is becoming increasingly competitive. This new environment, driven by regulatory changes at the federal and state levels and by technological advances, has and will continue to alter in a fundamental way the manner in which the entire utility industry does business. Your Board of Directors believes that the proposed combination with IES and IPC will result in a combined business that will be well-positioned to compete in this new environment.

Following consummation of the mergers, each share of WPLH common stock you own will represent one share of Interstate Energy Corporation common stock. As a shareowner of WPLH, you will not need to exchange your WPLH stock certificates. In the mergers, each share of IES common stock will be converted into 1.01 shares of Interstate Energy Corporation common stock and each share of IPC common stock will be converted into 1.11 shares of Interstate Energy Corporation common stock. As described in greater detail in the attached Joint Proxy Statement/Prospectus, the shares of WPLH common stock issued in the mergers are expected to have attached thereto associated rights to purchase common stock. Your Board has received a written opinion from its financial advisor, Merrill Lynch, Pierce, Fenner & Smith Incorporated, dated November 10, 1995, which was confirmed in a written opinion dated the date of the attached Joint Proxy Statement/Prospectus, to the effect that, as of such dates, and based upon the assumptions made, matters considered and limits of review as set forth in such opinions, the foregoing exchange ratios, taken together, are fair, from a financial point of view, to WPLH. Wisconsin law does not provide shareowners of WPLH with statutory dissenters' rights in connection with the mergers.

Approval of the combination by the shareowners of WPLH, IES and IPC entitled to vote thereon is a condition to the completion of the transaction. In addition, the transaction will be consummated only after certain regulatory approvals are received and other conditions are satisfied or waived. If all required approvals are received, it is presently anticipated that the proposed combination will be completed during the first half of 1997.

At the WPLH Annual Meeting, you will also be asked to consider and vote upon certain proposed amendments to the Restated Articles of Incorporation of WPLH, the election of three directors for terms expiring at the 1999 Annual Meeting of Shareowners, and the appointment of Arthur Andersen

LLP as the independent auditors of WPLH for the year ending December 31, 1996. The amendments to the Restated Articles are necessary to effect the name change from WPLH to Interstate Energy Corporation and to ensure that Interstate Energy Corporation will have sufficient authorized but unissued shares of common stock to complete the proposed combination, as well as to provide Interstate Energy Corporation with the flexibility to issue shares in the future when the need arises without the delay of having to obtain shareowner approval to authorize the issuance if not otherwise required.

Each of the proposals to be considered at the WPLH Annual Meeting is described in greater detail in the accompanying Notice and Joint Proxy Statement/Prospectus and its various attachments. I encourage you to read these materials carefully.

**The Board of Directors of WPLH has carefully reviewed and considered the terms and conditions of the proposals to be voted upon at the WPLH Annual Meeting and believes that they are in the best interests of WPLH and its shareowners, and unanimously recommends that shareowners vote "FOR" each of the proposals described in the attached Joint Proxy Statement/Prospectus.**

Your vote is important no matter how many shares you hold. Whether or not you plan to attend the WPLH Annual Meeting, please fill out, sign and date the enclosed proxy card, and return it promptly in the accompanying envelope, which requires no postage if mailed in the United States. If you plan to join us at the WPLH Annual Meeting, please indicate the names of the individuals who will be attending on the enclosed proxy card reservation form. To help with directions to the site for the WPLH Annual Meeting, a map is provided on the last page of this document for your reference. Parking will be available to you at no charge.

If you have any questions about the WPLH Annual Meeting, please call Shareowner Services at 608-252-3110 (local) or 1-800-356-5343 (toll-free).

Sincerely,



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



**WPL Holdings, Inc.**  
The parent of Wisconsin Power and Light Company  
and Heartland Development Corporation

222 West Washington Avenue  
PO Box 2568  
Madison WI 53701-2568  
608/252-4888

## NOTICE OF ANNUAL MEETING OF SHAREOWNERS

Directly following the 10:00 a.m. Annual Meeting of Shareowners  
of Wisconsin Power and Light Company, September 5, 1996

The Annual Meeting of Shareowners of WPL Holdings, Inc., a Wisconsin corporation ("WPLH"), will be held at the Exhibition Hall at the Dane County Expo Center, 1881 Expo Mall, Madison, Wisconsin, on September 5, 1996, directly following the 10:00 a.m., Central Time, Annual Meeting of Shareowners of Wisconsin Power and Light Company, for the following purposes, all of which are more fully described in the accompanying Joint Proxy Statement/Prospectus:

1. To consider and vote upon a proposal to approve the Agreement and Plan of Merger, dated as of November 10, 1995, as amended (together with a related Plan of Merger, the "Merger Agreement"), among WPLH, IES Industries Inc., an Iowa corporation ("IES"), Interstate Power Company, a Delaware corporation ("IPC"), WPLH Acquisition Co., a Wisconsin corporation and wholly-owned subsidiary of WPLH, and Interstate Power Company, a Wisconsin corporation and wholly-owned subsidiary of IPC, a copy of which is attached as Annex A to the accompanying Joint Proxy Statement/Prospectus, and the transactions contemplated thereby, including, among other things, the issuance of shares of common stock of WPLH (to be renamed Interstate Energy Corporation) pursuant to the terms of the Merger Agreement.
2. To consider and vote upon a proposal to approve amendments to the Restated Articles of Incorporation of WPLH (a) to change the name of WPLH to Interstate Energy Corporation (the "Name Change Amendment") and (b) to increase the number of shares of common stock of WPLH authorized for issuance from 100,000,000 to 200,000,000 ("the Common Stock Amendment," and together with the Name Change Amendment, the "WPLH Charter Amendments").
3. To elect a total of three directors for terms expiring at the 1999 Annual Meeting of Shareowners.
4. To appoint Arthur Andersen LLP as independent auditors for the year ending December 31, 1996.
5. To consider and act upon any other business that may properly come before the meeting or any adjournment or postponement thereof.

Only the holders of common stock of record on the books of WPLH at the close of business on July 10, 1996, are entitled to vote at the meeting or any adjournment or postponement thereof. All such shareowners are requested to be present at the meeting in person or by proxy, so that the presence of a quorum may be assured.

Approval of proposals 1 and 2 are conditions to the consummation of the transactions contemplated by the Merger Agreement. If approved by shareowners, each of the WPLH Charter Amendments will become effective only if the transactions contemplated by the Merger Agreement are consummated. As described in greater detail in the attached Joint Proxy Statement/Prospectus, the shares of WPLH common stock issued in the mergers are expected to have attached thereto associated rights to purchase common stock.

Please sign and return your proxy immediately. If you attend the meeting, you may withdraw your proxy at the registration desk and vote in person. All shareowners are urged to return their proxies promptly.

Your proxy covers all of your shares of common stock of WPLH. For present or past employees of WPLH or Wisconsin Power and Light Company, your proxy includes any shares held for your account under WPLH's Dividend Reinvestment and Stock Purchase Plan. For shares credited to an account under the Wisconsin Power and Light Company Employees' Retirement Savings Plan (formerly the Employees' Long Range Savings and Investment Plan), you will receive a form of proxy from the trustee of the plan.

A copy of the 1995 Annual Report of WPLH has previously been sent to you.

By Order of the Board of Directors



Edward M. Gleason  
*Vice President, Treasurer and Corporate  
Secretary*

Madison, Wisconsin  
July 23, 1996

**YOUR VOTE IS IMPORTANT NO MATTER HOW LARGE OR SMALL YOUR HOLDINGS MAY BE. TO ASSURE YOUR REPRESENTATION AT THE ANNUAL MEETING, PLEASE DATE THE ENCLOSED PROXY, WHICH IS SOLICITED BY THE BOARD OF DIRECTORS OF WPLH, SIGN EXACTLY AS YOUR NAME APPEARS THEREON AND RETURN IMMEDIATELY.**



**JOINT PROXY STATEMENT  
OF  
WPL HOLDINGS, INC.,  
IES INDUSTRIES INC.  
AND  
INTERSTATE POWER COMPANY  
(a Delaware corporation)**

**PROSPECTUS  
OF**

**WPL HOLDINGS, INC.**  
to be renamed  
**INTERSTATE ENERGY CORPORATION**  
(a Wisconsin corporation)  
relating to shares of common stock  
(and accompanying common stock  
purchase rights)

and

**INTERSTATE POWER COMPANY**  
(a Wisconsin corporation)  
relating to shares of preferred stock

This Joint Proxy Statement/Prospectus relates to the proposed combination of WPL Holdings, Inc., IES Industries Inc. and Interstate Power Company into a single entity to be known after the combination as Interstate Energy Corporation. Following the combination, the utility subsidiaries of Interstate Energy Corporation (Wisconsin Power and Light Company, S Utilities Inc. and Interstate Power Company) will continue to operate as separate entities. Set forth below are disclosures relating to (i) the proposed mergers and certain related transactions contemplated by the Agreement and Plan of Merger, dated as of November 10, 1995, as amended (together with a related Plan of Merger, the "Merger Agreement"), by and among WPL Holdings, Inc., a holding company incorporated under the laws of the State of Wisconsin ("WPLH"), IES Industries Inc., a holding company incorporated under the laws of the State of Iowa ("IES"), Interstate Power Company, a wholly-owned subsidiary of WPLH incorporated under the laws of the State of Delaware ("IPC"), WPLH Acquisition Co., a wholly-owned subsidiary of WPLH incorporated under the laws of the State of Wisconsin ("Acquisition"), and Interstate Power Company, a wholly-owned subsidiary of IPC incorporated under the laws of the State of Wisconsin ("New IPC"), and (ii) the election of directors and certain other matters related to the annual meetings of each of WPLH, IES and IPC. The other matters to be considered at the annual meetings include: (i) in the case of WPLH, the approval of charter amendments authorizing the change in corporate name to Interstate Energy Corporation and increasing the number of authorized shares of common stock, the appointment of independent auditors, and the transaction of any other business properly brought before the meeting; (ii) in the case of IES, the transaction of any other business properly brought before the meeting; and (iii) in the case of IPC, the approval of a charter amendment providing the holders of preferred stock of IPC with specified rights and the transaction of any other business properly brought before the meeting.

Upon consummation of the mergers provided for in the Merger Agreement, WPLH (which will be renamed Interstate Energy Corporation ("Interstate Energy") at or prior to such time) will be the holding company of the utility and other subsidiaries of WPLH, including Wisconsin Power and Light Company, a Wisconsin corporation ("WP&L"), the utility and other subsidiaries of IES, including IES Utilities Inc., an Iowa corporation ("Utilities") (which, if required for regulatory reasons, will be merged with and into IES Utilities Inc., a corporation which will be a wholly-owned subsidiary of IES incorporated under the laws of the State of Wisconsin ("New Utilities")), and IPC (which, if required for regulatory reasons, will be merged with and into the Wisconsin corporation, New IPC). Interstate Energy will be a registered public utility holding company under the Public Utility Holding Company Act of 1935, as amended (the "1935 Act"). See "Regulatory Matters." As used in this Joint Proxy Statement/Prospectus, "Interstate Energy" shall refer to WPLH from and after the effective time of the mergers provided for in the Merger Agreement.

Subject to an alternative structure described below, the Merger Agreement provides for: (i) the merger of IES with and into WPLH, which merger will result in the combination of WPLH and IES as a single company (the "IES Merger"), pursuant to which each outstanding share of common stock, no par value, of IES ("IES Common Stock") (other than shares held by IES shareowners who perfect dissenters' rights under applicable state law ("IES Dissenting Shares"), and other than shares owned by WPLH, IES or IPC or any of their respective subsidiaries, which shares will be cancelled) will be converted into the right to receive 1.01 shares (the "IES Ratio") of common stock, par value \$.01 per share, of Interstate Energy ("Interstate Energy Common Stock"); and (ii) the merger of Acquisition with and into IPC, which merger will result in IPC becoming a subsidiary of Interstate Energy (the "IPC Direct Merger"), pursuant to which (a) each outstanding share of common stock, par value \$3.50 per share, of IPC ("IPC Common Stock") (other than shares owned by WPLH, IES or IPC or any of their respective subsidiaries, which shares will be cancelled) will be converted into the right to receive 1.11 shares (the "IPC Ratio," and together with the IES Ratio, the "Ratios") of Interstate Energy Common Stock and (b) each outstanding share of preferred stock, par value \$50 per share, of IPC ("IPC Preferred Stock") (other than shares held by IPC preferred stockholders who perfect dissenters' rights under applicable state law ("IPC Dissenting Shares")) will remain outstanding and shall be unchanged thereby (including with respect to the additional voting rights proposed to be approved at the IPC annual meeting). Unless regulatory requirements require the foregoing transactions to be consummated pursuant to the alternate structure described below, such transactions will be effected in the manner described above.

*[Cover page is continued on the following page]*

**THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS JOINT PROXY STATEMENT/PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

This Joint Proxy Statement/Prospectus and accompanying forms of proxy are first being mailed to shareowners of WPLH, IES and IPC on or about July 23, 1996.

The date of this Joint Proxy Statement/Prospectus is July 11, 1996.

The Merger Agreement provides, however, that if, prior to the consummation of the transactions described above, the companies determine that certain regulatory requirements mandate that the utility subsidiaries of Interstate Energy be Wisconsin corporations, the transactions will be consummated in a manner designed to comply with such regulatory requirements. In that event, the (i) IES Merger will be effected as described above and (ii) Utilities will be merged with and into New Utilities (the "Utilities Reincorporation Merger"), pursuant to which each outstanding share of common stock, \$2.50 par value, of Utilities ("Utilities Common Stock") will be converted into one share of common stock, \$2.50 par value, of New Utilities ("New Utilities Common Stock"). If the Utilities Reincorporation Merger is to be consummated, it is currently anticipated that the shares of cumulative preferred stock, \$50 par value, of Utilities ("Utilities Preferred Stock") then outstanding will be redeemed by Utilities prior to the consummation of such merger. Redemption of the Utilities Preferred Stock is not expected to occur as part of the transactions contemplated hereby if the Utilities Reincorporation Merger is not required to be effected. If the Utilities Reincorporation Merger is not effected, the Utilities Preferred Stock will remain outstanding and unchanged as a result of the transactions described herein. See "Summary — The Parties — IES," "Summary — The Mergers" and "The Mergers — Redemption of Utilities Preferred Stock." In addition, the merger involving IPC will be reconstituted to provide for: (i) the merger of IPC with and into New IPC (the "IPC Reincorporation Merger") pursuant to which (a) each outstanding share of IPC Common Stock (other than shares owned by WPLH, IES or IPC or any of their respective subsidiaries, which shares will be cancelled) will be converted into one share of common stock, par value \$3.50 per share, of New IPC ("New IPC Common Stock") and (b) each outstanding share of IPC Preferred Stock (other than IPC Dissenting Shares) will be converted into one share of preferred stock, par value \$50 per share, of New IPC ("New IPC Preferred Stock") with terms (including dividend rates) and designations under New IPC's Restated Articles of Incorporation (the "New IPC Charter") substantially identical to those of IPC's Preferred Stock under IPC's Restated Certificate of Incorporation (the "IPC Charter"), including the additional voting rights proposed to be approved at the IPC annual meeting; and (ii) the merger of Acquisition with and into New IPC, which merger will result in New IPC becoming a subsidiary of Interstate Energy (the "IPC Merger"), pursuant to which (a) each outstanding share of New IPC Common Stock (other than shares owned by WPLH, IES or IPC or any of their respective subsidiaries, which will be cancelled) will be converted into the right to receive shares of Interstate Energy Common Stock based on the IPC Ratio and (b) each outstanding share of New IPC Preferred Stock (other than IPC Dissenting Shares) will remain outstanding and unchanged as a result thereof.

Approval of the Merger Agreement at the annual meetings of each of WPLH, IES and IPC will constitute approval of the transactions described above regardless of which of the alternative structures described herein is ultimately employed to effect such transactions. The IES Merger and the IPC Direct Merger or, in the alternative, the IES Merger, the IPC Reincorporation Merger, the IPC Merger and the Utilities Reincorporation Merger, are collectively referred to herein as the "Mergers." Approval of the holders of IES Common Stock is not specifically required to consummate the Utilities Reincorporation Merger. In the event that the Utilities Reincorporation Merger is required and the Utilities Preferred Stock is therefore redeemed, IES, as the sole shareholder of Utilities, will approve the Utilities Reincorporation Merger. The Utilities Reincorporation Merger will not, however, be effected if the holders of IES Common Stock fail to approve the Merger Agreement. The approval of the holders of IPC Common Stock is required to approve the IPC Reincorporation Merger, if, for regulatory reasons, such transaction is required in order to consummate the Mergers. Approval of the holders of IPC Preferred Stock is not required to approve the IPC Reincorporation Merger.

The Merger Agreement requires that specified termination fees be paid under certain circumstances in the event the Merger Agreement is terminated, including if there is a material, willful breach of the Merger Agreement or if, under certain circumstances, a business combination with a third party is consummated within two and one-half years of the termination of the Merger Agreement. The aggregate termination fees under this provision together with the amounts payable under certain provisions of stock option agreements entered into by the parties may not exceed \$40,000,000 payable by each of WPLH and IES and \$20,000,000 payable by IPC. The Merger Agreement also provides for the payment of expenses by a breaching party in the event the Merger Agreement is terminated as a result of a breach of the representations and warranties or covenants and agreements contained in the Merger Agreement. In the event of a non-willful breach, each non-breaching party will be entitled to the reimbursement of its documented out-of-pocket expenses, not to exceed \$5,000,000 for each non-breaching party. In the event the breach is willful, the \$5,000,000 limit will not apply. For a more detailed description of the termination fees that may be payable in certain circumstances, see "The Merger Agreement — Termination Fees" and "The Stock Option Agreements — Certain Repurchases and Other Payments."

Under applicable state law, holders of IES Common Stock and IPC Preferred Stock who do not wish to accept the consideration to be paid to them in connection with the Mergers will have the right to have the fair value of their shares appraised by judicial determination and paid to them. In order to perfect such dissenters' rights, holders of IES Common Stock and IPC Preferred Stock must comply with the procedural requirements of applicable state law, including, without limitation, delivering notice to IES or IPC, as the case may be, with respect to the exercise of such rights prior to the annual meetings of IES or IPC, as the case may be, and not voting in favor of the Merger Agreement. For a discussion of the dissenters' rights applicable to the holders of IES Common Stock, see "The Mergers — Iowa Dissenters' Rights" and Annex P, and for a discussion of the dissenters' rights applicable to the holders of IPC Preferred Stock, see "The Mergers — Delaware Dissenters' Rights" and Annex Q. Holders of WPLH Common Stock and IPC Common Stock are not entitled to dissenters' rights in connection with the Mergers.

In connection with the Mergers, each outstanding share of common stock, par value \$.01 per share, of WPLH ("WPLH Common Stock") will remain outstanding and unchanged as one share of Interstate Energy Common Stock. Based on the capitalization of WPLH, IES and IPC on July 10, 1996 and the Ratios, holders of WPLH Common Stock, IES Common Stock and IPC Common Stock would have held approximately 43%, 42.2% and 14.8%, respectively, of the aggregate number of shares of Interstate Energy Common Stock that would have been outstanding if the Mergers had been consummated as of such date. In this Joint Proxy Statement/Prospectus, unless the context otherwise requires, all references to Interstate Energy Common Stock include, if applicable, the associated rights to purchase shares of such common stock pursuant to the terms of the Rights Agreement between WPLH and Morgan Shareholder Services Trust Company, as Rights Agent thereunder, dated as of February 22, 1989 (the "Rights Agreement"). For more detailed description of the Rights Agreement and the associated rights accompanying shares of Interstate Energy Common Stock, see "Description of Interstate Energy Capital Stock — Certain Anti-Takeover Provisions."

This Joint Proxy Statement/Prospectus constitutes a prospectus of WPLH (to be renamed Interstate Energy) filed as part of the Joint Registration Statement (as hereinafter defined) with respect to up to 42,798,875 shares of Interstate Energy Common Stock to be issued pursuant to or as contemplated by the Merger Agreement. This Joint Proxy Statement/Prospectus also constitutes a prospectus of New IPC filed as part of the Joint Registration Statement with respect to up to 761,381 shares of New IPC Preferred Stock to be issued, assuming that the IPC Reincorporation Merger is effected, pursuant to or as contemplated by the Merger Agreement.

This Joint Proxy Statement/Prospectus is being furnished to the holders of WPLH Common Stock in connection with solicitation of proxies by the Board of Directors of WPLH (the "WPLH Board") for use at the annual meeting of WPLH to be held immediately following the annual meeting of shareowners of WP&L at 10:00 a.m., Central Time, on Thursday, September 5, 1996 at the Exhibition Hall of the Dane County Expo Center, 1881 Expo Mall, Madison, Wisconsin, and at any adjournment or postponement thereof (the "WPLH Meeting"). At the WPLH Meeting, in addition to voting upon proposals to approve the Merger Agreement and the transactions contemplated thereby, including the issuance of shares of Interstate Energy Common Stock pursuant to the terms of the Merger Agreement, and to approve certain amendments to the Restated Articles of Incorporation of WPLH (the "WPLH Charter"), holders of WPLH Common Stock will also consider and vote upon proposals with respect to the election of directors and the ratification of the appointment of WPLH's independent auditors. Information with respect to these proposals is being furnished at the back of this Joint Proxy Statement/Prospectus to the shareowners of WPLH only.

This Joint Proxy Statement/Prospectus is also being furnished to the holders of IES Common Stock in connection with the solicitation of proxies by the Board of Directors of IES (the "IES Board") for use at the annual meeting of IES to be held at 10:00 a.m., Central Time, on Thursday, September 5, 1996 at the Collins Plaza Hotel, 1200 Collins Road N.E., Cedar Rapids, Iowa, and at any adjournment or postponement thereof (the "IES Meeting"). At the IES Meeting, in addition to voting upon a proposal to approve the Merger Agreement, holders of IES Common Stock will also consider and vote upon a proposal with respect to the election of directors. Information with respect to this proposal is being furnished at the back of this Joint Proxy Statement/Prospectus to the shareholders of IES only.

This Joint Proxy Statement/Prospectus is also being furnished to the holders of IPC Common Stock in connection with the solicitation of proxies by the Board of Directors of IPC (the "IPC Board") for use at the annual meeting of IPC to be held at 10:00 a.m., Central Time, on Thursday, September 5, 1996 at the Holiday Inn Dubuque Five Flags, 450 Main Street, Dubuque, Iowa, and at any adjournment or postponement thereof (the "IPC Meeting"). At the IPC Meeting, in addition to voting upon a proposal to approve the Merger Agreement and a proposal to approve an amendment to the IPC Charter to provide expanded voting rights to holders of shares of IPC Preferred Stock, holders of IPC Common Stock will also consider and vote upon a proposal with respect to the election of directors. Information with respect to the proposal to elect directors of IPC is being furnished at the back of this Joint Proxy Statement/Prospectus to the stockholders of IPC only.

All information concerning WPLH and Acquisition included in this Joint Proxy Statement/Prospectus has been furnished by WPLH, all information concerning IES, Utilities and New Utilities included in this Joint Proxy Statement/Prospectus has been furnished by IES and all information concerning IPC and New IPC included in this Joint Proxy Statement/Prospectus has been furnished by IPC.

No person is authorized to give any information or to make any representation other than those contained or incorporated by reference in this Joint Proxy Statement/Prospectus, and, if given or made, such information or representation should not be relied upon as having been authorized. This Joint Proxy Statement/Prospectus does not constitute an offer to sell, or a solicitation of an offer to purchase, the securities offered by this Joint Proxy Statement/Prospectus, or the solicitation of a proxy, in any jurisdiction, to or from any person to whom or from whom it is unlawful to make such an offer, solicitation of an offer or proxy solicitation in such jurisdiction. Neither the delivery of this Joint Proxy Statement/Prospectus nor any distribution of securities pursuant to this Joint Proxy Statement/Prospectus shall, under any circumstances, create an implication that there has been no change in the affairs of WPLH, IES or IPC or in the information set forth herein since the date of this Joint Proxy Statement/Prospectus.

This Joint Proxy Statement/Prospectus does not cover any resale of the securities to be received by shareowners of IES or IPC upon consummation of the Mergers, and no person is authorized to make any use of this Joint Proxy Statement/Prospectus in connection with any such resale.

#### AVAILABLE INFORMATION

WPLH, IES and IPC are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith, file reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). Such reports, proxy statements and other information filed by WPLH, IES and IPC with the SEC can be inspected and copied at the public reference facilities maintained by the SEC at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Regional Offices of the SEC at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511, and at 7 World Trade Center, Suite 1300, New York, New York 10048. Copies of such material may also be obtained from the Public Reference Section of the SEC, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, WPLH Common Stock, IES Common Stock and IPC Common Stock are listed on the New York Stock Exchange, the Chicago Stock Exchange and the Pacific Stock Exchange, and WPLH Common Stock and IES Common Stock are listed on the Boston Stock Exchange, and reports, proxy statements and other information filed by WPLH, IES and/or IPC with such exchanges may be inspected at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, 7th Floor, New York, New York 10005, the Boston Stock Exchange, Inc. (the "BSE"), One Boston Place, Boston, Massachusetts 02108, the Chicago Stock Exchange, Inc. (the "CSE"), 440 South LaSalle Street, Chicago, Illinois 60605, or the Pacific Stock Exchange, Inc. (the "PSE"), 301 Pine Street, San Francisco, California 94104, and such material and other information concerning IES can also be inspected at the Philadelphia Stock Exchange, Inc. (the "PhSE"), 1900 Market Street, Philadelphia, Pennsylvania 19103, on which exchange the IES Common Stock is listed.

In addition, the SEC maintains a Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of such Web site is <http://www.sec.gov>.

WPLH and New IPC have filed with the SEC a Joint Registration Statement on Form S-4 (together with all amendments, schedules and exhibits thereto, the "Joint Registration Statement") under the Securities Act of 1933, as amended (the "Securities Act"), with respect to the shares of Interstate Energy Common Stock to be issued in connection with the IES Merger and the IPC Merger or IPC Direct Merger, as the case may be, and the shares of New IPC Preferred Stock which may be issued in connection with the IPC Reincorporation Merger. This Joint Proxy Statement/Prospectus does not contain all the information set forth in the Joint Registration Statement, certain parts of which have been omitted in accordance with the rules and regulations of the SEC. The Joint Registration Statement is available for inspection and copying as set forth above. Statements contained in this Joint Proxy Statement/Prospectus or in any document incorporated by reference in this Joint Proxy Statement/Prospectus as to the contents of any contract or other document referred to herein or therein are not necessarily complete, and, in each instance, reference is made to the copy of such contract or other document filed as an exhibit to the Joint Registration Statement or such other document, each such statement being qualified in all respects by such reference.

#### INCORPORATION OF DOCUMENTS BY REFERENCE

This Joint Proxy Statement/Prospectus incorporates documents by reference which are not presented herein or delivered herewith. Such documents (other than exhibits to such documents unless such exhibits are specifically incorporated by reference) are available to any person, including any beneficial owner, to whom this Joint Proxy Statement/Prospectus is delivered, upon written or oral request, without charge, in the case of documents relating to WPLH, directed to Edward M. Gleason, Vice President, Treasurer and Corporate Secretary, WPL Holdings, Inc., 222 West Washington Avenue, P.O. Box 2568, Madison, Wisconsin 53701-2568 (telephone number (608) 252-3311), in the case of documents relating to IES, directed to Stephen W. Southwick, Esq., Vice President, General Counsel & Secretary, IES Industries Inc., IES Tower, 200 First Street S.E., Cedar Rapids, Iowa 52401 (telephone number (319) 398-4411), or in the case of

documents relating to IPC, directed to Joseph C. McGowan, Secretary and Treasurer, Interstate Power Company, 1000 Main Street, P.O. Box 769, Dubuque, Iowa 52004-0769 (telephone number (319) 582-5421). In order to ensure timely delivery of the documents, any requests should be made by August 28, 1996.

The following documents filed with the SEC by WPLH (File No. 1-9894), IES (File No. 1-9187) or IPC (File No. 1-3632) pursuant to the Exchange Act are incorporated in this Joint Proxy Statement/Prospectus by reference:

1. WPLH's Annual Report on Form 10-K for the year ended December 31, 1995, as amended by the Form 10-K/A filed on April 29, 1996.
2. WPLH's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996.
3. WPLH's Current Reports on Form 8-K dated January 17 and May 22, 1996.
4. IES's Annual Report on Form 10-K for the year ended December 31, 1995, as amended by the Form 10-K/A filed on April 29, 1996.
5. IES's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996.
6. IES's Current Reports on Form 8-K dated February 9, April 3, April 12 and May 22, 1996.
7. The description of IES Common Stock (including the accompanying preferred share purchase rights) contained in IES's registration statements filed pursuant to Section 12 of the Exchange Act and any amendment or report filed for the purpose of updating such description.
8. IPC's Annual Report on Form 10-K for the year ended December 31, 1995, as amended by the Form 10-K/A filed on April 29, 1996.
9. IPC's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996.
10. IPC's Current Report on Form 8-K dated May 22, 1996.
11. The description of IPC Common Stock contained in IPC's registration statements filed pursuant to Section 12 of the Exchange Act and any amendment or report filed for the purpose of updating such description.

In lieu of incorporating by reference the description of WPLH Common Stock (including the accompanying common stock purchase rights) contained in WPLH's Form 8-B and Form 8-A registration statements filed pursuant to Section 12 of the Exchange Act, such description is included in this Joint Proxy Statement/Prospectus. See "Description of Interstate Energy Capital Stock."

The information relating to WPLH, IES and IPC contained in this Joint Proxy Statement/Prospectus does not purport to be comprehensive and should be read together with the information in the documents incorporated by reference herein.

All documents filed by WPLH, IES or IPC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date hereof and prior to the date of the WPLH Meeting on Thursday, September 5, 1996, and any adjournment or postponement thereof, the IES Meeting on Thursday, September 5, 1996, and any adjournment or postponement thereof, or the IPC Meeting on Thursday, September 5, 1996, and any adjournment or postponement thereof, respectively, shall be deemed to be incorporated by reference into this Joint Proxy Statement/Prospectus and to be a part hereof from the date of filing of such documents.

Any statement contained in a document incorporated by reference herein or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Joint Proxy Statement/Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Joint Proxy Statement/Prospectus.

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## SUMMARY

*The following is a brief summary of certain important terms and conditions of the Mergers and related information. As used in this Joint Proxy Statement/Prospectus, the terms "WPLH," "IES" and "IPC" refer to such corporations, respectively, and, except where the context otherwise requires, such entities and their respective subsidiaries. This summary does not purport to be complete and is qualified in its entirety by reference to the more detailed information contained elsewhere in this Joint Proxy Statement/Prospectus, the Annexes hereto and the documents incorporated herein by reference. Shareowners are urged to review carefully the entire Joint Proxy Statement/Prospectus.*

### The Parties

**Interstate Energy.** The WPLH Charter will be amended immediately prior to or upon consummation of the Mergers to, among other things, change the name of WPLH to "Interstate Energy Corporation." Interstate Energy will be the holding company for IPC or New IPC, as the case may be, and the operating subsidiaries of WPLH and IES following the Mergers. Interstate Energy will be a public utility holding company registered under the 1935 Act. See "Regulatory Matters" and "Interstate Energy Following the Mergers." The principal executive office of Interstate Energy will be located at 222 West Washington Avenue, Madison, Wisconsin 53703, telephone number (608) 252-3311.

**WPLH.** WPLH, incorporated under the laws of the State of Wisconsin in 1981, is the holding company for WP&L and its utility-related subsidiary and for Heartland Development Corporation ("HDC"), the parent corporation for WPLH's non-utility businesses. WP&L is a public utility engaged principally in generating, purchasing, distributing and selling electric energy in portions of southern and central Wisconsin. WP&L also purchases, distributes, transports and sells natural gas in parts of such areas and supplies water in two communities. A wholly-owned subsidiary of WP&L supplies electric, gas and water service principally in Winnebago County, Illinois. HDC and its principal subsidiaries are engaged in business development in three major areas: environmental engineering and consulting; affordable housing; and energy services. The principal executive office of WPLH and WP&L is, and the principal executive office of WP&L after the Effective Time (as hereinafter defined) will be, located at 222 West Washington Avenue, Madison, Wisconsin 53703, telephone number (608) 252-3311. See "Selected Information Concerning WPLH, IES and IPC — Business of WPLH" and "Interstate Energy Following the Mergers — Operations."

**IES.** IES, incorporated under the laws of the State of Iowa in 1986, is a holding company for Utilities and for IES Diversified Inc. ("Diversified"), the parent corporation for most of IES's non-utility businesses. Utilities is a public utility engaged principally in generating, purchasing, distributing and selling electric energy in portions of the State of Iowa. Utilities also purchases, distributes, transports and sells natural gas in its service territory. The shares of Utilities Preferred Stock are currently registered under Section 12(g) of the Exchange Act and, as such, Utilities is required to make periodic and other filings with the SEC. In the event that the Mergers can be effected without consummating the Utilities Reincorporation Merger, it is expected that the Utilities Preferred Stock would remain outstanding and unchanged as a result of the Mergers and that Utilities, as a subsidiary of Interstate Energy, would remain a reporting company under the Exchange Act. In the event that the consummation of the Utilities Reincorporation Merger is necessary for regulatory reasons and the Utilities Preferred Stock is redeemed, it is anticipated that New Utilities (as the successor to Utilities in the Utilities Reincorporation Merger) would not be subject to the reporting requirements of the Exchange Act and would not make filings on its own behalf with the SEC. Diversified and its subsidiaries engage in various non-utility operations, including oil and natural gas production and marketing, energy services, railroad and other transportation services in the Midwest, and local real estate development. The principal executive office of IES and Utilities is located at IES Tower, 200 First Street S.E., Cedar Rapids, Iowa 52401, telephone number (319) 398-4411. See "Selected Information Concerning WPLH, IES and IPC — Business of IES" and "Interstate Energy Following the Mergers — Operations."

*IPC.* IPC, an operating public utility incorporated in 1925 under the laws of the State of Delaware, is engaged in the generation, purchase, transmission, distribution and sale of electric energy. IPC owns property in portions of twenty-five counties in the northern and northeastern parts of Iowa, in portions of twenty-two counties in the southern part of Minnesota, and in portions of four counties in northwestern Illinois. IPC also engages in the distribution and sale of natural gas in Albert Lea, Minnesota; Clinton, Mason City and Clear Lake, Iowa; Fulton and Savanna, Illinois; and in a number of smaller Minnesota, Iowa and Illinois communities, and in the transportation of natural gas within Iowa, Minnesota and in interstate commerce. The principal executive office of IPC is located at 1000 Main Street, Dubuque, Iowa 52001, telephone number (319) 582-5421. In the event the IPC Direct Merger is consummated, the principal executive office of IPC after the Effective Time will continue to be located at such address. See "Selected Information Concerning WPLH, IES and IPC — Business of IPC" and "Interstate Energy Following the Mergers — Operations."

*New IPC.* New IPC is a Wisconsin corporation which was created to effect the IPC Reincorporation Merger in the event such merger is required for regulatory purposes. It has, and prior to the Mergers will have, no operations except as contemplated by the Merger Agreement. The audited financial statements of New IPC are attached as Annex S. IPC is the sole shareowner of New IPC. Pursuant to the Merger Agreement, in the event that the IPC Reincorporation Merger is to be effected, immediately prior to the consummation of the Mergers New IPC will acquire certain utility assets from WP&L. The principal executive office of New IPC is, and after the Effective Time will be, located at 1000 Main Street, Dubuque, Iowa 52001, telephone number (319) 582-5421. See "The Merger Agreement — The Mergers" and "Interstate Energy Following the Mergers — Operations."

*New Utilities.* New Utilities will be a Wisconsin corporation which will be created to effect the Utilities Reincorporation Merger in the event such merger is required for regulatory purposes. Prior to the Mergers, it will have no operations except as contemplated by the Merger Agreement. IES will be the sole shareowner of New Utilities. Pursuant to the Merger Agreement, in the event that the Utilities Reincorporation Merger is to be effected, immediately prior to the consummation of the Mergers New Utilities will acquire certain utility assets from WP&L. The principal executive office of New Utilities will be located at IES Tower, 200 First Street S.E., Cedar Rapids, Iowa 52401, telephone number (319) 398-4411. See "The Merger Agreement — The Mergers" and "Interstate Energy Following the Mergers — Operations."

*Acquisition.* Acquisition is a Wisconsin corporation which was created to effect the IPC Merger or the IPC Direct Merger, as the case may be. It has, and prior to the Mergers will have, no operations except as contemplated by the Merger Agreement. WPLH is the sole shareowner of Acquisition. The principal executive office of Acquisition is located at 222 West Washington Avenue, Madison, Wisconsin 53703, telephone number (608) 252-3311. See "The Merger Agreement — The Mergers."

#### **The Meetings**

*WPLH.* At the WPLH Meeting, the holders of WPLH Common Stock will be asked to consider and vote upon proposals (i) to approve the Merger Agreement and the transactions contemplated thereby, including, among other things, the issuance of shares of Interstate Energy Common Stock pursuant to the terms of the Merger Agreement, (ii) to approve the amendments to the WPLH Charter to change the name of WPLH to "Interstate Energy Corporation" (the "Name Change Amendment") and to increase the number of shares of WPLH Common Stock authorized for issuance from 100,000,000 to 200,000,000 (the "Common Stock Amendment," and together with the Name Change Amendment, the "WPLH Charter Amendments"), (iii) to elect a total of three directors for terms expiring at the 1999 annual meeting of shareowners of WPLH or until their successors are duly elected and qualified, and (iv) to appoint Arthur Andersen LLP as independent auditors for WPLH for the year ending December 31, 1996. Pursuant to the Merger Agreement, consummation of the Mergers is conditioned upon approval of proposals (i) and (ii) above, but is not conditioned upon approval by the shareowners of WPLH of any other proposal. See "Meetings, Voting and Proxies — The WPLH Meeting."

The WPLH Meeting is scheduled to be held immediately following the annual meeting of shareowners of WP&L which will be held at 10:00 a.m., Central Time, on Thursday, September 5, 1996 at the Dane County Expo Center, 1881 Expo Mall, Madison, Wisconsin. The WPLH Board has fixed the close of business on July 10, 1996 as the record date (the "WPLH Record Date") for the determination of holders of WPLH Common Stock entitled to notice of and to vote at the WPLH Meeting.

The WPLH Board, by a unanimous vote of the directors then present, has approved the Merger Agreement and the transactions contemplated thereby, and each of the WPLH Charter Amendments, and recommends that WPLH shareowners vote FOR approval of the Merger Agreement (including the issuance of shares of Interstate Energy Common Stock pursuant to the terms of the Merger Agreements) and FOR approval of each of the WPLH Charter Amendments. In addition, the WPLH Board unanimously recommends that WPLH shareowners vote FOR the election of the nominated WPLH directors and FOR the appointment of Arthur Andersen LLP as WPLH's independent auditors.

*IES.* At the IES Meeting, the holders of IES Common Stock will be asked to consider and vote upon proposals (i) to approve the Merger Agreement and the transactions contemplated thereby, and (ii) to elect nine directors to serve until the next annual meeting or until their successors are duly elected and qualified. Pursuant to the Merger Agreement, consummation of the Mergers is conditioned upon approval of proposal (i) above, but is not conditioned upon approval by the shareholders of IES of any other proposal. See "Meetings, Voting and Proxies — The IES Meeting."

The IES Meeting is scheduled to be held at 10:00 a.m., Central Time, on Thursday, September 5, 1996 at the Collins Plaza Hotel, 1200 Collins Road N.E., Cedar Rapids, Iowa. The IES Board has fixed the close of business on July 10, 1996 as the record date (the "IES Record Date") for the determination of holders of IES Common Stock entitled to notice of and to vote at the IES Meeting.

The IES Board, by a unanimous vote of the directors then present, has approved the Merger Agreement and the transactions contemplated thereby, and recommends that IES shareholders vote FOR approval of the Merger Agreement. In addition, the IES Board unanimously recommends that IES shareholders vote FOR the election of the nominated IES directors.

*IPC.* At the IPC Meeting, the holders of IPC Common Stock will be asked to consider and vote upon proposals (i) to approve the Merger Agreement and the transactions contemplated thereby, (ii) to approve an amendment to the IPC Charter to provide that each share of IPC Preferred Stock outstanding from time to time will have one vote, voting together as one class with the holders of IPC Common Stock (except as otherwise required by applicable law or as specifically set forth in the IPC Charter), on all matters to come before a vote of the stockholders of IPC (the "IPC Charter Amendment"), and (iii) to elect two Class II directors to hold office for a term of three years expiring at the 1999 annual meeting of stockholders of IPC or until their respective successors shall have been duly elected and qualified. Holders of IPC Preferred Stock are not entitled to vote on the proposed amendment to the IPC Charter. Pursuant to the Merger Agreement, consummation of the Mergers is conditioned upon approval of proposals (i) and (ii) above, but is not conditioned upon approval by the stockholders of IPC of any other proposal. See "Meetings, Voting and Proxies — The IPC Meeting."

The IPC Meeting is scheduled to be held at 10:00 a.m., Central Time, on Thursday, September 5, 1996 at the Holiday Inn Dubuque Five Flags, 450 Main Street, Dubuque, Iowa. The IPC Board has fixed the close of business on July 10, 1996 as the record date (the "IPC Record Date") for the determination of holders of IPC Common Stock entitled to notice of and to vote at the IPC Meeting.

The IPC Board, by a unanimous vote, has approved the Merger Agreement and has determined that the IPC Charter Amendment is advisable, and accordingly recommends that IPC stockholders vote FOR approval of the Merger Agreement and FOR approval of the IPC Charter Amendment. In addition, the IPC Board unanimously recommends that IPC stockholders vote FOR the election of the nominated IPC directors.

### Required Vote

**WPLH.** As provided under the Wisconsin Business Corporation Law (the "WBCL"), the WPLH Charter and the bylaws of WPLH (the "WPLH Bylaws"), as applicable: (i) the affirmative vote of a majority of the votes entitled to be cast by the holders of the outstanding shares of WPLH Common Stock entitled to vote thereon is required for approval of the Merger Agreement (including the issuance of shares of Interstate Energy Common Stock pursuant to the terms of the Merger Agreement); (ii) the affirmative vote of a majority of the votes entitled to be cast by the holders of the shares of WPLH Common Stock represented in person or by proxy at the WPLH Meeting and entitled to vote thereon is required for approval of each of the WPLH Charter Amendments, (iii) a plurality of the votes cast at the WPLH Meeting is required for the election of directors and (iv) the affirmative vote of a majority of the votes entitled to be cast by the holders of the shares of WPLH Common Stock represented in person or by proxy at the WPLH Meeting and entitled to vote thereon is required to appoint Arthur Andersen LLP as WPLH's independent auditors. On the WPLH Record Date, there were 30,795,260 shares of WPLH Common Stock outstanding and entitled to vote. As of the WPLH Record Date, directors and executive officers of WPLH, together with their affiliates as a group, owned less than 1% of the issued and outstanding shares of WPLH Common Stock. See "Meetings, Voting and Proxies — The WPLH Meeting."

**IES.** As provided under the Iowa Business Corporation Act (the "IBCA"), the Restated Articles of Incorporation of IES (the "IES Charter") and the bylaws of IES (the "IES Bylaws"), as applicable: (i) the affirmative vote of a majority of the votes entitled to be cast by the holders of shares of IES Common Stock entitled to vote thereon is required for approval of the Merger Agreement and (ii) the affirmative vote of a majority of the votes entitled to be cast by the holders of the shares of IES Common Stock represented in person or by proxy at the IES Meeting and entitled to vote thereon is required for the election of directors. On the IES Record Date, there were 29,923,233 shares of IES Common Stock outstanding and entitled to vote. As of the IES Record Date, directors and executive officers of IES, together with their affiliates as a group, owned less than 1% of the issued and outstanding shares of IES Common Stock. See "Meetings, Voting and Proxies — The IES Meeting."

**IPC.** As provided under the Delaware General Corporation Law (the "DGCL"), the IPC Charter and the bylaws of IPC (the "IPC Bylaws"), as applicable: (i) the affirmative vote of a majority of the votes entitled to be cast by the holders of shares of IPC Common Stock is required for approval of the Merger Agreement and the approval of the IPC Charter Amendment and (ii) a plurality of the votes cast at the IPC Meeting is required for the election of directors. On the IPC Record Date, there were 9,595,028 shares of IPC Common Stock outstanding and entitled to vote. As of the IPC Record Date, directors and executive officers of IPC, together with their affiliates as a group, owned less than 1% of the issued and outstanding shares of IPC Common Stock. See "Meetings, Voting and Proxies — The IPC Meeting."

### The Mergers

Subject to an alternative structure described below, the Merger Agreement provides for (a) the IES Merger in which IES will be merged with and into WPLH with WPLH to be the surviving corporation and (b) the IPC Direct Merger in which Acquisition will be merged with and into IPC with IPC to be the surviving corporation. However, in the event that the parties determine that the IPC Reincorporation Merger and the Utilities Reincorporation Merger are required for regulatory purposes, the Merger Agreement provides that those mergers will be consummated, followed by the IPC Merger and the IES Merger. Pursuant to the Merger Agreement (i) each outstanding share of IES Common Stock (other than shares owned directly or indirectly by WPLH, IES or IPC and IES Dissenting Shares) will be converted into the right to receive 1.01 shares of Interstate Energy Common Stock; (ii) each outstanding share of IPC Common Stock (other than shares owned directly or indirectly by WPLH, IES, or IPC) will be converted into the right to receive 1.11 shares of Interstate Energy Common Stock; (iii) each outstanding share of IPC Preferred Stock (other than shares owned directly or indirectly by WPLH, IES or IPC and other than IPC Dissenting Shares) will remain outstanding and unchanged (including with respect to the additional voting rights proposed to be



approved at the IPC Meeting) or, in the event that the IPC Reincorporation Merger is to be effected, will be converted into one share of New IPC Preferred Stock with terms (including dividend rights) and designations under the New IPC Charter substantially identical to those of the converted shares of IPC Preferred Stock under the IPC Charter, including the additional voting rights proposed to be approved at the IPC Meeting; (iv) each outstanding share of WPLH Common Stock will remain outstanding and unchanged as one share of Interstate Energy Common Stock; and (v) if the Utilities Reincorporation Merger is effected, each outstanding share of Utilities Common Stock will be converted into one share of New Utilities Common Stock. If the Utilities Reincorporation Merger is to be consummated, it is currently anticipated that shares of Utilities Preferred Stock then outstanding will be redeemed by Utilities prior to the consummation of such merger. The redemption of the Utilities Preferred Stock would avoid the need to obtain a class vote of the holders of such stock to approve the Utilities Reincorporation Merger. The Utilities Preferred Stock is redeemable, in whole or in part, at the option of Utilities at any time or from time to time on not less than 30 days' notice at \$51.00 per share for the 4.30% Series and the 6.10% Series and at \$50.25 per share for the 4.80% Series, plus, in each case, dividends accrued and unpaid to and including the date of redemption. See "The Mergers — Redemption of Utilities Preferred Stock." As a result of the Mergers, the common shareowners of WPLH, IES and IPC immediately prior to the Mergers (except for holders of IES Dissenting Shares) will all be common shareowners of Interstate Energy immediately following consummation of the Mergers.

The Merger Agreement also contemplated an adjustment of the IES Ratio to 1.01 from the initial ratio of 0.98 in the event that, prior to the consummation of the Mergers, McLeod, Inc., a Delaware corporation in which IES has a significant ownership interest ("McLeod"), (a) completed a firm commitment underwritten initial public offering of its Class A common stock at a per share price of at least \$13.00 (subject to adjustment) in which McLeod received gross proceeds (exclusive of proceeds from shares purchased by existing McLeod shareowners) of at least \$75 million and (b) immediately following such public offering the Class A common stock was registered under Section 12 of the Exchange Act (the "McLeod Contingency"). On June 14, 1996, McLeod completed an initial public offering of 13.8 million shares of its Class A common stock at a price to the public of \$20 per share. The McLeod offering satisfied the conditions of the McLeod Contingency and, as a result, the IES Ratio was automatically adjusted to 1.01. See "The Mergers — Background of the Mergers."

Pursuant to the Merger Agreement, (a) the IES Merger will become effective at the time specified in the articles of merger filed by WPLH with the Secretaries of State of the States of Wisconsin and Iowa and (b) the IPC Direct Merger will become effective at the time specified in the certificate of merger and articles of merger filed by IPC with the Secretaries of State of the States of Delaware and Wisconsin. If only the IES Merger and the IPC Direct Merger are to be consummated, the term "Effective Time" as used herein will mean the time that the IES Merger and the IPC Direct Merger become effective. It is anticipated that in that case both the IES Merger and the IPC Direct Merger will be consummated simultaneously. If the IPC Reincorporation Merger and the Utilities Reincorporation Merger are deemed by the parties to be required for regulatory purposes, the IPC Reincorporation Merger will become effective at the time specified in the certificate of merger and articles of merger filed by New IPC with the Secretaries of State of the States of Delaware and Wisconsin (the "IPC Reincorporation Effective Time"). If the IPC Reincorporation Merger is effected, (a) the IES Merger will then become effective at the time specified in the articles of merger filed by IES with the Secretaries of State of the States of Wisconsin and Iowa; (b) the IPC Merger will become effective at the time specified in the articles of merger filed by New IPC with the Secretary of State of the State of Wisconsin; and (c) the Utilities Reincorporation Merger will become effective at the time specified in the articles of merger filed by New Utilities with the Secretaries of State of the States of Wisconsin and Iowa. If the IPC Reincorporation Merger is effected, the term "Effective Time" as used herein will mean the time that the IES Merger, the IPC Merger and the Utilities Reincorporation Merger become effective, which will be subsequent to the IPC Reincorporation Effective Time.

See "The Merger Agreement — The Mergers."

### Exchange of Stock Certificates

As soon as practicable after the Effective Time, the exchange agent will mail transmittal instructions to each holder of record of shares of IES and IPC Common Stock at the Effective Time, advising such holder of the procedure for surrendering such holder's certificates (the "Certificates") which immediately prior to the IPC Reincorporation Effective Time or the Effective Time, as the case may be, represented shares of IES Common Stock or IPC Common Stock that were cancelled and became instead the right to receive shares of Interstate Energy Common Stock. Holders of Certificates, which prior to the Reincorporation Effective Time or the Effective Time, as the case may be, represented shares of IES Common Stock or IPC Common Stock, will not be entitled to receive any payment of dividends or other distributions on or payment for any fractional share with respect to their IES or IPC Certificates until such Certificates have been surrendered for certificates representing shares of Interstate Energy Common Stock. Cash will be paid to IES and IPC shareowners in lieu of fractional shares of Interstate Energy Common Stock. Holders of shares of IES Common Stock and IPC Common Stock should not submit their stock certificates for exchange until a form of letter of transmittal and instructions therefor are received. See "The Merger Agreement — The Mergers."

Holders of IPC Preferred Stock do not need to exchange their existing certificates representing shares of IPC Preferred Stock for new stock certificates. Shares of IPC Preferred Stock (other than IPC-Dissenting Shares) will remain unchanged (including with respect to the additional voting rights proposed to be approved at the IPC Meeting) and outstanding following the IPC Direct Merger. In the event the IPC Reincorporation Merger is consummated, each outstanding certificate representing shares of IPC Preferred Stock (other than IPC Dissenting Shares) immediately prior to the IPC Reincorporation Effective Time will, from and after the IPC Reincorporation Effective Time, represent the same number of shares of the corresponding series of New IPC Preferred Stock with terms (including dividend rates) and designations under the New IPC Charter substantially identical to those of the converted shares of IPC Preferred Stock under the IPC Charter, including the additional voting rights proposed to be approved at the IPC Meeting. After the Effective Time, if the IPC Reincorporation Merger is effected, new certificates reflecting the fact that New IPC is a Wisconsin corporation will be issued as outstanding stock certificates formerly representing shares of IPC Preferred Stock are presented for transfer.

Shareowners of WPLH do not need to exchange their existing stock certificates for new stock certificates reflecting WPLH's name change to Interstate Energy. However, any WPLH shareowners desiring new stock certificates may, after the Effective Time, submit their existing stock certificates representing shares of WPLH Common Stock to the transfer agent of Interstate Energy to obtain new certificates. Each outstanding certificate representing shares of WPLH Common Stock immediately prior to the Effective Time will, from and after the Effective Time, represent the same number of shares of Interstate Energy Common Stock. After the Effective Time, new certificates bearing the name of Interstate Energy will be issued as outstanding stock certificates formerly representing shares of WPLH Common Stock are presented for transfer.

### Stock Option Agreements

In connection with the execution and delivery of the Merger Agreement, WPLH, IES and IPC entered into reciprocal option grantor/option holder stock option and trigger payment agreements (the "Stock Option Agreements") each granting the other two parties an irrevocable option (individually an "Option" and collectively the "Options") to purchase, under certain circumstances, a certain percentage of authorized but unissued shares of the respective issuer's common stock (representing up to an aggregate of 19.9% of the outstanding common stock of such issuer on November 10, 1995), at an exercise price of \$30.675 per share in the case of WPLH Common Stock, \$26.7125 per share in the case of IES Common Stock and \$28.9375 per share in the case of IPC Common Stock. The exercise of the Options and the effectiveness of certain provisions of the Stock Option Agreements are subject to certain conditions described in the Stock Option Agreements and in the Merger Agreement. See "The Stock Options Agreements — General" and "The Merger Agreement — Termination Fees." In addition, the Stock Option Agreements provide that the holder of an option has the right to require

the issuer thereof to repurchase from the holder of the Option (i) all or any portion of the Option at any time the Option is exercisable at a price equal to the amount of the difference between the Market/Offer Price (as hereinafter defined) and the exercise price of the Option; and (ii) on or at any time prior to May 10, 1997 (which date may be extended to May 10, 1998 under certain circumstances) all or any portion of any shares purchased pursuant to the Option. In addition, the Stock Option Agreements provide that in the event an Option becomes exercisable but regulatory approvals relating to issuance, acquisition or exercise of the Option, if any, have not been obtained, the holder of the Option has the right to demand from the issuer thereof an amount in cash equal to the product of (a) the number of shares the holder would have received upon exercise of the Option and (b) the difference between the Market/Offer Price and the exercise price of the Option. See "The Stock Option Agreements — Certain Repurchases and Other Payments." The Stock Option Agreements are intended to increase the likelihood that the Mergers will be consummated in accordance with the terms of the Merger Agreement and may have the effect of discouraging competing offers. See "The Stock Options Agreements."

The Options will generally become exercisable at any time after the Merger Agreement becomes terminable by the holder of an Option under circumstances which could entitle such holder to termination fees from the issuer of the Option, including if there is a material, willful breach of the Merger Agreement at any time which a third party has proposed to consummate a business combination with the issuer of the Option or if, under certain circumstances, a business combination with a third party is consummated within two and one-half years of the termination of the Merger Agreement. See "The Stock Option Agreements."

Further, the Stock Option Agreements contemplate the continuation of certain standstill provisions and provide that any shares of any other party acquired or otherwise beneficially owned must be voted for and against each matter submitted to a shareowner vote in the same proportion as the other shareowners of the issuer thereof vote for and against such matter. See "The Merger Agreement — Standstill Provisions" and "The Stock Option Agreements — Voting."

#### **Treatment of Shares; Ratios**

Each share of IES Common Stock issued and outstanding immediately prior to the Effective Time (other than IES Dissenting Shares) will, pursuant to the Merger Agreement, be cancelled and converted into the right to receive 1.01 shares of Interstate Energy Common Stock. In the IPC Direct Merger, each share of IPC Common Stock issued and outstanding immediately prior to the Effective Time will, pursuant to the Merger Agreement, be cancelled and converted into the right to receive 1.11 shares of Interstate Energy Common Stock. In the event that the IPC Reincorporation Merger is effected, each share of IPC Common Stock issued and outstanding immediately prior to the IPC Reincorporation Effective Time will, pursuant to the Merger Agreement, be cancelled and converted into one share of New IPC Common Stock which, in turn, will immediately be cancelled and converted into the right to receive 1.11 shares of Interstate Energy Common Stock in connection with the IPC Merger. Each share of WPLH Common Stock outstanding immediately prior to the Effective Time will, upon consummation of the Mergers, remain outstanding and unchanged as one share of Interstate Energy Common Stock. Holders of IES Common Stock and IPC Common Stock will receive cash in lieu of fractional shares of Interstate Energy Common Stock. In the IPC Direct Merger, each share of IPC Preferred Stock outstanding immediately prior to the Effective Time (other than the IPC Dissenting Shares) will after the Effective Time remain unchanged (including with respect to the additional voting rights proposed to be approved at the IPC Meeting) and outstanding as a share of IPC Preferred Stock. In the event the IPC Reincorporation Merger is effected, each share of IPC Preferred Stock outstanding immediately prior to the IPC Reincorporation Effective Time (other than IPC Dissenting Shares) will, upon consummation of the Mergers, be cancelled and converted into one share of New IPC Preferred Stock with terms (including dividend rates) and designations under the New IPC Charter substantially identical to those of the IPC Preferred Stock under the IPC Charter, including the additional voting rights proposed to be approved at the IPC Meeting. In the event the

Utilities Reincorporation Merger is effected, each share of Utilities Common Stock issued and outstanding immediately prior to the Effective Time will, upon consummation of the Mergers, be cancelled and converted into one share of New Utilities Common Stock. See "The Merger Agreement — The Mergers."

#### **Background**

For a description of the background of the Mergers, see "The Mergers — Background of the Mergers."

#### **Reasons for the Mergers**

WPLH, IES and IPC believe that the Mergers offer significant strategic and financial benefits to each company and to their respective shareowners, as well as to their employees and customers. These benefits include, among others:

- Maintenance of competitive rates that will improve the combined entity's ability to meet the challenges of the increasingly competitive environment in the utility industry.
- Reduced operating costs and expenditures resulting from integration of corporate and administrative functions, including the elimination of duplicative positions, limiting duplicative capital expenditures for administrative and customer service programs and information systems, and savings in areas such as legal, audit and consulting fees.
- Reduced electric production costs through the joint dispatch of systems and natural gas supply savings through combined purchasing.
- Greater purchasing power for items such as fuel and transportation services, general and operational goods and services and the reduction of inventories.
- More efficient pursuit of diversification into non-utility areas.
- Increased customer diversity and geographic diversity of service territories, reducing exposure to local changes in economic, competitive or climatic conditions.
- Expanded management resources and ability to select leadership from a larger and more diverse management pool.

See "The Mergers — Reasons for the Mergers; Recommendations of the Boards of Directors."

#### **Recommendations of the Board of Directors**

*WPLH.* The WPLH Board, by a unanimous vote of the directors present, has approved the Merger Agreement and the transactions contemplated thereby, believes that the terms of the Mergers are fair to, and in the best interests of, WPLH's shareowners, has approved each of the WPLH Charter Amendments, supports the election of the nominated WPLH directors and supports the appointment of Arthur Andersen LLP as WPLH's independent auditors for the year ending December 31, 1996. The WPLH Board recommends that the shareowners of WPLH vote (i) FOR approval of the Merger Agreement (including the issuance of shares of Interstate Energy Common Stock pursuant to the terms of the Merger Agreement), (ii) FOR approval of each of the WPLH Charter Amendments, (iii) FOR the election of the nominated WPLH directors and (iv) FOR the ratification of the appointment of the independent auditors. The WPLH Board approved the Merger Agreement after consideration of a number of factors described under the heading "The Mergers — Reasons for the Mergers; Recommendations of the Boards of Directors." WPLH directors Katharine C. Lyall and Arnold M. Nemirow were not present at the WPLH Board meeting at which the Merger Agreement was initially approved and WPLH director Milton E. Neshek was not present at the WPLH Board meeting at which the amendment to the Merger Agreement was approved.

*IES.* The IES Board, by a unanimous vote of the directors present, has approved the Merger Agreement and the transactions contemplated thereby, believes that the terms of the Mergers are fair to, and in the best interests of, IES's shareholders, and supports the election of the nominated IES directors. The IES Board recommends that the shareholders of IES vote (i) FOR approval of the Merger Agreement and the transactions contemplated thereby, and (ii) FOR the election of the

nominated IES directors. The IES Board approved the Merger Agreement after consideration of a number of factors described under the heading "The Mergers — Reasons for the Mergers; Recommendations of the Boards of Directors." IES shareholders are urged to consider those factors before making any decision with respect to their proxies. IES director Dr. George Daly was not present at the IES Board meeting at which the Merger Agreement was initially approved. Dr. Daly resigned as an IES director prior to the time the IES Board approved the amendment to the Merger Agreement:

*IPC.* The IPC Board, by unanimous vote, has approved the Merger Agreement and the transactions contemplated thereby, believes that the terms of the Mergers are fair to, and in the best interests of, IPC stockholders, has adopted a resolution setting forth the IPC Charter Amendment and declaring its advisability, and supports the election of the nominated IPC directors. The IPC Board recommends that the IPC stockholders vote (i) FOR approval of the Merger Agreement and the transactions contemplated thereby, (ii) FOR approval of the IPC Charter Amendment; and (iii) FOR the election of the nominated IPC directors. The IPC Board approved the Merger Agreement after consideration of a number of factors described under the heading "The Mergers — Reasons for the Mergers; Recommendations of the Boards of Directors."

#### **Opinions of Financial Advisors**

*WPLH.* Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") delivered to the WPLH Board its written opinion dated November 10, 1995, which was confirmed in a written opinion dated the date of this Joint Proxy Statement/Prospectus, to the effect that, as of such dates, and based upon the assumptions made, matters considered and limits of review as set forth in such opinions, the Ratios are fair, from a financial point of view, to WPLH. The written opinion of Merrill Lynch dated the date of this Joint Proxy Statement/Prospectus is attached hereto as Annex L and is incorporated herein by reference. **Holders of shares of WPLH Common Stock are urged to, and should, read such opinion in its entirety.** For a description of the assumptions made and matters considered by Merrill Lynch in reaching its opinions and the fees received and to be received by Merrill Lynch, see "The Mergers — Opinions of Financial Advisors" and Annex L.

*IES.* Morgan Stanley & Co. Incorporated ("Morgan Stanley") delivered its oral opinion on November 10, 1995 to the IES Board which was confirmed in a written opinion dated as of the date of this Joint Proxy Statement/Prospectus to the IES Board to the effect that, as of the respective dates of such opinions, and based upon the procedures and subject to assumptions described therein, the IES Ratio, taking into account the IPC Ratio, is fair from a financial point of view to the holders of IES Common Stock. The written opinion of Morgan Stanley dated as of the date of this Joint Proxy Statement/Prospectus is attached hereto as Annex M. **Holders of shares of IES Common Stock are urged to, and should, read such opinion in its entirety.** For a description of the assumptions made and matters considered by Morgan Stanley in reaching its opinions and the fees received and to be received by Morgan Stanley, see "The Mergers — Opinions of Financial Advisors" and Annex M.

*IPC.* Salomon Brothers Inc ("Salomon Brothers") delivered to the IPC Board its written opinions dated November 10, 1995 and the date of this Joint Proxy Statement/Prospectus to the effect that, based upon and subject to various considerations set forth in such opinions, as of the respective dates of such opinions, the IPC Ratio is fair to the holders of IPC Common Stock from a financial point of view. The written opinion of Salomon Brothers dated the date of this Joint Proxy Statement/Prospectus is attached hereto as Annex N and is incorporated herein by reference. **Holders of shares of IPC Common Stock are urged to, and should, read such opinion in its entirety.** For a description of the assumptions made and matters considered by Salomon Brothers in reaching its opinions and the fees received and to be received by Salomon Brothers, see "The Mergers — Opinions of Financial Advisors" and Annex N.

#### **Interests of Certain Persons in the Mergers**

*Employment Agreements.* Each of Lee Liu, Chairman of the Board, President & Chief Executive Officer of IES ("Mr. Liu"), Erroll B. Davis, Jr., President and Chief Executive Officer of WPLH ("Mr. Davis"), Wayne H. Stoppelmoor, Chairman of the Board, President and Chief Executive Officer of IPC ("Mr. Stoppelmoor"), and Michael R. Chase, Executive Vice President of IPC ("Mr. Chase"),

will enter into employment agreements with Interstate Energy or its subsidiaries to become effective upon consummation of the Mergers (the "Employment Agreements"). Pursuant to the Employment Agreements, Mr. Liu will serve as Chairman of Interstate Energy for a period of two years following the Effective Time and thereafter will retire as an officer of Interstate Energy, although he may continue to serve as a director. Mr. Davis will serve as President and Chief Executive Officer of Interstate Energy for a period of two years following the Effective Time and, for the three-year period thereafter and following Mr. Liu's retirement; Mr. Davis will serve as Chairman, President and Chief Executive Officer of Interstate Energy. Mr. Stoppelmoor will serve as Vice Chairman of Interstate Energy for a period of two years following the Effective Time and thereafter will retire as an officer of Interstate Energy, although he may continue to serve as a director. Mr. Chase will serve as President of New IPC or IPC, as the case may be, from and after the Effective Time until the last day of the calendar month immediately following the calendar month in which he attains age 62. See "The Mergers — Interests of Certain Persons in the Mergers — Employment Agreements."

*Severance Arrangements.* Each of WPLH, IES and IPC maintain or have entered into certain severance agreements under which certain benefits may become vested and certain payments may become payable in connection with certain change in control conditions which include the Mergers. WPLH has employment and severance agreements with each of thirteen executives of WPLH and certain of its subsidiaries which generally provide for certain benefits in the event the executive is terminated following a change in control of WPLH (as defined). The WPLH Board has authorized the amendment of each of the foregoing WPLH agreements to provide specifically that the consummation of the Mergers will constitute a change in control in certain circumstances for purposes of the agreements. IES has severance agreements with twelve executives of IES and Utilities. Each of the IES severance agreements provides severance payments and benefits if the employment of the covered executive is terminated following a change in control. The Mergers will constitute a change in control under the IES severance agreements. IPC has change in control severance agreements with each of nine senior executives of IPC which generally provide for certain benefits in the event the executive is terminated or resigns under certain circumstances following a change in control of IPC (as defined in the agreements). The Mergers will constitute a change in control of IPC for purposes of such agreements. Based on the compensation paid to the executives of WPLH, IES and IPC in 1995 and assuming the occurrence of a termination for which severance benefits would be payable following a change of control, the maximum amounts payable under these severance agreements to all of the executives of WPLH, IES or IPC, each as a group, respectively, would be approximately \$7,014,000, \$6,263,000 and \$2,800,000, respectively. See "The Mergers — Interests of Certain Persons in the Mergers — Severance Arrangements."

*Board of Directors.* The Merger Agreement provides that the Interstate Energy Board of Directors (the "Interstate Energy Board") will, upon consummation of the Mergers, consist of fifteen persons, six of whom will be designated by WPLH, including Mr. Davis, six of whom will be designated by IES, including Mr. Liu, and three of whom will be designated by IPC, including Mr. Stoppelmoor. See "The Mergers — Interests of Certain Persons in the Mergers — Board of Directors."

*Indemnification.* The parties have agreed in the Merger Agreement that Interstate Energy will indemnify, to the fullest extent permitted by applicable law, the present and former officers, directors and employees of each of the parties to the Merger Agreement or any of their subsidiaries against certain liabilities (i) arising out of actions or omissions occurring at or prior to the Effective Time that arise from or are based on such service as an officer, director or employee; or (ii) that are based on or arise out of or pertain to the transactions contemplated by the Merger Agreement, and to maintain policies of directors' and officers' liability insurance for a period of not less than six years after the Effective Time. To the fullest extent permitted by law, from and after the Effective Time, all rights to indemnification existing in favor of the employees, agents, directors or officers of WPLH, IES and IPC and their respective subsidiaries with respect to their activities as such prior to the Effective Time, as provided in their respective certificate or articles of incorporation and bylaws, in effect on November 10, 1995, or otherwise in effect on November 10, 1995, shall survive the Mergers and shall

continue in full force and effect for a period of not less than six years from the Effective Time. See "The Mergers — Interests of Certain Persons in the Mergers — Indemnification" and "The Merger Agreement — Indemnification."

#### **Management of Interstate Energy**

As provided in the Merger Agreement, at the Effective Time, the Interstate Energy Board will consist of fifteen directors, six designated by WPLH, six designated by IES and three designated by IPC. At the Effective Time, Mr. Liu will become Chairman of Interstate Energy, Mr. Davis will be President and Chief Executive Officer of Interstate Energy and Mr. Stoppelmoor will become Vice Chairman of Interstate Energy. In addition, following the Effective Time, Mr. Chase will become President of New IPC or IPC, as the case may be, and Lance W. Ahearn ("Mr. Ahearn") will become President and Chief Operating Officer of the holding company for the non-utility businesses of Interstate Energy. To date, WPLH, IES and IPC have not determined the individuals, in addition to the foregoing, who will be designated to serve as directors or officers of Interstate Energy or its subsidiaries as of the Effective Time. See "The Mergers — Employment Agreements" and "Interstate Energy Following the Mergers — Management of Interstate Energy."

#### **Conditions to the Mergers**

The respective obligations of WPLH, IES and IPC to consummate the Mergers are subject to the satisfaction of certain conditions, including: the approval of the Merger Agreement by the shareowners of each of WPLH, IES and IPC; the receipt of all material governmental approvals; the absence of any injunction that prevents the consummation of the Mergers; the listing on the NYSE of the shares of Interstate Energy Common Stock to be issued pursuant to the terms of the Merger Agreement; the qualification of the business combination to be effected by the Mergers as a pooling of interests transaction for accounting purposes; the accuracy of the representations and warranties of the other parties set forth in the Merger Agreement as of the Closing Date (as defined herein) (except for inaccuracies which would not reasonably be likely to result in a material adverse effect); the performance by the other parties in all material respects, or waiver, of all obligations required to be performed under the Merger Agreement and the Stock Option Agreements; the receipt of an officer's certificate from the other parties stating that certain conditions set forth in the Merger Agreement have been satisfied, there having been no material adverse effect on any other party; the receipt of opinions that the Mergers will qualify as tax-free reorganizations; the receipt of certain material third-party consents; the receipt of letters from affiliates of the other parties with respect to transactions in securities of WPLH, IES or IPC; and the effectiveness of the Joint Registration Statement. See "The Merger Agreement — Conditions to Each Party's Obligation to Effect the Mergers."

#### **Rights to Terminate, Amend or Waive Conditions**

The Merger Agreement may be terminated under certain circumstances, including: by mutual consent of WPLH, IES and IPC; by any party if the Mergers are not consummated by May 10, 1997 (which date may be extended to May 10, 1998 under certain circumstances); by any party if the requisite shareowner approvals are not obtained or if any state or federal law or court order prohibits consummation of the Mergers; by a non-breaching party if there occurs a material breach of the Merger Agreement which is not cured within 20 days; or by a party, under certain circumstances, as a result of a more favorable third-party tender offer or business combination proposal with respect to such party. The Merger Agreement requires that termination fees be paid under certain circumstances, including if there is a material, willful breach of the Merger Agreement or if, under certain circumstances, a business combination with a third party is consummated within two and one-half years of the termination of the Merger Agreement. The aggregate termination fees under this provision together with the amounts payable under certain provisions of the Stock Option Agreements may not exceed \$40,000,000 payable by each of WPLH and IES and \$20,000,000 payable by IPC. See "The Merger Agreement — Termination," "The Merger Agreement — Termination Fees" and "The Stock Options Agreements — Certain Repurchases and Other Payments." The Merger Agreement also provides for the reimbursement of documented out-of-pocket expenses incurred by the non-breaching party or parties in the event the Merger Agreement is terminated under certain circumstances. In the

event that the Merger Agreement provides for expense reimbursement and the breach giving rise to the termination of the Merger Agreement is not willful, each non-breaching party is entitled to reimbursement of documented out-of-pocket expenses, not to exceed \$5,000,000 for each non-breaching party. In the event of a willful breach, the \$5,000,000 limit on expense reimbursement will not apply. The Merger Agreement does not provide for any modification in the Ratios due to changes in the operating results, financial condition or trading prices of the WPLH Common Stock, IES Common Stock or IPC Common Stock between the time of the execution of the Merger Agreement and the consummation of the transactions contemplated thereby.

The Merger Agreement may be amended by the boards of directors of the parties at any time before or after its approval by the shareowners of WPLH, IES and IPC, but after any such approval, no amendment may be made which alters or changes (i) the amount or kind of shares, rights or the manner of conversion of such shares, (ii) the terms or conditions of the Merger Agreement, if such alteration or change, alone or in the aggregate, would materially adversely affect the rights of the WPLH, IES or IPC shareowners, or (iii) any term of the WPLH, IES or IPC Charter, except for alterations or changes that could otherwise be adopted by the Interstate Energy Board without the further approval of such shareowners. See "The Merger Agreement — Amendment and Waiver."

At any time prior to the Effective Time, to the extent permitted by applicable law, the conditions to WPLH's, IES's or IPC's obligation to consummate the Mergers may be waived by such party. Any determination to waive a condition would depend upon the facts and circumstances existing at the time of such waiver and would be made by the waiving parties' boards of directors, exercising their fiduciary duties to their shareowners. See "The Merger Agreement — Amendment and Waiver."

#### **Certain Federal Income Tax Consequences**

WPLH's obligation to effect the Mergers is conditioned on the delivery of an opinion to WPLH from Foley & Lardner, counsel for WPLH, IES's obligation to effect the Mergers is conditioned upon the delivery of an opinion to IES from Winthrop, Stimson, Putnam & Roberts, counsel for IES, and IPC's obligation to effect the Mergers is conditioned upon the delivery of an opinion to IPC from Milbank, Tweed, Hadley & McCloy, counsel for IPC; each dated as of the Closing Date, based upon certain customary representations and assumptions set forth therein, substantially to the effect that, for federal income tax purposes, each of the mergers to which such party or its subsidiaries is a constituent constitutes a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code").

Subject to the approval by the IPC stockholders of the IPC Charter Amendment, and provided that there shall have been no adverse changes in applicable law or facts prior to the Effective Time, in general: (i) no gain or loss will be recognized by WPLH, IES, IPC, or Acquisition (or New IPC, Utilities and New Utilities, if applicable) pursuant to the Mergers; (ii) no gain or loss will be recognized by holders of IES Common Stock or IPC Common Stock (or New IPC Common Stock, if applicable) upon the exchange of their IES Common Stock or IPC Common Stock (or New IPC Common Stock, if applicable) into Interstate Energy Common Stock pursuant to the Mergers; (iii) no gain or loss will be recognized by holders of IPC Preferred Stock (or New IPC Preferred Stock, if applicable) either upon consummation of the IPC Direct Merger (or the IPC Merger, if applicable) or, if applicable, upon the exchange of their IPC Preferred Stock for New IPC Preferred Stock pursuant to the IPC Reincorporation Merger; and (iv) no gain or loss will be recognized by shareowners of WPLH upon consummation of the Mergers. See "The Mergers — Certain Federal Income Tax Consequences."

**EACH SHAREOWNER IS URGED TO CONSULT HIS, HER OR ITS TAX ADVISOR AS TO THE TAX CONSEQUENCES OF THE MERGERS APPLICABLE TO THE INDIVIDUAL CIRCUMSTANCES OF SUCH SHAREOWNER UNDER FEDERAL, STATE, LOCAL OR ANY OTHER APPLICABLE LAW.**



### Operations After the Mergers

Following the Mergers, Interstate Energy will be a registered public utility holding company under the 1935 Act (unless pending legislation to repeal the 1935 Act has been enacted), and the operating utilities WP&L, New Utilities or Utilities, as the case may be, and New IPC or IPC, as the case may be, will be its principal subsidiaries. The headquarters of Interstate Energy will be in Madison, Wisconsin. The headquarters of the three utility subsidiaries will remain in their current locations, WP&L in Madison, Wisconsin, New Utilities or Utilities in Cedar Rapids, Iowa and New IPC or IPC in Dubuque, Iowa. Interstate Energy's utility subsidiaries are expected to serve approximately 870,000 electric customers and 360,000 natural gas customers in portions of Iowa, Illinois, Minnesota and Wisconsin. The business of Interstate Energy will be to operate as a holding company for its utility subsidiaries and various non-utility subsidiaries. WPLH, IES and IPC recognize that the SEC could require divestiture of all or part of their existing gas operations and certain non-utility operations under the registered holding company structure, but intend to seek approval from the SEC to retain such businesses. See "Regulatory Matters" and "Interstate Energy Following the Mergers — Operations."

### Regulatory Matters

The approval of the SEC under the 1935 Act, the Nuclear Regulatory Commission (the "NRC") under the Atomic Energy Act of 1954, as amended (the "Atomic Energy Act"), the Federal Energy Regulatory Commission (the "FERC") under the Federal Power Act, as well as the approval of the Iowa Utilities Board (the "IUB"), the Illinois Commerce Commission (the "ICC"), the Minnesota Public Utilities Commission (the "Minnesota Commission") and the Public Service Commission of Wisconsin (the "Wisconsin Commission") under applicable state laws and the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), are required in order to consummate the Mergers.

Upon consummation of the Mergers, Interstate Energy will be required to register as a holding company under the 1935 Act unless pending legislation to repeal the 1935 Act has been enacted. The 1935 Act imposes restrictions on the operations of registered holding company systems. Among these are requirements that securities issuances, sales and acquisitions of utility assets, securities of utility and other companies, and any other interests in any business be approved by the SEC. The 1935 Act also limits the ability of registered holding companies to engage in non-utility ventures and regulates holding company system service companies and the rendering of services by holding company affiliates to the system's utilities. WPLH, IES and IPC believe the foregoing restrictions and limitations imposed by the 1935 Act in its current form may limit possible operations of Interstate Energy following the Mergers. However, WPLH, IES and IPC believe the benefits of the Mergers exceed the potential adverse effects of such 1935 Act regulation.

In addition, the SEC historically has interpreted the 1935 Act to preclude registered holding companies, with limited exceptions, from owning both electric and gas utility systems. Although the SEC has recently recommended that registered holding companies be allowed to hold both gas and electric utility operations if the affected states agree, it remains possible that the SEC may require as a condition to its approval of the Mergers that WPLH, IES and IPC divest their gas utility properties and possibly certain non-utility ventures within a reasonable time after the Mergers. In certain cases, the SEC has allowed the retention of such properties or deferred the question of divestiture for a substantial period of time. In those cases in which divestiture has taken place, the SEC has usually allowed enough time to complete the divestiture so as to allow the applicant to conduct an orderly sale of the divested assets. WPLH, IES and IPC believe there are strong policy reasons and prior SEC decisions which support their retention of existing gas utility properties and non-utility ventures, or, alternatively, which support deferring the question of divestiture for a substantial period of time. Accordingly, WPLH, IES and IPC will request in their 1935 Act application that WPLH, IES and IPC be allowed to retain, or in the alternative that the question of divestiture be deferred with respect to, WPLH's, IES's and IPC's existing gas utility properties and non-utility ventures. Should the SEC

deny this request, a required divestiture could, under certain circumstances, be at a price below fair market value or otherwise on terms deemed unsatisfactory by Interstate Energy and could have a material adverse effect on the operations, earnings and financial condition of Interstate Energy.

Legislation to repeal the 1935 Act was introduced in Congress in 1995 and is pending. No assurance can be given as to when or if such legislation will be considered or enacted. The Staff of the SEC has also recommended that the SEC "permit combination systems by registered holding companies if the affected states concur," and the SEC has proposed rules that would relax current restrictions on investment by registered holding companies in certain "energy related," non-utility businesses. No prediction can be made as to the outcome of these legislative and regulatory proposals.

Following consummation of the Mergers, Interstate Energy also will be subject to regulation by the Wisconsin Commission under Section 196.795 Wis. Stats. (the "Wisconsin Holding Company Act") as WPLH and WP&L are currently. The Wisconsin Holding Company Act regulates, among other things, the type and amount of investments in non-utility businesses. WPLH, IES and IPC do not expect such regulation to have a materially adverse effect upon the operations of Interstate Energy following the Mergers. WPLH, IES and IPC believe, and intend to take appropriate action to establish, that IPC and Utilities qualify as "public utility affiliates" of Interstate Energy within the meaning of the Wisconsin Holding Company Act. If, however, IPC and Utilities, as presently constituted, were to be deemed nonutility affiliates (because they are not Wisconsin utilities or Wisconsin corporations), the parties reserve the right to take such action as may be required to cause IPC and Utilities to be treated as "public utility affiliates" for purposes of the Wisconsin Holding Company Act. Under the alternative structure set forth in the Merger Agreement, IPC and Utilities would become Wisconsin corporations and acquire certain of the water utility operations currently conducted by WP&L within the State of Wisconsin. Although the parties believe that the Mergers can be consummated under either or both structures in compliance with the Wisconsin Holding Company Act, that statute has not been authoritatively construed, and no assurance as to the interpretation of that statute can be given. The companies currently intend to seek regulatory approval to effect the transactions under either structure. WPLH, IES and IPC believe that, under the reincorporation structure, the Wisconsin Commission would not seek to regulate activities of New Utilities and New IPC following the Mergers other than those activities directly related to the water utility properties and the provision of water utility service in the State of Wisconsin.

Under the Merger Agreement, WPLH, IES and IPC have agreed to use all reasonable efforts to obtain all governmental authorizations necessary or advisable to consummate or effect the transactions contemplated by the Merger Agreement. Various parties may seek to intervene in these proceedings to oppose the Mergers or to have conditions imposed upon the receipt of necessary approvals. While WPLH, IES and IPC believe that they will receive the requisite regulatory approvals for the Mergers, there can be no assurance as to the timing of such approvals or the ability of such parties to obtain such approvals on satisfactory terms or otherwise. It is a condition to the consummation of the Mergers that final orders approving the Mergers be obtained from the various federal and state commissions described above on terms and conditions which would not have, or would not be reasonably likely to have, a material adverse effect on the business, assets, financial condition, results of operations or prospects of Interstate Energy, or which would be materially inconsistent with the agreements of the parties contained in the Merger Agreement. There can be no assurance that any such approvals will not contain terms or conditions that cause such approvals to fail to satisfy such condition to the consummation of the Mergers. Should any such approvals contain terms and conditions unsatisfactory to WPLH, IES or IPC, such party may waive the condition to consummation of, and may proceed with, the Mergers. Additional shareowner approval for any such waiver will not be required or sought. See "Regulatory Matters."

#### **Accounting Treatment**

The Mergers will be treated by the parties as a pooling of interests for accounting purposes. See "The Mergers — Accounting Treatment." The receipt by each of WPLH, IES and IPC of a letter from

their respective independent accountants, stating that the transaction will qualify as a pooling of interests, is a condition precedent to the consummation of the Mergers. See "The Merger Agreement — Conditions to Each Party's Obligation to Effect the Mergers."

#### **Dissenters' Rights**

Under Iowa law, holders of record of IES Common Stock as of the IES Record Date who do not wish to accept shares of Interstate Energy Common Stock in the IES Merger have the right to have the fair value of the IES shares appraised by judicial determination and paid to them in cash. In order to perfect such dissenters' rights, holders of IES Common Stock must comply with the procedural requirements of the IBCA, including, without limitation, filing written notice with IES prior to the IES Meeting of such shareholder's intention to dissent and demand payment of the fair value of his or her shares, not voting in favor of the Merger Agreement and making a written demand for payment and depositing the certificates representing such shares within 30 days after notice is given by IES of the results of the vote at the IES Meeting. See "The Mergers — Iowa Dissenters' Rights" and Annex P.

Under Delaware law, holders of record of IPC Preferred Stock as of the IPC Record Date who wish to exercise dissenters' rights with respect to the IPC Direct Merger or who do not wish to accept New IPC Preferred Stock in the IPC Reincorporation Merger, as the case may be, have the right to have the fair value of their shares of IPC Preferred Stock appraised by judicial determination and paid to them. In order to perfect such dissenters' rights, holders of IPC Preferred Stock must comply with the procedural requirements of the DGCL, including, without limitation, delivering to IPC before the IPC Meeting a written notice of such stockholder's intention to dissent and demand appraisal of his or her shares, not voting in favor of the Merger Agreement and filing a petition in the Delaware Court of Chancery (the "Delaware Chancery Court") demanding a determination of the fair value of the IPC Preferred Stock. Under Delaware law, the holders of IPC Common Stock have no dissenters' rights in connection with the Mergers. See "The Mergers — Delaware Dissenters' Rights" and Annex Q.

Under Wisconsin law, the holders of WPLH Common Stock have no dissenters' rights. See "The Mergers — No Wisconsin Dissenters' Rights."

#### **Dividends**

*WPLH, IES and IPC Prior to the Effective Time.* Pursuant to the Merger Agreement, each of WPLH, IES and IPC shall not, and shall not permit any of its subsidiaries to, declare or pay any dividends on, or make other distributions in respect of, any of its capital stock, other than to such party or its wholly-owned subsidiaries and other than dividends required to be paid on any series of cumulative preferred stock, no par value, of IES ("IES Preferred Stock") (no shares of which are currently outstanding), Utilities Preferred Stock, preferred stock, no par value, of WP&L ("WP&L Preferred Stock"), or IPC Preferred Stock in accordance with the respective terms thereof, and regular quarterly dividends to be paid on WPLH Common Stock, IES Common Stock and IPC Common Stock not to exceed in any fiscal year 100% of the dividends for the prior fiscal year in the case of IES and IPC and 105% in the case of WPLH.

*Interstate Energy After the Effective Time.* It is anticipated that Interstate Energy will retain WPLH's then current common share dividend payment level as of the Effective Time. WPLH's current annualized dividend rate is \$1.97 per share, IES's annual dividend rate is currently \$2.10 per share and IPC's annual dividend rate is currently \$2.08 per share. The dividend policy of Interstate Energy is subject to evaluation from time to time by the Interstate Energy Board based on Interstate Energy's results of operations, financial condition, capital requirements and other relevant considerations, including regulatory considerations. Declaration and timing of dividends on Interstate Energy Common Stock will be a business decision to be made by the Interstate Energy Board from time to time based upon the results of operations and financial condition of Interstate Energy and its subsidiaries and such other business considerations as the Interstate Energy Board considers relevant in accordance with applicable laws. See "Interstate Energy Following the Mergers" and "Description of Interstate Energy Capital Stock — Interstate Energy Common Stock."

*Preferred Stock after the Effective Time.* Following the Effective Time, dividends will be paid on shares of IES Preferred Stock (if any such shares are then outstanding), Utilities Preferred Stock (unless such shares are redeemed in connection with the Utilities Reincorporation Merger), WP&L Preferred Stock and IPC Preferred Stock (or New IPC Preferred Stock if the IPC Reincorporation Merger is effected) in accordance with the respective terms of such stock.

#### **Amendments to WPLH Charter**

Pursuant to the Merger Agreement, subject to the approval of each of the WPLH Charter Amendments by WPLH's shareowners at the WPLH Meeting, the WPLH Charter will be amended no later than the Effective Time as provided in Annex O. The WPLH Charter Amendments will (i) change the name of WPLH to Interstate Energy Corporation; and (ii) increase the number of shares of WPLH Common Stock authorized for issuance from 100,000,000 to 200,000,000. The WPLH Charter, as so amended, will be the Restated Articles of Incorporation of Interstate Energy (the "Interstate Energy Charter") at the Effective Time and until thereafter amended in accordance with the WBCL and the Interstate Energy Charter. Approval of each of the WPLH Charter Amendments is a condition precedent to the consummation of the Mergers. See "Amendments to WPLH Restated Articles of Incorporation."

#### **Amendment to IPC Charter**

Subject to the approval of the IPC Charter Amendment by IPC's stockholders at the IPC Meeting, the IPC Charter will be amended following the IPC Meeting and prior to the Effective Time as provided in Annex R. The IPC Charter Amendment would provide that each share of IPC Preferred Stock outstanding from time to time will have one vote, voting together as one class with the holders of IPC Common Stock (except as otherwise required by applicable law or as specifically set forth in the IPC Charter), on all matters to come before a vote of the stockholders of IPC. The IPC Charter Amendment is designed to comply with certain provisions of the Code to enable the IPC Merger to qualify as a tax-free reorganization under the Code. Approval of the IPC Charter Amendment is a condition precedent to the consummation of the Mergers. See "Amendment to IPC Restated Certificate of Incorporation" and "The Mergers — Certain Federal Income Tax Consequences."

#### **Comparison of Rights of Shareowners**

As a result of the Mergers, holders of IES Common Stock (other than IES Dissenting Shares) will become shareowners of Interstate Energy, a Wisconsin corporation. Such shareowners will have certain different rights as Interstate Energy shareowners than they had as shareowners of IES, both because of the differences between the IES Charter and the IES Bylaws and the Interstate Energy Charter and the bylaws of Interstate Energy (the "Interstate Energy Bylaws"), and because of differences between Wisconsin and Iowa corporation law. For a comparison of Wisconsin and Iowa law and the charter and bylaw provisions of IES and Interstate Energy, see "Comparison of Shareowner Rights."

As a result of the Mergers, holders of IPC Common Stock will become shareowners of Interstate Energy, a Wisconsin corporation. Such shareowners will have certain different rights as Interstate Energy shareowners than they had as shareowners of IPC, both because of the differences between the IPC Charter and the IPC Bylaws and the Interstate Energy Charter and the Interstate Energy Bylaws, and because of differences between Wisconsin and Delaware corporation law. In the event that the IPC Reincorporation Merger is effected, holders of IPC Preferred Stock (other than IPC Dissenting Shares) will receive in the IPC Reincorporation Merger shares of New IPC Preferred Stock, the terms (including dividend rates) and designations of which will be substantially identical to those of the corresponding shares of IPC Preferred Stock (as set forth in the IPC Charter), including the additional voting rights proposed to be approved at the IPC Meeting. The rights of holders of New IPC Preferred Stock may be different in certain respects under Wisconsin law than the rights of holders of IPC Preferred Stock under Delaware law. For a comparison of Wisconsin and Delaware law and the charter and bylaw provisions of IPC and Interstate Energy, see "Comparison of Shareowner Rights."

## SELECTED HISTORICAL AND PRO FORMA DATA

The summary below sets forth selected historical financial and market data and selected unaudited pro forma financial data. The financial data should be read in conjunction with the historical consolidated financial statements and related notes thereto of WPLH, IES and IPC, incorporated herein by reference, and in conjunction with the unaudited pro forma combined financial statements and related notes thereto of Interstate Energy included elsewhere in this Joint Proxy Statement/Prospectus. See "Unaudited Pro Forma Combined Financial Information."

### Selected Historical Financial and Market Data

The selected historical financial data of each of WPLH, IES and IPC for the five years ended December 31, 1995, set forth below, have been derived (except as described below) from audited financial statements. The selected historical financial data of WPLH, IES and IPC as of and for the twelve-month period ended March 31, 1996, set forth below, have been derived (except as described below) from unaudited financial statements. The financial data of WPLH set forth below have been adjusted to reflect the restatement of such data to account for certain discontinued operations discussed in the notes hereto. The selected historical market data of each of WPLH, IES and IPC for the dates indicated below are based on the closing sales prices of WPLH Common Stock, IES Common Stock and IPC Common Stock as reported on the NYSE Composite Tape for such dates. The Aggregate Market Capitalization represents the product of the closing sale prices on such dates multiplied by the number of outstanding shares on such dates.

**WPL Holdings, Inc.**

	Twelve Months Ended March 31, 1996	Year Ended December 31,				
		1995	1994	1993	1992	1991
(Dollars in thousands except per share and ratio data)						
<b>Income Statement Data</b>						
Operating Revenues . . . . .	\$ 852,258	\$ 807,255	\$ 795,717	\$ 738,604	\$ 673,273	\$ 669,549
Operating Income . . . . .	158,865	149,404	131,815	127,944	117,959	132,605
Allowance for Borrowed and Other Funds Used During Construction . . . . .	2,503	2,088	4,038	4,031	3,680	1,959
Preferred Dividend Requirements of Subsidiary . . . . .	3,310	3,310	3,310	3,928	3,811	3,811
Income From Continuing Operations (a)(g)(j) . . . . .	83,239	71,618	66,424	63,685	58,007	65,930
Earnings per Common Share from Continuing Operations (a)(g)(j) . . . . .	\$ 2.70	\$ 2.33	\$ 2.17	\$ 2.15	\$ 2.10	\$ 2.42
Cash Dividends Declared per Common Share . . . . .	\$ 1.948	\$ 1.94	\$ 1.92	\$ 1.90	\$ 1.86	\$ 1.80
<b>December 31,</b>						
	March 31, 1996	1995	1994	1993	1992	1991
(Dollars in thousands except per share and ratio data)						
<b>Balance Sheet Data</b>						
Total Assets (j) . . . . .	\$1,838,674	\$1,872,414	\$1,805,901	\$1,761,899	\$1,565,898	\$1,383,499
Long-Term Obligations (c) . . . . .	429,753	433,759	450,942	425,887	418,960	371,904
Commercial Paper, Notes Payable and Other . . . . .	57,896	109,525	64,501	91,902	71,427	52,838
Variable Rate Demand Bonds . . . . .	56,975	56,975	56,975	56,975	57,075	57,875
Preferred Stock — Not Subject to Mandatory Redemption . . . . .	59,963	59,963	59,963	59,963	62,449	62,449
Subject to Mandatory Redemption . . . . .	—	—	—	—	—	—
Common Stock Equity (j)	613,628	597,470	597,798	582,966	483,536	459,659
Book Value per Common Share (j) . . . . .	\$ 19.94	\$ 19.41	\$ 19.43	\$ 19.15	\$ 17.38	\$ 16.84
<b>December 31,</b>						
	March 31, 1996	1995	1994	1993	1992	1991
<b>Market Data — Common Stock</b>						
Aggregate Market Capitalization (millions)	\$ 950	\$ 942	\$ 842	\$ 1,001	\$ 943	\$ 894
Closing Market Price per Share . . . . .	\$ 30.875	\$ 30.625	\$ 27.375	\$ 32.875	\$ 33.875	\$ 32.75
Ratio of Market Value to Book Value (j) . . . . .	1.55x	1.58x	1.41x	1.72x	1.95x	1.94x

See accompanying Notes to Selected Historical and Pro Forma Data

**IES Industries Inc.**

	Twelve Months Ended March 31, 1996	Year Ended December 31,				
		1995	1994	1993	1992	1991
(Dollars in thousands except per share and ratio data)						
<b>Income Statement Data</b>						
Operating Revenues . . . . .	\$ 887,816	\$ 851,010	\$ 785,864	\$ 801,266	\$ 678,296	\$ 661,538
Operating Income . . . . .	166,594	151,712	147,933	151,269	109,024	103,357
Allowance for Borrowed and Other Funds Used During Construction . . . . .	2,999	3,424	3,910	1,972	3,177	2,086
Preferred and Preference Dividend Requirements of Subsidiary . . . . .	914	914	914	914	1,729	2,170
Income from Continuing Operations (a)(i) . . . . .	71,531	64,176	66,818	67,938	48,711	44,657
Earnings per Common Share from Continuing Operations (a)(i) . . . . .	\$ 2.43	\$ 2.20	\$ 2.34	\$ 2.45	\$ 1.92	\$ 1.85
Cash Dividends Declared per Common Share . . . . .	\$ 2.10	\$ 2.10	\$ 2.10	\$ 2.10	\$ 2.10	\$ 2.03
<b>December 31,</b>						
	<b>March 31, 1996</b>	<b>1995</b>	<b>1994</b>	<b>1993</b>	<b>1992</b>	<b>1991</b>
(Dollars in thousands except per share and ratio data)						
<b>Balance Sheet Data</b>						
Total Assets . . . . .	\$1,986,944	\$1,985,591	\$1,849,093	\$1,699,819	\$1,594,382	\$1,448,492
Long-Term Obligations (c) . . . . .	653,450	656,543	626,011	577,611	553,257	507,921
Commercial Paper, Notes Payable and Other . . . . .	92,000	101,000	37,000	24,000	92,000	40,900
Preferred and Preference Stock — Not Subject to Mandatory Redemption . . . . .	18,320	18,320	18,320	18,320	18,320	18,320
Subject to Mandatory Redemption . . . . .	—	—	—	—	—	10,874
Common Stock Equity . . . . .	615,820	612,346	591,783	572,051	482,729	463,296
Book Value per Common Share . . . . .	\$ 20.75	\$ 20.75	\$ 20.56	\$ 20.21	\$ 18.89	\$ 19.07
<b>December 31,</b>						
	<b>March 31, 1996</b>	<b>1995</b>	<b>1994</b>	<b>1993</b>	<b>1992</b>	<b>1991</b>
<b>Market Data — Common Stock</b>						
Aggregate Market Capitalization (millions) . . . . .	\$ 827	\$ 782	\$ 727	\$ 885	\$ 754	\$ 662
Closing Market Price per Share . . . . .	\$ 27.875	\$ 26.50	\$ 25.25	\$ 31.25	\$ 29.50	\$ 27.25
Ratio of Market Value to Book Value . . . . .	1.34x	1.28x	1.23x	1.55x	1.56x	1.43x

See accompanying Notes to Selected Historical and Pro Forma Data

## Interstate Power Company (IPC)

	Twelve Months Ended March 31, 1996	Year Ended December 31,				
		1995	1994	1993	1992	1991
(Dollars in thousands except per share and ratio data)						
<b>Income Statement Data</b>						
Operating Revenues .....	\$322,826	\$318,542	\$307,650	\$309,468	\$285,298	\$291,805
Operating Income (h) .....	69,190	66,776	43,435	43,791	44,521	60,911
Allowance for Borrowed and Other Funds Used During Construction	304	341	498	213	371	2,094
Preferred and Preference Dividend Requirements .....	2,459	2,458	2,454	2,861	2,975	3,075
Income from Continuing Operations (h) .....	26,982	25,198	18,213	16,126	16,242	26,435
Earnings per Common Share from Continuing Operations (h) .....	\$ 2.82	\$ 2.63	\$ 1.92	\$ 1.73	\$ 1.74	\$ 2.84
Cash Dividends Declared per Common Share .....	\$ 2.08	\$ 2.08	\$ 2.08	\$ 2.08	\$ 2.08	\$ 2.04
Ratio of Earnings to Fixed Charges Plus Preferred and Preference Dividend Requirements (b) .....	3.15x	2.99x	2.26x	2.14x	2.13x	2.92x

	March 31, 1996	December 31,				
		1995	1994	1993	1992	1991
(Dollars in thousands except per share and ratio data)						
<b>Balance Sheet Data</b>						
Total Assets .....	\$630,107	\$634,316	\$628,845	\$604,361	\$558,100	\$550,631
Long-Term Obligations (c) .....	188,899	188,880	203,032	203,170	199,532	205,036
Commercial Paper, Notes Payable and Other .....	23,150	39,300	35,600	20,100	9,000	7,200
Preferred and Preference Stock — Not Subject to Mandatory Redemption .....	10,819	10,819	10,819	10,819	20,911	20,911
Subject to Mandatory Redemption .....	24,062	24,036	23,933	23,837	14,426	15,782
Common Stock Equity .....	201,713	197,770	192,505	189,809	190,324	193,421
Book Value per Common Share ..	\$ 21.09	\$ 20.68	\$ 20.13	\$ 20.21	\$ 20.47	\$ 20.80

	March 31, 1996	December 31,				
		1995	1994	1993	1992	1991
<b>Market Data — Common Stock</b>						
Aggregate Market Capitalization (millions) .....	\$ 305	\$ 317	\$ 227	\$ 283	\$ 287	\$ 314
Closing Market Price per Share ..	\$ 31.875	\$ 33.125	\$ 23.75	\$ 30.125	\$ 30.875	\$ 33.75
Ratio of Market Value to Book Value .....	1.51x	1.60x	1.18x	1.49x	1.51x	1.62x

See accompanying Notes to Selected Historical and Pro Forma Data



### Selected Unaudited Pro Forma Financial Data

The following selected unaudited pro forma financial information combines the historical consolidated balance sheets and statements of income of WPLH, IES and IPC, including their respective subsidiaries, after giving effect to the Mergers. The unaudited pro forma combined balance sheet data at March 31, 1996 and December 31, 1995, 1994 and 1993 give effect to the Mergers as if they had occurred at the respective balance sheet dates. The unaudited pro forma combined statements of income for the twelve months ended March 31, 1996 and each of the years in the three-year period ended December 31, 1995 give effect to the Mergers as if they had occurred at January 1, 1993. These statements are prepared on the basis of accounting for the Mergers as a pooling of interests and are based on the assumptions set forth in the notes thereto. The following information is not necessarily indicative of the financial position or operating results that would have occurred had the Mergers been consummated on the date as of which, or at the beginning of the periods for which, the Mergers are being given effect nor is it necessarily indicative of future operating results or financial position. See "Unaudited Pro Forma Combined Financial Information."

### Interstate Energy Corporation Pro Forma Financial Data

	Twelve Months Ended	Year Ended December 31,		
	March 31, 1996	1995	1994	1993
(Dollars in millions, except per share data)				
<b>Income Statement Data</b>				
Operating Revenues	\$2,063	\$1,977	\$1,889	\$1,849
Operating Income	395	368	323	323
Allowance for Borrowed and Other Funds Used During Construction	6	6	8	6
Preferred Dividend Requirements of Subsidiaries	7	7	7	8
Income from Continuing Operations (a)(g)(h)(i)(j)	182	161	151	148
Earnings Per Common Share from Continuing Operations (a)(d)(g)(h)(i)(j)	\$ 2.56	\$ 2.27	\$ 2.16	\$ 2.17
Cash Dividends Declared per Common Share (d)	\$ 1.99	\$ 1.99	\$ 1.98	\$ 1.97
<b>Equivalent IES Pro Forma per Share Data (e)</b>				
Earnings per Common Share (a)(g)(h)(i)	\$ 2.59	\$ 2.29	\$ 2.18	\$ 2.19
Cash Dividends Declared per Common Share (f)	\$ 2.01	\$ 2.01	\$ 2.00	\$ 1.99
<b>Equivalent IPC Pro Forma per Share Data (e)</b>				
Earnings per Common Share (a)(g)(h)(i)	\$ 2.84	\$ 2.52	\$ 2.40	\$ 2.41
Cash Dividends Declared per Common Share (f)	\$ 2.21	\$ 2.21	\$ 2.20	\$ 2.19
	March 31, 1996	December 31,		
		1995	1994	1993
(Dollars in millions, except per share data)				
<b>Balance Sheet Data</b>				
Total Assets (j)	\$4,456	\$4,492	\$4,284	\$4,066
Long-Term Obligations (c)	1,270	1,279	1,280	1,207
Variable Rate Demand Bonds	57	57	57	57
Commercial Paper, Notes and Other	173	250	137	136
Preferred Stock —				
Not Subject to Mandatory Redemption	89	89	89	89
Subject to Mandatory Redemption	24	24	24	24
Common Stock Equity (j)	1,423	1,399	1,382	1,345
Book Value per Common Share (j)	\$19.94	\$19.65	—	—
<b>Equivalent IES Pro Forma per Share Data (e)</b>				
Book Value per Common Share (j)	\$20.14	\$19.85	—	—
<b>Equivalent IPC Pro Forma per Share Data (e)</b>				
Book Value per Common Share Data (j)	\$22.13	\$21.81	—	—

See accompanying Notes to Selected Historical and Pro Forma Data

### Comparative Book Values, Dividends and Earnings Per Common Share

	March 31, 1996	December 31, 1995		
<b>Book Values Per Common Share</b>				
<b>WPLH/Interstate Energy</b>				
Historical (j) .....	\$19.94	\$19.41		
Equivalent pro forma (j) .....	\$19.94	\$19.65		
<b>IES</b>				
Historical .....	\$20.75	\$20.75		
Equivalent pro forma (e)(j) .....	\$20.14	\$19.85		
<b>IPC</b>				
Historical .....	\$21.09	\$20.68		
Equivalent pro forma (e)(j) .....	\$22.13	\$21.81		
	<b>Twelve Months Ended</b>	<b>Year Ended December 31,</b>		
	<b>March 31, 1996</b>	<b>1995</b>	<b>1994</b>	<b>1993</b>
<b>Cash Dividends Declared Per Common Share</b>				
<b>WPLH/Interstate Energy</b>				
Historical .....	\$1.948	\$1.94	\$1.92	\$1.90
Equivalent pro forma (d) .....	\$ 1.99	\$1.99	\$1.98	\$1.97
<b>IES</b>				
Historical .....	\$ 2.10	\$2.10	\$2.10	\$2.10
Equivalent pro forma (e)(f) .....	\$ 2.01	\$2.01	\$2.00	\$1.99
<b>IPC</b>				
Historical .....	\$ 2.08	\$2.08	\$2.08	\$2.08
Equivalent pro forma (e)(f) .....	\$ 2.21	\$2.21	\$2.20	\$2.19
<b>Earnings Per Common Share from Continuing Operations</b>				
<b>WPLH/Interstate Energy</b>				
Historical (a)(g)(j) .....	\$ 2.70	\$2.33	\$2.17	\$2.15
Equivalent pro forma (a)(d)(g)(h)(j) .....	\$ 2.56	\$2.27	\$2.16	\$2.17
<b>IES</b>				
Historical (a)(i) .....	\$ 2.43	\$2.20	\$2.34	\$2.45
Equivalent pro forma (a)(e)(g)(h)(i) .....	\$ 2.59	\$2.29	\$2.18	\$2.19
<b>IPC</b>				
Historical (h) .....	\$ 2.82	\$2.63	\$1.92	\$1.73
Equivalent pro forma (a)(e)(g)(h)(i) .....	\$ 2.84	\$2.52	\$2.40	\$2.41

See accompanying Notes to Selected Historical and Pro Forma Data

#### Notes to Selected Historical and Pro Forma Data

- (a) Income from Continuing Operations and Earnings per Common Share are based on income from continuing operations after preferred dividend requirements.
- (b) For purposes of computing the ratios of earnings to fixed charges plus preferred and preference dividend requirements, "earnings" consist of income from continuing operations before accounting changes (see Note k), plus interest charges, preferred and preference dividend requirements, income taxes, and the estimated interest component of rentals, minus the undistributed equity in earnings of unconsolidated investees. "Earnings" also include allowance for borrowed and other funds used during construction. "Fixed charges" consist of interest charges, the estimated interest component of rentals and the pre-tax dividend requirements on subsidiary preferred stock. Currently, the IPC Preferred Stock is not issued by a subsidiary; subsequent to the Mergers, the IPC Preferred Stock or the New IPC Preferred Stock, as the case may be, will be issued by a subsidiary of Interstate Energy. The pro forma ratios of earnings to fixed charges plus preferred and preference dividend requirements of New IPC (after giving effect to the IPC Reincorporation Merger) for the years ended December 31, 1993, 1994 and 1995 and for the twelve months ended March 31, 1996 are 2.14, 2.26, 2.99 and 3.15, respectively.
- (c) Includes long-term debt, sinking fund requirements, current maturities, current and long-term capital lease obligations, net of unamortized discount and premium.
- (d) Pro forma per common share amounts give effect to the conversion of each share of IES Common Stock and IPC Common Stock outstanding into 1.01 and 1.11 shares, respectively, of Interstate Energy Common Stock. Pro forma per common share amounts do not, however, give effect to the cost-saving synergies of the transaction or transaction costs. For a description of the synergies, see "The Mergers — Reasons for the Mergers; Recommendations of the Boards of Directors."
- (e) Represents the pro forma equivalent of one share of IES Common Stock or one share of IPC Common Stock, as the case may be, calculated by multiplying the pro forma information by the conversion ratio of 1.01 and 1.11 shares, respectively, of Interstate Energy Common Stock for each share of IES Common Stock and IPC Common Stock.
- (f) Pursuant to SEC requirements, the amount is calculated based on historical dividends paid by WPLH, IES, and IPC combined. It is anticipated that Interstate Energy will retain WPLH's common share dividend payment level in effect at the Effective Time.
- (g) Nonrecurring items affecting WPLH's 1994 performance include the impact of early retirement and severance programs and the reversal of a coal contract penalty assessed by the Wisconsin Commission which was charged to income in 1989. The net after-tax impact of these items on income from continuing operations for the year ended December 31, 1994 was a decrease of \$8.3 million related to the early retirement and severance programs offset by an increase of \$4.9 million related to the coal contract penalty reversal.
- (h) IPC's income from continuing operations includes expenses associated with environmental investigation and remediation costs of former manufactured gas plants. Operating expenses for the twelve months ended March 31, 1996 and for the years ended December 31, 1995, 1994 and 1993 include \$0.2 million, \$0.3 million, \$0.8 million and \$3.5 million, respectively, for these costs. Other operating expenses for the twelve months ended March 31, 1996 and for the year ended December 31, 1995 also include \$0.8 million and \$0.7 million, respectively, of legal fees related to coal tar remediation, compared with \$1.0 million and \$0.3 million for the years ended December 31, 1994 and 1993, respectively. For the twelve months ended March 31, 1996 and for the years ended December 31, 1995, 1994 and 1993, \$0.4 million, \$0.6 million, \$0.7 million and \$0.6 million, respectively, of the foregoing expenses were recovered in rates.
- (i) Nonrecurring items affecting IES's income from continuing operations for the year ended December 31, 1993 include various gains and losses related to sales of assets and property valuation

adjustments associated with its nonregulated businesses. The net after-tax impact of these items on income from continuing operations for the year ended December 31, 1993 was a decrease of \$2.0 million.

- (j) The selected historical and pro forma data of WPLH reflect the discontinuance of operations of its utility energy and marketing consulting business in 1995. The discontinuance of this business resulted in a pre-tax loss of \$7.7 million (\$11.0 million net of the applicable income tax expenses) in 1995. Operating revenues, operating expenses, other income and expense and income taxes for the discontinued operations for the time periods presented have been excluded from income from continuing operations. Interest expense has been adjusted for the amounts associated with direct obligations of the discontinued operations.

Operating revenues, related losses, and income tax benefits associated with the discontinued operations for the indicated time periods were as follows:

	Twelve Months Ended March 31, 1996	Year Ended December 31,		
		1995	1994	1993
Operating revenues	\$15,969	\$24,979	\$34,798	\$33,340
Loss from discontinued operations before tax benefit	\$ 2,990	\$ 3,663	\$ 1,806	\$ 1,761
Income tax benefit	1,184	1,451	632	599
Loss from discontinued operations	\$ 1,806	\$ 2,212	\$ 1,174	\$ 1,162

- (k) Accounting principles have been consistently applied in the financial statement presentations for WPLH, IES and IPC with one exception. IPC does not include unbilled electric and gas revenues in its calculation of total revenues. The utility subsidiaries of WPLH and IES accrue unbilled revenues. The impact of this difference in accounting principles among the companies does not have a material impact on the selected historical and pro forma data as presented and, accordingly, no adjustments have been made to conform accounting principles.

#### Comparative Market Prices and Dividends

The WPLH Common Stock, the IES Common Stock and the IPC Common Stock are listed on the NYSE, the CSE and the PSE; the WPLH Common Stock and the IES Common Stock are also listed on the BSE; and the IES Common Stock is also traded on the PhSE. The following table sets forth, for the periods indicated, the high and low sales prices of WPLH Common Stock, IES Common Stock and IPC Common Stock as reported on the NYSE Composite Tape and the dividends declared thereon.

	IES			IPC			WPLH		
	High	Low	Dividends	High	Low	Dividends	High	Low	Dividends
1993									
First Quarter	31%	28%	.525	34%	30%	.52	36	32½	.475
Second Quarter	32%	28%	.525	32%	29	.52	36%	33%	.475
Third Quarter	34%	31%	.525	31%	29	.52	36%	35	.475
Fourth Quarter	34	29%	.525	30%	29%	.52	36	31½	.475
1994									
First Quarter	31%	27	.525	30%	26%	.52	32%	27%	.48
Second Quarter	29	25½	.525	29	22½	.52	30%	26%	.48
Third Quarter	28%	24%	.525	24%	21	.52	29%	27	.48
Fourth Quarter	26%	24%	.525	23%	20%	.52	28%	26%	.48

	IES			IPC			WPLH		
	High	Low	Dividends	High	Low	Dividends	High	Low	Dividends
1995									
First Quarter . . . . .	27%	24%	.525	25½	23	.52	31	27¼	.485
Second Quarter . . . . .	26%	20%	.525	25	23½	.52	30	27½	.485
Third Quarter . . . . .	26%	21%	.525	27¼	23¼	.52	29%	27½	.485
Fourth Quarter . . . . .	28½	25%	.525	33¼	27%	.52	31¼	29¼	.485
1996									
First Quarter . . . . .	29%	26½	.525	33½	30	.52	32	29%	.4925
Second Quarter . . . . .	30%	25½	.525	32½	29%	.52	32%	28%	.4925
Third Quarter . . . . .	30	29¼	.525	32%	30%	.52	32%	31%	.4925
(through July 9)									

On November 10, 1995, the last full trading day before the public announcement of the execution and delivery of the Merger Agreement, the high, low and closing sales prices per share of (i) WPLH Common Stock on the NYSE were \$30¼, \$30¼ and \$30¼, respectively, (ii) IES Common Stock on the NYSE were \$27½, \$27 and \$27½, respectively, and (iii) IPC Common Stock on the NYSE were \$29%, \$29%, and \$29%, respectively. On May 22, 1996, the last full trading day before the public announcement of the execution and delivery of the amendment to the Merger Agreement, the high, low and closing sales prices per share of (i) WPLH Common Stock on the NYSE were \$30¼, \$30% and \$30¼, respectively, (ii) IES Common Stock on the NYSE were \$28%, \$28¼ and \$28½, respectively, and (iii) IPC Common Stock on the NYSE were \$31¼, \$31 and \$31, respectively.

For calendar year 1995, dividends paid per share of common stock were \$1.94 for WPLH, \$2.10 for IES and \$2.08 for IPC. WPLH's current annualized dividend rate is \$1.97 per share. It is anticipated that Interstate Energy will retain WPLH's then current common share dividend payment level as of the Effective Time. Assuming the WPLH annual dividend level remains \$1.97 as of the Effective Time, and giving effect to the Ratios, former holders of IES Common Stock will receive an annual dividend equivalent to approximately \$1.99 per share of IES Common Stock held immediately preceding the Effective Time and former holders of IPC Common Stock will receive an annual dividend equivalent to approximately \$2.187 per share of IPC Common Stock held immediately preceding the Effective Time.

On July 9, 1996, the most recent date for which it was practicable to obtain market price data prior to the printing of this Joint Proxy Statement/Prospectus, the high, low and closing sales prices per share of WPLH Common Stock on the NYSE were \$32, \$31½ and \$31¼, respectively, the high, low and closing sales prices per share of IES Common Stock on the NYSE were \$29½, \$29¼ and \$29%, respectively, and the high, low and closing sales prices per share of IPC Common Stock on the NYSE were \$31¼, \$30% and \$30%, respectively. Accordingly, if the Mergers had been consummated on that date, each share of IES Common Stock would have been converted into the right to receive 1.01 shares of WPLH Common Stock having a market value of \$32.07 based upon the closing price per share of WPLH Common Stock on such date and each share of IPC Common Stock would have converted into the right to receive 1.11 shares of WPLH Common Stock having a market value of \$35.24 based on the closing price per share of WPLH Common Stock on such date.

The market prices of WPLH Common Stock, IES Common Stock and IPC Common Stock are subject to fluctuation. WPLH shareowners, IES shareowners and IPC shareowners are urged to obtain current market quotations for WPLH Common Stock, IES Common Stock and IPC Common Stock.

## MEETINGS, VOTING AND PROXIES

This Joint Proxy Statement/Prospectus is being furnished to (i) the holders of WPLH Common Stock in connection with the solicitation of proxies by the WPLH Board from the holders of WPLH Common Stock for use at the WPLH Meeting, (ii) the holders of IES Common Stock in connection with the solicitation of proxies by the IES Board from the holders of IES Common Stock for use at the IES Meeting and (iii) the holders of IPC Common Stock in connection with the solicitation of proxies by the IPC Board from the holders of IPC Common Stock for use at the IPC Meeting.

### The WPLH Meeting

*Purpose of WPLH Meeting.* The purpose of the WPLH Meeting is to consider and vote upon: (i) a proposal to approve the Merger Agreement and the transactions contemplated thereby (including, among other things, the issuance of shares of Interstate Energy Common Stock pursuant to the terms of the Merger Agreement); (ii) a proposal to approve the Name Change Amendment and the Common Stock Amendment; (iii) a proposal to elect a total of three directors for terms expiring at the 1999 annual meeting of shareowners of WPLH or until their successors have been duly elected and qualified; (iv) a proposal to appoint Arthur Andersen LLP as independent auditors of WPLH for the year ending December 31, 1996; and (v) such other matters, if any, as may properly come before the WPLH Meeting. The WPLH Board is not aware, as of the date of mailing of this Joint Proxy Statement/Prospectus, of any other matters which may properly come before the WPLH Meeting. If any such other matters properly come before the WPLH Meeting, or any adjournment or postponement thereof, it is the intention of the persons named in the WPLH proxy to vote such proxies in accordance with their best judgment on such matters.

The WPLH Board, by unanimous vote of the directors present, has approved the Merger Agreement and each of the WPLH Charter Amendments, authorized the execution and delivery of the Merger Agreement, and recommends that WPLH shareowners vote FOR approval of the Merger Agreement (including the issuance of shares of Interstate Energy Common Stock pursuant to the terms of the Merger Agreement), FOR approval of each of the WPLH Charter Amendments, FOR the election of the nominated WPLH directors and FOR the appointment of Arthur Andersen LLP as independent auditors.

Pursuant to the Merger Agreement, consummation of the Mergers is conditioned upon approval by the shareowners of WPLH of proposals (i) and (ii) set forth above, but is not conditioned upon approval of the shareowners of WPLH of any other of the above proposals. If approved, each of the WPLH Charter Amendments will become effective only if the Mergers are consummated.

*Date, Place and Time; Record Date.* The WPLH Meeting is scheduled to be held on Thursday, September 5, 1996, immediately following the annual meeting of WP&L which will be held at 10:00 a.m., Central Time, at the Exhibition Hall at the Dane County Expo Center, 1881 Expo Mall, Madison, Wisconsin. Holders of record of WPLH Common Stock at the close of business on July 10, 1996, the WPLH Record Date, will be entitled to notice of and to vote at the WPLH Meeting. As of the close of business on the WPLH Record Date, 30,795,260 shares of WPLH Common Stock were issued and outstanding and entitled to vote.

*Voting Rights.* Each outstanding share of WPLH Common Stock is entitled to one vote upon each matter presented at the WPLH Meeting. A majority of the votes entitled to be cast by holders of shares of WPLH Common Stock represented in person or by proxy, shall constitute a quorum for each matter presented at the WPLH Meeting. Abstentions and broker non-votes (*i.e.*, proxies from brokers or nominees indicating that such persons have not received instructions from the beneficial owners or other persons entitled to vote shares as to a matter with respect to which brokers or nominees do not have discretionary power to vote) will be considered present for the purpose of establishing a quorum.

If a quorum is present, the affirmative vote of a majority of the votes entitled to be cast by the holders of the outstanding shares of WPLH Common Stock entitled to vote thereon is required for approval of the Merger Agreement (including the issuance of shares of Interstate Energy Common

Stock pursuant to the terms of the Merger Agreement). Under applicable Wisconsin law, in determining whether the Merger Agreement (including the issuance of shares of Interstate Energy Common Stock pursuant to the terms of the Merger Agreement) has received the requisite number of affirmative votes, abstentions and broker non-votes will have the same effect as votes cast against approval of the Merger Agreement. Failure to return a WPLH proxy or to vote in person at the WPLH Meeting will have the effect of a vote against the Merger Agreement. If a quorum is present, the affirmative vote of a majority of the votes entitled to be cast by the holders of the shares of WPLH Common Stock represented at the WPLH Meeting and entitled to vote thereon is required for approval of each of the WPLH Charter Amendments and for the appointment of Arthur Andersen LLP as WPLH's independent auditors for the year ending December 31, 1996. In tabulating the votes for each of the WPLH Charter Amendments and for the appointment of Arthur Andersen LLP, an abstention has the same effect as a vote against, while broker non-votes are treated as shares not entitled to vote. The directors will be elected by a plurality of the votes cast at the WPLH Meeting (assuming a quorum is present). Consequently, any shares not voted at the WPLH Meeting, whether due to abstentions or otherwise, will have no impact on the election of directors. The directors and executive officers of WPLH, together with their affiliates as a group, are deemed to own beneficially less than 1% of the issued and outstanding shares of WPLH Common Stock.

*Proxies.* Holders of the WPLH Common Stock may vote either in person or by properly executed proxy. By completing and returning the form of proxy, the WPLH shareowner authorizes the persons named therein to vote all the WPLH shareowner's shares on his or her behalf. Issued and outstanding shares of WPLH Common Stock which are represented by properly executed proxies will, unless such proxies have been revoked, be voted in accordance with the instructions indicated in such proxies. If no instructions are indicated on a properly executed proxy, such shares will be voted FOR approval of the Merger Agreement (including the issuance of shares of Interstate Energy Common Stock pursuant to the terms of the Merger Agreement), FOR approval of each of the WPLH Charter Amendments, FOR the election of the nominated directors and FOR the appointment of Arthur Andersen LLP as WPLH's independent auditors for the year ending December 31, 1996. A WPLH proxy may be revoked by voting in person at the WPLH Meeting, by written notice to WPLH's Corporate Secretary, or by delivery of a duly executed proxy bearing a later date, in each case prior to the closing of the polls for voting at the WPLH Meeting. Attendance at the WPLH Meeting will not in itself constitute revocation of a proxy.

If an individual is a participant in the WP&L Employees' Retirement Savings Plan (the "WP&L Savings Plan"), the participant will receive a voting directive from the WP&L Savings Plan trustee for shares of WPLH Common Stock allocated to the participant's account under the WP&L Savings Plan. The trustee for the WP&L Savings Plan will vote such shares as instructed by the participant in his or her voting directive. If a participant does not return a voting directive, such participant's shares will be voted by the trustee for the WP&L Savings Plan in its absolute discretion and in accordance with ERISA (as hereinafter defined).

If a WPLH shareowner is a participant in the WPLH Dividend Reinvestment and Stock Purchase Plan (the "WPLH DRIP"), the WPLH proxy will represent the shares held on behalf of the participant under the WPLH DRIP and such shares will be voted in accordance with the instructions on the WPLH proxy. If a participant in the WPLH DRIP does not return a WPLH proxy, the participant's shares will not be voted.

WPLH will bear the cost of the solicitation of proxies for the WPLH Meeting, except that WPLH, IES and IPC have agreed to share the expenses incurred in connection with printing and filing this Joint Proxy Statement/Prospectus (43% by WPLH, 43% by IES and 14% by IPC). See "The Merger Agreement — Expenses." In addition to soliciting proxies by mail, officers and employees of WPLH, without receiving additional compensation therefor, may solicit proxies by telephone, telecopy, telegram or in person. WPLH, IES and IPC have retained Morrow & Co., Inc. to assist in the solicitation of

proxies from their respective shareowners, including brokers' accounts, at an aggregate fee for such services of \$15,000 plus an additional \$2.00 per shareowner contact and reasonable out-of-pocket expenses.

The WPLH Meeting may be adjourned to another date and/or place for any proper purpose (including, without limitation, for the purpose of soliciting additional proxies).

#### The IES Meeting

*Purpose of IES Meeting.* The purpose of the IES Meeting is to consider and vote upon: (i) a proposal to approve the Merger Agreement and the transactions contemplated thereby; (ii) a proposal to elect a board of nine directors to serve until the next annual meeting or until their successors are duly elected and qualified; and (iii) such other matters, if any, as may properly come before the IES Meeting. The IES Board is not aware, as of the date of mailing of this Joint Proxy Statement/Prospectus, of any other matters which may properly come before the IES Meeting. If any such other matters properly come before the IES Meeting, or any adjournment or postponement thereof, it is the intention of the persons named in the IES proxy to vote such proxies in accordance with their best judgment on such matters.

The IES Board, by unanimous vote of the directors present at the meeting, has approved the Merger Agreement, authorized the execution and delivery of the Merger Agreement, and recommends that IES shareholders vote FOR approval of the Merger Agreement and FOR the election of the nominated IES directors.

Pursuant to the Merger Agreement, consummation of the Mergers is conditioned upon approval by the shareholders of IES of proposal (i) set forth above, but is not conditioned upon approval by the shareholders of IES of any other proposal.

*Date, Place and Time; Record Date.* The IES Meeting is scheduled to be held on Thursday, September 5, 1996, at 10:00 a.m., Central Time, at the Collins Plaza Hotel, 1200 Collins Road N.E., Cedar Rapids, Iowa. Holders of record of IES Common Stock at the close of business on July 10, 1996, the IES Record Date, will be entitled to notice of and to vote at the IES Meeting. As of the close of business on the IES Record Date, 29,923,233 shares of IES Common Stock were issued and outstanding and entitled to vote.

*Voting Rights.* Each outstanding share of IES Common Stock is entitled to one vote upon each matter presented at the IES Meeting. A majority of the votes entitled to be cast by holders of shares of IES Common Stock, represented in person or by proxy, shall constitute a quorum for each matter presented at the IES Meeting. Abstentions and broker non-votes (*i.e.*, proxies from brokers or nominees indicating that such persons have not received instructions from the beneficial owners or other persons entitled to vote shares as to a matter with respect to which brokers or nominees do not have discretionary power to vote) will be considered present for the purpose of establishing a quorum.

If a quorum is present, (i) the affirmative vote of a majority of the votes entitled to be cast by the holders of the outstanding shares of IES Common Stock entitled to vote thereon is required for approval of the Merger Agreement, and (ii) the affirmative vote of a majority of the votes entitled to be cast by the holders of the outstanding shares of IES Common Stock represented at the IES Meeting and entitled to vote thereon is required for the election of directors. Under applicable Iowa law, in determining whether the Merger Agreement and the nominees for directors have received the requisite number of affirmative votes, abstentions and broker non-votes will have the same effect as votes cast against approval of the Merger Agreement and against approval of the nominees for director. Failure to return an IES proxy or to vote in person at the IES Meeting will also have the effect of a vote against the Merger Agreement and against the nominees for director. The directors and executive officers of IES, together with their affiliates as a group, are deemed to own beneficially less than 1% of the issued and outstanding shares of IES Common Stock.



*Proxies.* Holders of IES Common Stock may vote either in person or by properly executed proxy. By completing and returning the form of proxy, the IES shareholder authorizes the persons named therein to vote all the IES shareholder's shares on his or her behalf. Issued and outstanding shares of IES Common Stock which are represented by properly executed proxies will, unless such proxies have been revoked, be voted in accordance with the instructions indicated on such proxies. If no instructions are indicated on a properly executed proxy, such shares will be voted FOR approval of the Merger Agreement and FOR the election of the nominated directors. An IES proxy may be revoked by voting in person at the IES Meeting, by written notice to IES's Secretary, or by delivery of a duly executed proxy bearing a later date, in each case prior to the closing of the polls for voting at the IES Meeting. Attendance at the IES Meeting will not in itself constitute revocation of proxy.

The proxy/directions cards enclosed have imprinted thereon the number of shares of IES Common Stock held of record as well as shares held for the account of shareholder participants in the IES Dividend Reinvestment and Stock Purchase Plan. Proxy/directions cards for shareholders who are employees of IES and who are participants in the IES Employee Stock Purchase Plan, the Dividend Reinvestment and Stock Purchase Plan or the IES Bonus Stock Ownership Plan will also have imprinted thereon the number of shares held for the account of participants in that plan. Employees who are not shareholders of record but who are participants in any of the plans will receive a proxy/directions card for shares being held for them pursuant to such plan. The number of shares imprinted on the proxy/directions cards are the number of shares to be voted in accordance with the instructions of the shareholder or plan participant.

All shares of IES Common Stock held for the account of participants in the IES Dividend Reinvestment and Stock Purchase Plan, IES Bonus Stock Ownership Plan and the IES Employee Stock Purchase Plan, respectively, are held of record by the Shareholder Services Department of IES. All shares held in such plans will be voted by said Department in the manner indicated by the participant's proxy/directions card. Participants in the Iowa Southern Utilities Company Employee Stock Ownership Plan will receive a proxy/directions card for shares being held for them pursuant to such plan. The number of shares imprinted on the proxy/directions card are the number of shares to be voted in accordance with the instructions of the participant. All shares of IES Common Stock held for the account of such participants are held of record by Stephen W. Southwick (Vice President, General Counsel & Secretary of IES), as Trustee. All shares held in such plan will be voted by the Trustee in the manner indicated by the participant's proxy/direction card.

Employees who are participants in the IES Common Stock Fund of the IES Employee Savings Plan will receive a proxy/directions card from American Express Trust Company, as Trustee, the holder of record for shares held in such plan. The proxy/directions cards have imprinted thereon the number of shares held for the account of each participant. The number of shares imprinted on the proxy/directions card will be voted by the Trustee in accordance with the instructions of the participant. Shares not voted by the participants will be voted by the Trustee as the Employee Savings Plan Committee of IES directs.

IES will bear the cost of the solicitation of proxies for the IES Meeting, except that IES, WPLH and IPC have agreed to share the expenses incurred in connection with printing and filing this Joint Proxy Statement/Prospectus (43% by IES, 43% by WPLH and 14% IPC). See "The Merger Agreement — Expenses." In addition to soliciting proxies by mail, officers and employees of IES, without receiving additional compensation therefor, may solicit proxies by telephone, telecopy, telegram or in person. IES, WPLH and IPC have retained Morrow & Co., Inc. to assist in the solicitation of proxies from their respective shareholders, including brokers' accounts, at an aggregate fee for such services of \$15,000 plus an additional \$2.00 per shareholder contact and reasonable out-of-pocket expenses.

The IES Meeting may be adjourned to another date and/or place for any proper purpose (including, without limitation, for the purpose of soliciting additional proxies).

## The IPC Meeting

*Purpose of the IPC Meeting.* The purpose of the IPC Meeting is to consider and vote upon: (i) a proposal to approve the Merger Agreement and the transactions contemplated thereby; (ii) a proposal to approve the IPC Charter Amendment; (iii) a proposal to elect two Class II directors to hold office for a term of three years expiring at the 1999 annual meeting of stockholders of IPC, or until their respective successors shall have been duly elected and qualified; and (iv) such other matters, if any, as may properly come before the IPC Meeting. The IPC Board is not aware, as of the date of mailing of this Joint Proxy Statement/Prospectus, of any other matters which may properly come before the IPC Meeting. If any such other matters properly come before the IPC Meeting, or any adjournment or postponement thereof, it is the intention of the persons named in the IPC proxy to vote such proxies in accordance with their best judgment on such matters.

The IPC Board, by unanimous vote, has approved the Merger Agreement, authorized the execution and delivery of the Merger Agreement, adopted a resolution setting forth the IPC Charter Amendment and declaring its advisability, and recommends that IPC stockholders vote FOR approval of the Merger Agreement, FOR approval of the IPC Charter Amendment and FOR the election of the nominated IPC directors.

Pursuant to the Merger Agreement, consummation of the Mergers is conditioned upon approval by the stockholders of IPC of proposals (i) and (ii) set forth above, but is not conditioned upon approval by the stockholders of IPC of any other proposal.

*Date, Place and Time; Record Date.* The IPC Meeting is scheduled to be held on Thursday, September 5, 1996, at 10:00 a.m., Central Time, at the Holiday Inn Dubuque Five Flags, 450 Main Street, Dubuque, Iowa. Holders of record of IPC Common Stock at the close of business on July 10, 1996, the IPC Record Date, will be entitled to notice of and to vote at the IPC Meeting. As of the close of business on the IPC Record Date, 9,595,028 shares of IPC Common Stock were issued and outstanding and entitled to vote.

*Voting Rights.* Each outstanding share of IPC Common Stock is entitled to one vote upon each matter presented at the IPC Meeting. A majority of the votes entitled to be cast by holders of shares of IPC Common Stock, represented in person or by proxy, shall constitute a quorum. Abstentions and broker non-votes (i.e., proxies from brokers or nominees indicating that such persons have not received instructions from the beneficial owners or other persons entitled to vote shares as to a matter with respect to which brokers or nominees do not have discretionary power to vote) will be considered present for the purpose of establishing a quorum.

The affirmative vote of a majority of the outstanding IPC Common Stock entitled to vote is required for approval of the Merger Agreement and approval of the IPC Charter Amendment, and a plurality of votes cast at the IPC Meeting is required for the election of directors.

As to the votes on the Merger Agreement and the IPC Charter Amendment before stockholders at the IPC Meeting, abstentions and broker non-votes will have the same effect as votes cast against approval of the Merger Agreement and the IPC Charter Amendment. As to the election of directors before stockholders at the IPC Meeting, abstentions and broker non-votes will have no effect. The directors and executive officers of IPC, together with their affiliates as a group, are deemed to own beneficially less than 1% of the issued and outstanding shares of IPC Common Stock.

*Proxies.* Holders of the IPC Common Stock may vote either in person or by properly executed proxy. By completing and returning the form of proxy, the IPC stockholder authorizes the persons named therein to vote all the IPC stockholder's shares on his or her behalf. All completed IPC proxies returned will be voted in accordance with the instructions indicated on such proxies. If no instructions are given on a properly executed proxy, the IPC proxies will be voted FOR approval of the Merger Agreement, FOR approval of the IPC Charter Amendment and FOR election of the two Class II directors recommended by the IPC Board. An IPC proxy may be revoked by voting in person at the

IPC Meeting, by written notice to IPC's Corporate Secretary, or by delivery of a duly executed proxy bearing a later date, in each case prior to the closing of the polls for voting at the IPC Meeting. Attendance at the IPC Meeting will not in itself constitute revocation of a proxy.

For stockholders participating in IPC's Dividend Reinvestment and Stock Purchase Plan (the "IPC DRSP"), the enclosed proxy will represent the number of shares registered in the participating stockholder's name and/or the number of shares allocated to the participating stockholder's account (the "DRSP Shares") under the IPC DRSP. The enclosed proxy will serve as the instructions as to how to vote the DRSP Shares. If a participating stockholder does not furnish any proxy to vote the DRSP Shares, that stockholder's DRSP Shares will not be voted.

IPC employees that participate in the IPC Common Stock Fund of the IPC 401(k) Plan will receive a proxy from Dubuque Bank & Trust Company (the 401(k) Plan Trustee and the holder of record for shares held in the IPC 401(k) Plan). The proxy will have imprinted thereon the number of shares held for the account of each participant in the IPC 401(k) Plan. The number of shares imprinted on the proxy will be voted by the IPC 401(k) Plan Trustee in accordance with the instructions of the IPC 401(k) Plan participant.

IPC will bear the cost of the solicitation of proxies for the IPC Meeting, except that IPC, WPLH and IES have agreed to share the expenses incurred in connection with printing and filing this Joint Proxy Statement/Prospectus (14% by IPC, 43% by WPLH and 43% by IES). See "Merger Agreement — Expenses." Proxies may be solicited by certain officers and employees of IPC or its subsidiaries by mail, by telephone, personally or by other communications, without compensation apart from their normal salaries. IPC, WPLH and IES have retained Morrow & Co., Inc. to assist in the solicitation of proxies from their respective stockholders, including brokers' accounts, at an aggregate fee for such services of \$15,000 plus an additional \$2.00 per stockholder contact and reasonable out-of-pocket expenses.

The IPC Meeting may be adjourned to another date and/or place for any proper purpose (including, without limitation, for the purpose of soliciting additional proxies).

## THE MERGERS

### Background of the Mergers

Each of WPLH, IES and IPC believes that fundamental changes in the regulatory structure of the electric utility industry are inevitable and that such changes will likely occur in the near future. Recently enacted federal laws and actions by federal and state regulatory commissions are facilitating the changes to bring more competition to various segments of the industry.

The Energy Policy Act of 1992 (the "1992 Act") granted FERC the authority to order electric utilities to provide transmission service to other utilities and to other buyers and sellers of electricity in the wholesale market. The 1992 Act also created a new class of power producers, exempt wholesale generators ("EWGs"), which are exempt from regulation under the 1935 Act. The exemption from regulation under the 1935 Act of EWGs has increased the number of entrants into the wholesale electric generation market, thus increasing competition in the wholesale segment of the electric utility industry.

Commencing in December 1993, pursuant to its authority under the 1992 Act, FERC issued a number of orders in specific cases directing utilities to provide transmission services. Under FERC's evolving transmission policies, utilities are being required to offer transmission services to third parties on a basis comparable to services that the utilities provide themselves. FERC is in the process of rulemaking pursuant to which it is seeking to implement, on a comprehensive basis, the comparable transmission service policies it has set forth in these specific cases. FERC's actions to date and its transmission rulemaking proceeding have increased the availability of transmission services, thus creating greater competition in the wholesale power market.

In addition, state regulatory bodies in over thirty states, including, among others, Wisconsin, Illinois, Iowa and Minnesota, have initiated proceedings to review the basic structure of the industry. These bodies are considering, or may soon consider, proposals to require some measure of competition in the retail portion of the industry. The Wisconsin Commission requested comment regarding how the industry might be restructured in order to create a more competitive environment. Following receipt of responses, the Wisconsin Commission created a task force to analyze how the industry might be restructured in Wisconsin to allow consumers to receive the benefits of increased competition. On December 19, 1995, following receipt of the report of the task force, the Wisconsin Commission agreed to take steps to further increase competition in Wisconsin's electric utility industry within five years. While the outcome of the actions described above is uncertain, it remains the view of the management of WPLH, IES and IPC that there will ultimately be increased competition in the retail segment of the business.

The changes to the electric industry that have occurred and that are occurring are bringing increased competition to various sectors of the business and are putting pressure on utilities to lower their costs. Each of WPLH, IES and IPC recognized that a combination with one or more appropriate utilities would enable the combined entity to generate and deliver energy more cheaply and efficiently and thereby remain a competitive supplier of energy in an increasingly competitive industry.

Over the last several years, the management of WPLH has periodically analyzed various potential strategic options that might be available to WPLH, including possible business combinations or alliances with other utilities. WPLH management considered the possibility of pursuing business combinations with a number of the utilities with service areas proximate to the service area of WP&L, as well as other utilities with Midwestern operations, and periodically briefed the WPLH Board on such matters. Based on a cost-benefit analysis of the potential strategic options considered, WPLH management determined the options studied were not in the best interests of WPLH and its shareholders. In early February 1995, during the continuation of one of its reviews of various strategic alternatives, WPLH management concluded that, among others, both IES and IPC were prospective merger partners that would provide a good overall strategic fit. WPLH's management based its conclusions on various factors, including low-cost structure, competitive energy rates, potential merger-related cost savings, economies of scale, marketing potential and similar shareowner and common stock trading characteristics. These reasons, combined with the physical proximity of the respective companies' service areas and the compatibility of and similarity between the companies' operations and management, made IES and IPC natural combination partners for WPLH.

IES has believed for many years that consolidation of electric utilities within the State of Iowa would be both desirable and inevitable. In July 1991, Iowa Southern Inc. and IE Industries Inc. merged to form IES. The utilities in that merger, Iowa Southern Utilities Company and Iowa Electric Light and Power Company, merged in December 1993 to form Utilities. Since the 1991 merger, management of IES has continued to assess other possible combination transactions both in the State of Iowa and generally in the Midwest. In December 1992, IES acquired certain electric utility assets and properties in Iowa from Union Electric Company. Preliminary discussions with respect to consolidation transactions were held from time to time between representatives of IES and other utilities in the Midwest, including IPC. IES management recognized that in the increasingly competitive market for electric power, important criteria would include low cost production, efficiencies of scale, transmission capability, as well as cultural fit between possible partners and resolution of corporate governance and other issues. In December 1994, IES determined to pursue aggressively process reengineering to reduce costs and create efficiencies in its electric and gas utility businesses. Management of IES continued to consider potential combination transactions both as an additional means of realizing higher efficiency levels and as a means to increase shareholder value.

For the past several years, IPC has been monitoring the changes occurring in the electric and gas utility industry and conducting strategic planning in an effort to remain competitive in the changing environment. During that time, IPC has been approached by representatives of other utilities (including IES) in connection with potential business combinations, but has not held substantive discussions

on any specific proposed combination. During the eighteen months prior to the execution of the Merger Agreement, the management of IPC analyzed various potential strategic options that might be available to IPC, including possible business combinations or strategic alliances with other utilities, as well as options that could be pursued by IPC on a stand-alone basis. In examining these potential strategic initiatives, IPC management determined that, at that time, and based upon the circumstances then existing, IPC and its stockholders would be best served by a strengthening of IPC on a stand-alone basis. This determination was made by IPC management based upon its subjective assessment of the potential benefits and potential risks of each of the alternatives considered. In April 1995, IPC management proposed to the IPC Board, and the IPC Board approved, a series of strategic steps to be pursued by IPC on an independent basis. These strategic steps included initiatives to: increase energy sales consistent with efficient energy usage; enhance efforts to improve productivity and efficiency; leverage existing skills and resources to increase revenues and earnings through new service offerings; focus the core energy service business to be customer driven; prepare the generation segment for potential unregulated market; intensify efforts to earn the allowed rate of return in all jurisdictions in which IPC does business; and investigate the potential for diversification into non-core businesses.

Over the last several years, as the foregoing issues were being considered by the management of each of WPLH, IES and IPC, Messrs. Liu and Davis and Messrs. Liu and Stöppelmoor held general discussions concerning the evolving nature of the electric utility industry. In May 1995, Mr. Davis called Mr. Liu to schedule a meeting to discuss in a more focussed manner the views of WPLH and IES regarding the future of the utility industry. That call resulted in a meeting on May 18, 1995 at which the concept of a business combination between WPLH and IES and a subsequent combination between the combined WPLH/IES and IPC were discussed in a very preliminary fashion. At that meeting, Messrs. Davis and Liu also identified the issues of management succession, board composition and various utility integration strategies as significant points in any such business combination to be agreed upon, and agreed that discussions between representatives of WPLH and IES should be initiated.

On May 23 and June 12, 1995, Eliot G. Protsch, Senior Vice President of WP&L, and Robert J. Latham, then Senior Vice President, Finance of IES, met to compare corporate strategies and discuss the potential synergies that could result from a business combination between WPLH and IES. At such meetings, Messrs. Protsch and Latham also discussed various strategies on how to further the discussions that had occurred from time to time between IES and IPC regarding a possible business combination between IES and IPC. At the latter meeting, WPLH and IES entered into a confidentiality agreement, pursuant to which the parties agreed to exchange non-public information with a view towards exploring a possible business combination.

On June 22, 1995, at a regularly scheduled meeting of the WPLH Board which took place in Washington D.C., a number of outside experts gave presentations to the WPLH Board regarding, among other things, the evolution of the utility industry towards a more competitive environment and the consolidation occurring in the industry. At the June 22 meeting, WPLH management also informed the WPLH Board of the meetings that had taken place between WPLH and IES and discussed the overall concept of a business combination between WPLH and IES and the possibility that such combination would potentially be followed by a business combination with IPC. At this meeting, the WPLH Board authorized management to retain financial and legal advisors to assist with the potential transaction.

After the June 22, 1995 meeting, WPLH engaged Merrill Lynch as its exclusive financial advisor to assist WPLH in analyzing, structuring, negotiating, and effecting the possible transaction. As described in greater detail below, Merrill Lynch, in the course of its engagement, primarily performed various financial analyses and financial due diligence regarding each of the parties. In addition, Merrill Lynch provided advice regarding, and participated in discussions concerning, exchange ratios. Merrill Lynch also participated from time to time in discussions regarding the structure of the

transaction, although structural issues were predominantly influenced by tax and regulatory considerations. In addition, following the June 22 meeting, WPLH engaged Foley & Lardner, its outside law firm, to advise it with respect to the potential business combination.

On June 27, 1995, Mr. Liu met in Dubuque, Iowa with Mr. Stoppelmoor to determine if IPC would be interested in entering into a two-way or a three-way business combination. At that meeting, Mr. Liu and Mr. Stoppelmoor discussed the perceived potential benefits that could accrue to IPC stockholders in a two-way or three-way business combination. Mr. Stoppelmoor indicated that he would consider the matters discussed at this meeting and, if appropriate, would respond to Mr. Liu.

On June 29 and 30, 1995, officers of WPLH and IES, including Mr. Protsch and William D. Harvey, Senior Vice President of WP&L, and Mr. Latham and Blake O. Fisher, then Executive Vice President and Chief Financial Officer of IES, met to further review strategic compatibility of the two companies and the potential synergies that could result from a potential business combination transaction, and to discuss possible preliminary timetables for such a transaction.

On June 30, 1995, IES formally engaged Morgan Stanley as its financial advisor in connection with this possible transaction. During the term of its engagement, Morgan Stanley provided IES with financial advice and assistance in connection with the Mergers, including advice and assistance with respect to defining objectives, performing valuation analysis and structuring, planning and negotiating the transaction. In particular, and as described in greater detail below, Morgan Stanley, in the course of its engagement, primarily performed various financial analyses and financial due diligence regarding each of the parties. In addition, Morgan Stanley provided advice regarding, and participated in discussions concerning, exchange ratios. Morgan Stanley also participated from time to time in discussions regarding the structure of the transaction, although structural issues were predominantly influenced by tax and regulatory considerations.

On July 3, 1995, Messrs. Davis and Liu met in Madison, Wisconsin to review the status of the potential transaction and further discuss issues relating to management succession, the composition of the combined corporation's board of directors and various utility integration strategies.

On July 8, 1995, the IES Board held a special meeting at which Mr. Liu and representatives of Morgan Stanley and Winthrop, Stimson, Putnam & Roberts, IES's outside law firm, briefed the members of the IES Board on discussions that had been taking place with WPLH and IPC. At this meeting, the merger of Midwest Resources Inc. and Iowa-Illinois Gas and Electric Company, which had been announced on July 27, 1994, was also discussed. Mr. Liu presented profiles of both IES and WPLH and noted a number of areas of compatibility and opportunities which could result from a combination between IES and WPLH. The IES Board considered that strategic combination alternatives for IES were limited, and that the number of possible partners, following the Midwest Resources/Iowa-Illinois announcement, would likely decline further over time. The IES Board identified a number of concerns that would need to be addressed in further discussions, such as the effects of Wisconsin regulation and the structural necessity of becoming a registered holding company under the 1935 Act. At this time, the IES Board determined that it would be advisable to proceed with discussions to the next level and to begin due diligence with respect to the business and legal aspects of a possible combination with WPLH.

On July 12, 1995, the WPLH Board met with WPLH's advisors. Representatives of Merrill Lynch discussed their views on changing conditions in the utility industry and provided financial profiles and preliminary valuations of IES. Legal counsel for WPLH explained the directors' legal responsibilities and presented information as to the regulatory approvals that would be required for a combination with IES, the standards for review to be applied by the various regulatory bodies and the implications of adopting a registered holding company structure under the 1935 Act, including the possibility that divestiture of the combined entity's gas and certain non-utility operations might be required. The WPLH Board discussed the potential benefits to shareowners and customers of WPLH that could result from the proposed combination and authorized management to proceed with the process.

In mid-July 1995, Mr. Liu contacted Mr. Stoppelmoor to discuss further the potential benefits that could accrue to IPC and its stockholders and customers in a two-way or three-way business combination. At the conclusion of this conversation, Mr. Stoppelmoor indicated that he would report Mr. Liu's proposal to the IPC Board at its next regularly scheduled meeting on July 27, 1995 and would respond to Mr. Liu, if appropriate, following that meeting.

On July 17 and July 24, 1995, Mr. Protsch, Mr. Ahearn, Daniel A. Doyle, Vice President-Finance, Controller and Treasurer of WP&L, Barbara J. Swan, Vice President and General Counsel of WP&L, Larry D. Root, then Executive Vice President of IES, Stephen W. Southwick, Vice President, General Counsel and Secretary of IES, and Mr. Fisher, together with other personnel from WPLH and IES, as well as their financial and legal advisors, held introductory meetings to discuss, among other things, a timetable for accomplishing the tasks required to negotiate, prepare and execute a merger agreement between the two companies. At these meetings, due diligence was performed on both the utility and non-utility businesses of WPLH and IES and working groups composed of representatives of both companies were formed to examine more comprehensively various issues including corporate structure, nonregulated operations, environmental compliance and liabilities, nuclear generation opportunities and risks, reengineering initiatives under way at the companies, regulatory considerations, and synergy identification and quantification approaches relating thereto.

On July 27, 1995, at a meeting of the IPC Board, Mr. Stoppelmoor reported to the IPC Board that he had been contacted by Mr. Liu with respect to scheduling a meeting to discuss a potential business combination among IPC, IES and WPLH. The IPC Board authorized Messrs. Stoppelmoor and Chase to meet with representatives of IES and WPLH to discuss on a preliminary basis a potential business combination among the companies.

The IES Board met on July 31 and August 1, 1995, at which time the results of the due diligence investigation conducted to date were presented and further discussions were held as to the desirability of pursuing a combination transaction with WPLH. At this meeting, the IES Board discussed alternatives for possible combination partners, as well as a strategy of remaining independent while pursuing the reengineering initiative undertaken earlier in the year. The IES Board concluded that it should retain an independent consultant to assist in evaluating the strategic alternatives available to IES. At the same time, the IES Board directed management to continue its discussions with WPLH and IPC.

The reengineering initiative was undertaken by IES to examine all of the major business processes of Utilities. The goals of the initiative as approved by the IES Board were to improve customer service and commitment and significantly reduce Utilities' cost structure. The majority of the changes identified in connection with the initiative are intended to be implemented in 1996. Such changes include, but are not limited to, managing the business in business unit form rather than functionally, formation of alliances with vendors of certain types of material rather than opening most purchases to a bidding process, changing standards and construction practices in transmission and distribution areas, changing certain work practice in power plants, and improving the method by which service is delivered to customers in all customer classes.

On August 9, 1995, Mr. Davis, Mr. Liu, Mr. Stoppelmoor and Mr. Chase met to evaluate IPC's interest in a three-way business combination between WPLH, IES and IPC. At this meeting, the representatives from the three companies discussed their views on the future of the utility industry and identified the issues of management succession, board composition and various utility integration strategies as points to be agreed upon. At such meeting, IPC informed WPLH and IES that the potential three-way transaction would need to be discussed with the IPC Board before IPC would engage in any substantive discussions. After such meeting, Messrs. Davis and Liu reviewed the status of discussions that had occurred to date regarding the potential two-way business combination between WPLH and IES.

Over the course of the next two weeks, representatives of both WPLH and IES continued their work with respect to the synergy identification and quantification approaches relating thereto, non-

regulated operations, environmental compliance and liabilities, nuclear generation opportunities and risks, reengineering initiatives underway at the companies, legal structure, regulatory plans and other due diligence activities.

On August 14, 1995, Arthur Andersen Economic Consulting made a presentation to IES management and a subcommittee of the IES Board discussing competitive forces in the industry, regulatory reform proposals and strategic options for utilities. Arthur Andersen Economic Consulting was thereafter engaged to assist the IES Board and management in their consideration of strategic alternatives, particularly in the area of possible synergies and/or cost savings that could be obtained from various alternative combination transactions and as compared to cost savings which management of IES believed could be obtained on a stand-alone basis through process reengineering. IES selected Arthur Andersen Economic Consulting for this assignment based on the firm's experience and reputation in providing strategic and regulatory consulting for the electric power and natural gas industries. Arthur Andersen Economic Consulting is an affiliate of Arthur Andersen LLP. Arthur Andersen LLP has served as the independent accountants for IES and WPLH for many years, performing the independent annual audit of the companies and providing business advisory and tax consultation to the two companies. Arthur Andersen LLP has received customary fees for these services. Arthur Andersen Economic Consulting received a fee of approximately \$200,000 in connection with its services provided to IES.

At a special meeting of the IPC Board on August 23, 1995, Messrs. Stoppelmoor and Chase reported to the IPC Board their discussions with representatives of IES and WPLH regarding a proposed three-way business combination. The IPC Board then discussed the potential strategic benefits of such a combination to IPC and its stockholders and customers as compared to the potential benefits of the strategic options that IPC had earlier determined to pursue on a stand-alone basis. The IPC Board concluded that a three-way combination with IES and WPLH offered potential benefits to IPC and its stockholders (in the form of a larger, financially sound enterprise with potentially greater earnings and dividend prospects) and to IPC's customers (in the form of a more competitive enterprise) and should be further explored. At the August 23 meeting, the IPC Board authorized IPC management to continue discussions with representatives of IES and WPLH regarding a potential transaction and, in furtherance thereof, authorized IPC management to enter into a confidentiality agreement with IES and WPLH pursuant to which the companies would exchange certain non-public information and authorized IPC management to retain counsel, financial advisors and such other professional advisors as IPC management deemed prudent in assisting IPC in evaluating a potential business combination transaction.

Shortly after the August 23, 1995 meeting, IPC engaged Salomon Brothers as its financial advisor to assist IPC in analyzing, structuring, negotiating and effecting the possible three-way transaction and engaged the law firm of Milbank, Tweed, Hadley & McCloy to advise it with respect thereto. As described in greater detail below, Salomon Brothers, in the course of its engagement, primarily performed various financial analyses and financial due diligence regarding each of the parties. In addition, Salomon Brothers provided advice regarding, and participated in discussions concerning, exchange ratios. Salomon Brothers also participated from time to time in discussions regarding the structure of the transaction, although structural issues were predominantly influenced by tax and regulatory considerations. In addition, following the August 23 meeting, IPC engaged the Deloitte & Touche Consulting Group ("Consulting Group") to assist IPC's management in identifying other potential combination partners and in assessing the relative attractiveness of each of these potential partners, including WPLH and IES, from the standpoint of the potential synergies described by management which could be realizable from such a transaction. IPC management, with the assistance of Consulting Group, identified certain financial factors, such as financial strength and earnings growth, and certain operational factors, such as customer mix and capacity mix, that would be relevant to the IPC Board's assessment of the relative attractiveness of other potential combination partners. This information, based only on publicly available information and certain attributes regarding the financial and operational profile of these potential partners, was presented to the IPC Board to describe potential areas of synergies.



On August 25, 1995, Mr. Protsch, Mr. Root and Mr. Chase met to review a schedule of due diligence requirements and the expansion of the confidentiality agreement between WPLH and IES to include IPC, as well as the prospective timetable for a three-way transaction.

On August 30, 1995, the IES Board met again to consider strategic alternatives, including the possible combination with WPLH, or a combination with WPLH and IPC. At this meeting, Arthur Andersen Economic Consulting discussed the changes occurring in the electric utility industry and the strategic options available for electric utilities, provided an overview of relevant factors to consider in evaluating mergers and made a preliminary presentation in which it analyzed, based solely on publicly available information and using a third party model and assumptions adopted by IES management, cost-savings which could be realized from various strategic alternatives, including combination transactions with WPLH and/or WPLH and IPC. The results of IES management's ongoing due diligence were also presented at this meeting. The IES Board concluded that the most desirable transaction would likely involve the three-way combination of IES with WPLH and IPC, but that a two-way transaction with WPLH alone also appeared worthy of pursuit. Although the IES Board decided to pursue a combination, the IES Board also decided to continue the reengineering initiative described above.

The WPLH Board met on September 6, 1995 and was updated by management, Merrill Lynch and legal counsel on the status of the discussions with IES and IPC and received a comprehensive due diligence report on IES. Legal counsel again advised the WPLH Board with respect to the directors' legal responsibilities in connection with the proposed transaction. Merrill Lynch also provided updated financial profiles and preliminary valuations of IES and IPC. The WPLH Board again discussed the potential benefits to shareowners of WPLH (in the form of enhanced opportunities for earnings) and customers of WPLH (in the form of maintenance of competitive rates) that could result from the proposed two-way or three-way combination and agreed that management should proceed with its discussions with IES and IPC.

On September 7, 1995, Mr. Davis met Mr. Liu and Jack R. Newman and C.R.S. Anderson, outside directors of IES assigned to study and evaluate the potential transaction, in Chicago, Illinois to discuss various issues in connection with the proposed business combination and the operations of the combined company after the combination.

On September 11, 1995, Mr. Protsch, Mr. Root and Mr. Chase met to discuss the general terms to be included in the merger agreement and to further discuss the issues of management succession, the composition of the board of directors of the combined company and various utility integration strategies. At this meeting, the three executives also reviewed the status of the due diligence process regarding WPLH and IES.

On September 14, 1995, the IPC Board met with IPC's financial and legal advisors to discuss the proposed combination and various other matters. IPC management discussed with the IPC Board management's views on the changing conditions in the electric utility industry generally, and specifically the continued consolidation within the industry as utilities prepared for a more competitive environment. Salomon Brothers reviewed with the IPC Board preliminary financial profiles and preliminary valuation information with respect to IES and WPLH. Salomon Brothers also reviewed certain preliminary financial information regarding other potential merger candidates. Legal counsel for IPC advised the IPC Board with respect to their legal responsibilities and presented information as to the regulatory approvals that would be required for a business combination involving IPC generally and specifically in connection with a combination involving IES and WPLH, including the implications under the 1935 Act. Counsel also discussed the various implications of combining with entities (such as IES and WPLH) that owned and/or operated nuclear generating facilities and the various legal, regulatory and environmental considerations associated with nuclear generation. At that meeting, Consulting Group discussed with the IPC Board, on behalf of IPC's management, the views of such management as to various areas of operations in which potential synergies could be realized following a combination with IES and WPLH and management's preliminary analysis of the scope

of such potential synergies. Consulting Group also discussed the potential areas for operational synergies that could result from combinations involving other potential merger candidates. The IPC Board discussed the potential benefits to stockholders and customers that could result from the proposed combination as well as combinations involving other potential merger partners, and authorized management to proceed with the process.

Following the September 14 IPC Board Meeting, IPC engaged Synergy Consulting Services Corporation to conduct an analysis of the nuclear facilities of IES and WPLH, and WPLH, IES and IPC entered into a confidentiality agreement, which superseded the confidentiality agreement previously entered into by and between WPLH and IES, pursuant to which the parties agreed to exchange non-public information with a view towards exploring a possible business combination. For a description of certain standstill provisions contained in such confidentiality agreement, see "The Merger Agreement — Standstill Provisions."

On September 19 and 20, 1995, Mr. Protsch, Mr. Ahearn, Mr. Fisher, Mr. Root, Mr. Stoppelmoor and Mr. Chase, together with other personnel from WPLH, IES and IPC, as well as their financial and legal advisors, held the first full scale meeting among all three companies to discuss, among other things, a timetable for accomplishing the tasks required to negotiate, prepare and execute a merger agreement among the three companies. Representatives of Consulting Group, which firm had been retained to assist IPC's management, as described above, were also present at such meeting. At these meetings, due diligence was conducted by the managements of WPLH, IES and IPC and IPC representatives were added to the working groups previously formed by WPLH and IES to examine more comprehensively various issues, including corporate structure, nonregulated operations, environmental compliance and liabilities, nuclear generation opportunities and risks, reengineering initiatives under way at the companies, regulatory considerations, and synergy identification and quantification approaches relating thereto. A decision was also made by WPLH, IES and IPC to engage Consulting Group to assist the senior managements of all three companies and certain employees designated by them in identifying and quantifying the potential cost savings from synergies resulting from the proposed three-way merger. The scope of Consulting Group's engagement (as with its earlier engagement by IPC) was limited to assisting such managements and designated employees in the identification and quantification of potential combination synergies, including personnel reductions, non-labor savings, field operations, electric dispatch, capacity deferral and gas supply savings; the assessment of impacts of current stand-alone cost reduction initiatives on merger-related savings; quantification of costs to achieve identified savings; and developing summary presentation materials and supporting documentation. Managements of the three companies were responsible for the assumptions and conclusions made in the synergy study. While Consulting Group assisted such managements in the synergy identification and estimation process, the determination of synergy estimates were the sole responsibility of the managements of the three companies. Consistent with its assignment, Consulting Group did not prepare any financial projections, feasibility studies or reports, or assist the three companies with financial evaluation or modeling of potential combination scenarios. Consulting Group is a division of Deloitte & Touche LLP, an accounting firm that has acted as independent auditors for IPC for many years and that has received customary fees for such services. Consulting Group is a nationally recognized consulting firm with experience in utility merger and acquisition transactions. Consulting Group was selected by WPLH, IES and IPC based on its reputation, experience and expertise. WPLH, IES and IPC will share equally the fees of Consulting Group in connection with its assistance to the managements of the three parties, which will be based on time spent plus expenses and are estimated at \$400,000. The fees and expenses of Consulting Group incurred in connection with its assignment with IPC exclusively will be borne exclusively by IPC, and are estimated at \$100,000. Consulting Group has also been retained by WPLH, IES and IPC to provide expert testimony in proceedings before regulatory commissions relating to approval of the Mergers.

On September 20, 1995, WPLH management, Merrill Lynch and legal counsel briefed the WPLH Board on the status of discussions with IES and IPC regarding a business combination. Merrill Lynch reviewed its valuation methodology with the WPLH Board and management explained the structural,

nonregulated, environmental, nuclear, reengineering, regulatory and synergy analyses being undertaken and the proposed timetable for their completion. The potential benefits to shareowners and customers of WPLH were again discussed by the WPLH Board.

In the ten days following September 20, 1995, representatives of WPLH, IES and IPC continued their work with respect to the synergy identification, nonregulated operations, environmental compliance and liabilities, nuclear generation opportunities and risks, reengineering initiatives under way at the companies, legal structure, regulatory plans and due diligence.

Following a September 29, 1995 due diligence meeting involving all three companies, Mr. Davis, Mr. Protsch, Mr. Liu, Mr. Root, Mr. Stoppelmoor and Mr. Chase met to further discuss the terms of the proposed merger agreement and various other issues relating to the potential three-way business combination, such as management succession, board composition and various utility integration strategies.

On October 5, 1995, Arthur Andersen Economic Consulting made a presentation at a meeting of the IES Board that covered strategic options in preparing for competition and an analysis of possible cost savings from both a two-way and three-way transaction involving WPLH and IPC as well as other possible strategic combinations and savings which might be obtained on a stand-alone basis. Arthur Andersen Economic Consulting's presentation emphasized that when considering merger partners, the IES Board should consider not only possible cost savings but also strategic and qualitative differences. The presentation also covered the relative benefits of proceeding with a merger concurrent with or subsequent to the reengineering initiatives undertaken by IES. Arthur Andersen Economic Consulting's analysis of possible cost savings of the various combinations and of IES on a stand-alone basis indicated that a three-way combination of IES with WPLH and IPC would be expected to result in the highest level of cost savings. Morgan Stanley reviewed with the IES Board the status of discussions with WPLH and IPC and delivered to the IES Board its preliminary findings with respect to the due diligence conducted as of such date on WPLH and IPC. Morgan Stanley reviewed its valuation methodology with the IES Board and presented financial profiles for and preliminary valuations of each of WPLH and IPC. At this meeting, the IES Board concluded that management should pursue the three-way transaction as the most desirable from the perspective of IES and its various constituencies, recognizing that in so doing, other strategic opportunities might be foregone.

During the next several days, preliminary discussions occurred between WPLH management and Merrill Lynch, IES management and Morgan Stanley, and IPC management and Salomon Brothers, with respect to negotiation of the exchange ratios, and between counsel for WPLH, counsel for IES and counsel for IPC, with respect to the terms of the draft merger agreement and the terms of possible stock option agreements.

On October 13, 1995, Messrs. Doyle, Root and Chase met with Consulting Group to discuss the scope, costs and timetable of the synergy study undertaken by the managements of the three companies with the assistance of Consulting Group. Over the next several weeks, the working group from the three companies had periodic conversations and met with Consulting Group to finalize managements' synergy analysis.

On October 18, 1995, at a regularly scheduled meeting of the WPLH Board, WPLH management, Merrill Lynch and legal counsel updated the WPLH Board on the overall progress of the merger negotiations with IES and IPC and the WPLH Board received a full due diligence report on IPC. Merrill Lynch reviewed financial and other information concerning WPLH, IES and IPC. Management reported on the handling of various other issues relating to the transaction, such as management succession, the composition of the board of directors of the combined company and potential utility integration strategies. The WPLH Board once again discussed the potential benefits to shareowners of WPLH (in the form of enhanced opportunities for earnings) and customers of WPLH (in the form of maintenance of competitive rates) that could result from the proposed three-way combination and authorized management to continue negotiations with IES and IPC.

On October 19, 1995, the IPC Board met with its legal and financial advisors to receive an update on the status of the merger negotiations and the due diligence investigations of IES and WPLH. Management reported to the IPC Board on the overall status of the merger negotiations to date, and management, in conjunction with Consulting Group, discussed with the IPC Board the continuing analysis by the members of the companies' working group of the areas for the realization of potential operational synergies that IPC management had concluded might result from the proposed combination. Salomon Brothers reviewed certain preliminary financial and other information regarding IPC, IES, and WPLH. Legal counsel presented a legal due diligence report on IES and WPLH and reviewed with the IPC Board the proposed handling of certain issues relating to the combination, including management succession, the composition of the board of directors of the combined company, the location of the headquarters of the utility subsidiaries of the combined company and employee related matters. Legal counsel also reviewed the proposed merger structure and certain significant terms of the proposed mergers. Synergy Consulting Services Corporation, a nationally recognized independent nuclear energy consultant retained by IPC, presented a report containing the results of its evaluation of the Duane Arnold Energy Center nuclear generating facility of Utilities and of the Kewaunee nuclear facility of WP&L and identified and characterized for the IPC Board generic nuclear power plant business risks. Synergy Consulting Services Corporation concluded that the Duane Arnold facility ranked above-average among the industry's nuclear generating plants in all benchmarking categories, was in good physical condition and was well managed and also concluded that the plans for decommissioning the Duane Arnold facility at the end of its useful life appeared to be adequate assuming Utilities was successful in obtaining approval from the IUB for a significant increase in its annual decommissioning fund allocation beginning in 1996. Synergy Consulting Services Corporation concluded that the Kewaunee facility has historically been one of the best performing plants within the nuclear industry and noted that it had recently received the highest possible performance ratings from both the NRC and from the Institute of Nuclear Power Operations (INPO). However, Synergy Consulting Services Corporation also noted that the Kewaunee facility is experiencing certain steam generator tube and tube sleeve degradation that potentially threatens the economic viability of continued plant operation but that viable economic alternatives to this operational problem exist. Synergy Consulting Services Corporation also concluded that WP&L management understood the financial risks associated with the alternative scenarios for the Kewaunee facility's future, that WP&L management had concluded that such risks were manageable and that the plans for decommissioning the Kewaunee facility at the end of its useful life were adequate. In the course of its evaluation, Synergy Consulting Services Corporation reviewed documentation containing relevant operating statistics (capacity factors, production costs and regulatory performance) and reviewed external performance evaluations of the Duane Arnold and Kewaunee facilities including INPO ratings, NRC Systematic Assessment of Licensee Performance (SALP) ratings and other ratings based on publicly available industry benchmarking data of nuclear station performance. The Synergy Consulting Services Corporation evaluation took into account specific risks associated with the Duane Arnold and Kewaunee facilities in the following categories: production, costs, organization and management, and decommissioning plan. Finally, Synergy Consulting Services Corporation briefed the IPC Board on the generic risks associated with nuclear generating plants, including premature permanent plant shutdown, temporary plant shutdown, uneconomic plant operation, inability to extend plant life, unanticipated costs, consequences of a nuclear accident, changes in regulations, fuel storage and fuel disposal and decommissioning costs. Following such presentations, the IPC Board once again discussed the various potential benefits of the proposed combination to IPC's stockholders and customers and authorized management to continue negotiations with IES and WPLH.

The representatives and advisors for all three companies met and spoke on numerous occasions over the next three weeks, finalizing managements' synergy study, discussing the transaction and the related documentation and negotiating the terms of the Merger Agreement, including the conditions to closing, the termination provisions, the break-up fees, the covenants which would govern the operations of WPLH, IES and IPC prior to the Effective Time and various other policy matters that would govern the operations of the combined company after the Effective Time. These discussions

included meetings on November 1 and November 6, 1995 in New York among Edward M. Gleason, Vice President, Treasurer and Corporate Secretary of WPLH, Mr. Root, Mr. Stoppelmoor and Mr. Chase, as well as their legal counsel, to document the negotiated terms of the Merger Agreement and other transaction documents. Merrill Lynch, Morgan Stanley and Salomon Brothers held further discussions with respect to the exchange ratios during the week of November 5, 1995. During the course of these discussions, Merrill Lynch, Morgan Stanley and Salomon Brothers each formulated a range of exchange ratios (but not specific ratios) for purposes of the ultimate negotiation of the specific exchange ratios by the parties, which ranges were then communicated to each firm's respective client. While the parties' financial advisors discussed the exchange ratios and their respective client's positions with respect thereto, the IES Ratio and the IPC Ratio were ultimately determined by each of IES and WPLH and IPC and WPLH, respectively.

On November 7, 1995, at a special meeting of the IPC Board, IPC management, Salomon Brothers and legal counsel updated the IPC Board on the overall progress of the merger negotiations with WPLH and IES. Counsel to IPC outlined in detail the terms and conditions of the then current forms of the Merger Agreement, the Stock Option Agreements and the Employment Agreements. Counsel reviewed such matters as the covenants that would govern the operations of the companies prior to the Effective Time, the representations and warranties of each of the companies, the conditions to consummation of the Mergers and the termination provisions of the Merger Agreement (including the termination fees and the operation of the Stock Option Agreements). The IPC Board also discussed with management, counsel and Salomon Brothers the management succession plan outlined in the Merger Agreement, the composition of the Interstate Energy Board and potential integration strategies. Consulting Group assisted IPC management in a further presentation to the IPC Board where management reported on the analyses of WPLH, IES and IPC managements of the potential synergies that could be achieved by a combination of the three companies. This presentation reviewed assumptions underlying managements' analyses, gave an overview of the types of synergies (financial, regulatory and operational) that could be achieved by a three-way combination and emphasized that the identified synergies were all directly related to a possible merger and did not include other types of savings that might be achieved without a merger. An overview of categories of synergies was given which identified the following areas for potential synergies: corporate and support labor, corporate programs, electric production, fuel transportation, gas supply costs and purchasing economies for items such as materials, supplies and contract services. The analyses assumed a period of 1997-2006, that the combination would result in a utility holding company registered under the 1935 Act, that management and operational integration of corporate, distribution and production support functions would occur without total physical centralization, that labor savings would be achieved by a variety of methods, including attrition, controlled hiring and voluntary separation programs over three years following the combination, and that costs to achieve the savings would be incurred primarily over the first three years following the combination. Based upon the information compiled through November 7, 1995, managements' analyses, as reported to the IPC Board, estimated that approximately \$780 million in potential synergy savings were realizable over the assumed ten-year period, with the cost to achieve such savings estimated to be approximately \$80 million, resulting in managements' estimate of approximately \$700 million of net anticipated synergy savings as a result of the Mergers over the assumed ten-year period. The analyses employed in order to develop managements' estimates of potential savings as a result of the Mergers utilized information provided by each company and were based upon various assumptions that involve judgments with respect to, among other things, future national and regional economic and competitive conditions, technological developments, inflation rates, regulatory treatment, weather conditions, financial market conditions, future business decisions and other uncertainties, all of which are difficult to predict and many of which are beyond the control of IPC, IES and WPLH.

At the November 7 meeting, the IPC Board also discussed with Salomon Brothers various financial analyses prepared by Salomon Brothers with respect to each of IPC, WPLH and IES. The IPC Board again discussed the potential benefits of the proposed three-way combination to IPC stockholders (in the form of a premium for their shares and enhanced opportunities for earnings and dividend growth) and to customers of IPC (in the form of maintenance of quality service and competitive rates). At the

conclusion of the November 7 meeting, the IPC Board authorized management to pursue finalization of the Merger Agreement and the other transaction documents with WPLH and IES and to negotiate an exchange ratio for IPC Common Stock within a specified range determined by the IPC Board.

On November 9, 1995, discussions were held among Mr. Davis, Mr. Liu and Mr. Stoppelmoor and among Merrill Lynch, Morgan Stanley and Salomon Brothers regarding the exchange ratios to be applied to IES Common Stock and IPC Common Stock. After consulting and reviewing with Merrill Lynch the range of exchange ratios previously presented by Merrill Lynch and discussed with the WPLH Board, as well as the discussions among the companies and their financial advisors regarding the exchange ratios, WPLH management proposed ratios to IES and IPC which would result in each share of WPLH Common Stock remaining outstanding as one share of Interstate Energy Common Stock, each share of IES Common Stock being converted into 0.98 a share of Interstate Energy Common Stock and each share of IPC Common Stock being converted into 1.11 shares of Interstate Energy Common Stock.

As a result of these discussions, Mr. Stoppelmoor determined to present to IPC's Board WPLH's proposed exchange ratio of 1.11 shares of Interstate Energy Common Stock for each share of IPC Common Stock. This determination was made based upon the fact that this exchange ratio was within the range specified by IPC's Board at the November 7, 1995 meeting and was subject to the understanding of Salomon Brothers and Mr. Stoppelmoor that the exchange ratio proposed with respect to IES would be 0.98 of a share of Interstate Energy Common Stock for each share of IES Common Stock.

On November 10, 1995, at a special meeting of the WPLH Board, counsel to WPLH outlined in detail the terms and conditions of the final forms of Merger Agreement, Stock Option Agreements, Employment Agreements and other transaction documents. Counsel reviewed such matters as the representations and warranties of each of the companies, the conditions to consummation of the Mergers and the termination provisions of the Merger Agreement (including the termination fees and the operation of the Stock Option Agreements). Counsel also reviewed the succession plan outlined in the Merger Agreement and the handling of the various other issues relating to the transactions, such as the composition of the board of directors of the combined company. Mr. Protsch, A.J. (Nino) Amato, Senior Vice President of WP&L, Mr. Doyle, Ms. Swan and Mr. Gleason made management presentations to the WPLH Board, including an updated report on the analysis of potential synergies prepared by the managements of WPLH, IES and IPC, with the assistance of Consulting Group, which included discussions of potential cost savings from economies of scale and decreased electric production and gas purchase costs and elimination of duplicative administrative expenses, and a review of the regulatory plan and the completion of the overall due diligence process. Legal counsel and management then described the covenants which would govern the operations of WPLH, IES and IPC prior to the Effective Time and other policy issues which would govern the operations of the combined company and its subsidiaries subsequent to the Effective Time. At the November 10 meeting, Merrill Lynch delivered its written opinion to the WPLH Board that, as of such date and based upon and subject to the matters discussed, the proposed exchange ratios of 0.98 of a share of Interstate Energy Common Stock per share of IES Common Stock and 1.11 shares of Interstate Energy Common Stock per share of IPC Common Stock were fair to WPLH from a financial point of view. The WPLH Board discussed the presentations they had received at this and various other WPLH Board Meetings and, upon conclusion, unanimously approved the Merger Agreement and the Stock Option Agreements and authorized their execution.

On November 10, 1995, at a regularly scheduled meeting of the IES Board, counsel to IES presented in detail the terms and conditions of the proposed Merger Agreement, Stock Option Agreements, Employment Agreements and other transaction documents. Arthur Andersen Economic Consulting made a presentation summarizing various financial data of the merger candidates and IES, including retail price per Kwh and sales volume growth, and emphasizing that factors to be considered in evaluating a merger candidate include management capability, regulatory issues (including past regulatory performances, stranded asset exposure and complexities of multi-state operations) and cultural factors. The Arthur Andersen Economic Consulting presentation also generally reviewed two

strategic options available for electric utilities responding to increased competition: 1) consolidation or merger; and 2) process reengineering. Arthur Andersen Economic Consulting analyzed for IES cost savings that could possibly be realized from four different hypothetical merger combination transactions and through process reengineering on a stand-alone basis. The cost savings analyses were based solely on publicly available information and were developed using a third-party model and assumptions, including industry benchmarks developed in conjunction with and adopted by IES management. In addition to the principal approach using the third-party model, two additional methodologies were utilized to substantiate the reasonableness of the principal approach: the average preliminary comparison method and the statistical econometric regression estimation methodology. Both of these secondary methodologies utilize publicly available data gleaned from recently announced or completed electric utility mergers. The cost savings analyses of the four possible merger combinations and of IES on a stand-alone basis pursuing process reengineering indicated that a three-way combination of IES and WPLH and IPC might result in the highest level of cost savings. Because these analyses were based solely on publicly available data without input from nonpublic information from the various potential merger candidates, Arthur Andersen Economic Consulting stressed that these analyses could not be relied on to definitively rank the alternatives. Although Arthur Andersen Economic Consulting reviewed various potential transactions, the firm made no recommendation to the IES Board as to whether or not to proceed with a merger or who to select as a merger partner. Morgan Stanley rendered to the IES Board an oral opinion to the effect that, at such date, and based upon the procedures and subject to the assumptions stated at the meeting, the IES Ratio, taking into account the IPC Ratio, was fair from a financial point of view to the holders of IES Common Stock. The IES Board discussed the presentations they had received at this and other IES Board meetings and, upon conclusion, the IES Board members present at the meeting unanimously approved the Merger Agreement and the Stock Option Agreements and authorized their execution.

On November 10, 1995, at a special meeting of the IPC Board, counsel to IPC reviewed with the IPC Board the terms of the final forms of Merger Agreement, Stock Option Agreements, Employment Agreements and other transaction documents. Counsel also reviewed the approval process to be commenced upon execution of the Merger Agreement, including the process of seeking the approval of IPC stockholders and the various regulatory agencies whose approval would be required. Counsel also discussed with the IPC board various provisions of the 1935 Act and their applicability to the proposed Mergers and to the operations of the combined entity after the Effective Time. At the November 10 meeting, Salomon Brothers delivered its written opinion to the IPC Board to the effect that, as of such date and based upon and subject to various considerations set forth in such opinion, the proposed exchange ratio of 1.11 shares of Interstate Energy Common Stock for each share of IPC Common Stock was fair, from a financial point of view, to the holders of IPC Common Stock (other than WPLH, IES or any of their respective affiliates). The IPC Board then discussed the presentations they had received at this and various other IPC Board meetings and, upon conclusion, unanimously approved the Merger Agreement and the Stock Option Agreements and the transactions contemplated thereby, and authorized their execution. Following the meetings of the WPLH Board, the IES Board and the IPC Board, the Merger Agreement and the Stock Option Agreements were executed.

In mid-April 1996, Morgan Stanley, on behalf of IES, contacted Merrill Lynch and informed Merrill Lynch that IES desired to discuss certain issues regarding the Merger Agreement and specifically IES's investment in McLeod. Morgan Stanley noted that the potential value of IES's stake in McLeod might be above that contemplated at the time the parties originally entered into the Merger Agreement.

As of the date hereof, IES Investments Inc., an indirect wholly-owned subsidiary of IES, holds 8,420,457 shares of McLeod Class B common stock (which is convertible at the option of IES into McLeod Class A common stock on a share-for-share basis) and vested options to purchase an additional 1,300,688 shares. In the McLeod initial public offering, IES Investments Inc. also purchased 500,000 shares of Class A common stock. The rights of McLeod Class A common stock and Class B common stock are substantially identical except that Class A common stock has 1 vote per share and

Class B common stock has 0.40 votes per share. Mr. Liu is a director of McLeod, owns 7,450 shares of Class A common stock and has a currently exercisable option to purchase 32,813 shares of Class A common stock of McLeod.

IES Investments Inc. purchased the McLeod Class B common stock in three blocks commencing in April 1993, for an aggregate of \$9.2 million. The options are exercisable for approximately \$2.3 million in the aggregate. IES Investments Inc. paid \$10.0 million for the Class A common stock purchased in the McLeod initial public offering.

Following the passage of the Telecommunications Act of 1996, in April 1996, McLeod filed a registration statement with the SEC with respect to an initial public offering of its Class A common stock. On June 14, 1996, McLeod sold 13.8 million shares of its Class A common stock in an initial public offering at a price to the public of \$20 per share. On such date, the last sale price per share of the McLeod Class A common stock on the Nasdaq National Market was \$25.50. McLeod, a provider of integrated local and long distance telecommunications services to small and medium-sized businesses primarily in Iowa and Illinois, reported a net loss of \$11.3 million on revenues of \$29.0 million for the fiscal year ended December 31, 1995. IES did not sell or convert any of its shares of Class B common stock of McLeod in the initial public offering, but purchased \$10 million of McLeod Class A common stock as a part of the public offering transaction. IES is also subject to an Investor Agreement executed on April 1, 1996 with McLeod pursuant to which IES has agreed, for a two-year period which commenced on June 10, 1996, not to sell any equity securities of McLeod unless otherwise approved by the McLeod Board of Directors.

On April 19, 1996, prior to the consummation of the McLeod initial public offering, Morgan Stanley, on behalf of IES, proposed that the ratio at which shares of IES Common Stock would be converted into shares of Interstate Energy Common Stock be adjusted to provide IES shareholders with two-thirds of the after-tax gain of IES's investment in McLeod, assuming that McLeod completed its initial public offering and that IES constructively sold its investment in McLeod within a period immediately prior to consummation of the Mergers. Under the IES proposal, the after-tax gain associated with a constructive sale of IES's interest in McLeod and the value of additional shares of Interstate Energy Common Stock to be issued to holders of IES Common Stock would have been based on the market value of McLeod common shares within a period immediately prior to the consummation of the Mergers. Following discussions with its financial and legal advisors, management of WPLH indicated that WPLH did not consider the modification of the IES exchange ratio as proposed by IES to be appropriate based in part upon the contingent nature of IES's investment in McLeod. IPC's management concurred with the position adopted by WPLH.

On May 1, 1996, Morgan Stanley delivered to Merrill Lynch a revised proposal from IES to provide for an adjustment of the IES exchange ratio. The revised IES proposal provided that the IES exchange ratio be increased to provide an additional \$25 million of Interstate Energy Common Stock to IES shareholders contingent upon McLeod completing an initial public offering prior to the consummation of the Mergers. As proposed by IES, the number of additional shares of Interstate Energy Common Stock to be issued in the event McLeod completed its initial public offering as described above would be based on the trading price of the WPLH Common Stock in the ten trading days prior to the execution of an amendment to the Merger Agreement.

After consulting with members of the WPLH Board and WPLH's financial and legal advisors regarding the revised IES proposal, Mr. Davis contacted Mr. Liu and informed him that WPLH management would be prepared to recommend to the WPLH Board a proposal that would increase the IES exchange ratio from 0.98 to 1.01 provided that, prior to the consummation of the Mergers, McLeod completed its initial public offering generally as described in its initial filing with the SEC and at a price per share greater than or equal to \$13.00. During this time, Mr. Davis also had periodic conversations with Mr. Stoppelmoor regarding the IES proposals and IPC's position regarding an amendment to the Merger Agreement. The financial advisors for both WPLH and IPC also discussed matters relating to the amendment and IPC's views with respect thereto. Following these discussions



and further consultations with members of their respective Boards and financial and legal advisors, Messrs. Davis, Liu and Stoppelmoor agreed to recommend to their Boards approval of an amendment to the Merger Agreement that would include a provision increasing the IES exchange ratio from 0.98 to 1.01 in the event McLeod completed an initial public offering within the parameters described above prior to the consummation of the Mergers.

On May 7, 1996, the IES Board approved in principle the proposed amendment to the Merger Agreement. The IES Board, in attempting to determine the potential value to the IES shareholders of the McLeod holdings, estimated that IES could have realized a potential pre-tax gain of \$152 million if IES were able to participate in the McLeod initial public offering and realize a sale price equal to \$17 per share, the midpoint of McLeod's then disclosed offering price range (assuming the exercise of all options vested as of June 30, 1996). In deciding to accept the revised IES Ratio, the IES Board, after discussion with Morgan Stanley, considered, among other factors (i) the taxes which would likely be payable by IES upon the eventual sale of its McLeod common stock once the aforementioned restrictions on transfer had lapsed, (ii) the fact that, in valuing IES Common Stock, the market would significantly discount the value of McLeod due to lack of earnings and to the underlying volatility which would be inherent in the publicly-traded McLeod Class A common stock, given the difference in industry fundamentals and anticipated shareholder profiles between McLeod and IES, (iii) the illiquidity of the IES stake in light of IES's restrictions on transfer, and (iv) the fact that with the adjusted 1.01 exchange ratio, IES shareholders, through their pro forma ownership of Interstate Energy, would effectively retain approximately 42% of the value attributable to IES's ownership of McLeod shares.

On May 7, 1996, at a special meeting of the WPLH Board, counsel to WPLH described the proposed amendment to the Merger Agreement and discussed with the WPLH Board the impact the proposed amendment would have on various provisions of the Merger Agreement. At this meeting, Merrill Lynch also discussed and reviewed with the WPLH Board the proposed contingent adjustment to the IES Ratio relating to the McLeod Contingency and orally confirmed that Merrill Lynch would be prepared to render an opinion to the effect that, based on the assumptions made, matters considered and limits of review as set forth in such opinion, the Ratios (including the IES Ratio as adjusted if the McLeod Contingency is satisfied) are fair to WPLH from a financial point of view. After considering the presentations made and the matters discussed at the special meeting, the WPLH Board by the directors present unanimously approved the proposed amendment to the Merger Agreement and authorized the execution thereof.

On May 10, 1996, the IPC Board met with its financial and legal advisors to discuss and vote upon the proposed amendment to the Merger Agreement. IPC's legal advisors described the proposed amendment to the IPC Board, and discussed with the IPC Board various applicable provisions of the Merger Agreement. Salomon Brothers reviewed with the IPC Board the proposed contingent adjustment to the IES Ratio relating to the McLeod Contingency and advised the IPC Board that if the proposed amendment were adopted, Salomon Brothers could render an opinion to the effect that, based upon and subject to various considerations that would be set forth in such opinion, as of May 10, 1996, the IPC Ratio (assuming the IES Ratio is adjusted for satisfaction of the McLeod Contingency) is fair to the holders of IPC Common Stock (other than WPLH, IES or any of their respective affiliates) from a financial point of view. After considering the presentations made and the matters discussed at the meeting, the IPC Board unanimously approved the proposed amendment to the Merger Agreement and authorized the execution thereof.

The amendment to the Merger Agreement was executed by the parties on May 22, 1996.

On June 14, 1996, McLeod completed its initial public offering and the McLeod Contingency was satisfied. As a result, the IES Ratio was automatically adjusted to 1.01.

## Reasons for the Mergers; Recommendations of the Boards of Directors

WPLH, IES and IPC believe that the Mergers offer the following significant strategic and financial benefits to each company and to their respective shareowners, as well as to their employees and customers:

- *Maintenance of Competitive Rates* — Interstate Energy will be more effective in meeting the challenges of the increasingly competitive environment in the utility industry than any of WPLH, IES or IPC standing alone due to the economies of scale available to Interstate Energy. The impact of these economies of scale, which are described in greater detail below, will help to position Interstate Energy to deal effectively with increased competition with respect to rates. The Mergers, by creating the potential for increased economies of scale, will create the opportunity for strategic, financial and operational benefits for customers in the form of more competitive rates over the long term and for shareowners in the form of greater financial strength and financial flexibility.
- *Integration of Corporate and Administrative Functions* — Interstate Energy will be able to consolidate certain corporate and administrative functions of WPLH, IES and IPC, thereby eliminating duplicative positions, reducing other non-labor corporate and administrative expenses and limiting or avoiding duplicative expenditures for administrative and customer service programs and information systems. A joint transition task force is examining the manner in which to best organize and manage the businesses of Interstate Energy and identify duplicative positions in the corporate and administrative areas. It is anticipated that, as a result of combining staff and other functions, Interstate Energy will have somewhat fewer employees within several years than WPLH, IES and IPC currently have in the aggregate. WPLH, IES and IPC are committed to achieve cost savings in the area of personnel reductions through attrition, strictly controlled hiring, and reassignment and retraining and, to the extent required, severance and targeted early retirement programs. In addition, some savings in areas such as insurance and regulatory costs and legal, audit and consulting fees are expected to be realized.
- *Reduced Operating Costs* — The combination should result in decreased electric production costs through the joint dispatch of the systems. Natural gas supply savings through combined purchasing are also anticipated.
- *Purchasing Economies and Streamlining of Inventories* — The combination of the three companies should result in greater purchasing power for items such as fuel and transportation services and general and operational goods and services, and the reduction of inventories for standardized materials and supplies for construction, operations and maintenance within the combined generation, transmission and distribution systems.
- *Coordination of Diversification Programs* — WPLH and IES each have significant non-utility subsidiaries, and Interstate Energy, as a stronger financial entity, should be able to manage and pursue such subsidiary businesses more efficiently and effectively. WPLH and IES currently engage in a number of diversified businesses, some of which are complementary. To the extent such complementary businesses are combined and able to collaborate in the pursuit of market opportunities, benefits from economies of scale should be obtained and thereby improve the performance of these businesses. Furthermore, due to the larger capital base of Interstate Energy, the financial flexibility will exist to support the existing businesses as well as take advantage of new business opportunities as they arise.
- *More Diverse Service Territory* — The combined service territories of WP&L, Utilities and IPC will be larger and more diverse than any of the service territories of WP&L, Utilities or IPC as independent entities. This increased customer and geographical diversity is expected to reduce the exposure to changes in economic, competitive or climatic conditions in any given sector of the combined service territory.

- *Expanded Management Resources* — In combination, WPLH, IES and IPC will be able to draw on a larger and more diverse mid- and senior-level management pool to lead Interstate Energy forward in an increasingly competitive environment for the delivery of energy and should be better able to attract and retain the most qualified employees. The employees of Interstate Energy should also benefit from new opportunities in the expanded organization.

Subject to the qualifications expressed below, WPLH, IES and IPC believe that synergies from the Mergers will generate substantial cost savings to Interstate Energy, which would not be available absent the Mergers. Although there can be no assurances that such results will be achieved, current estimates by the managements of WPLH, IES and IPC indicate that the Mergers could result in potential net cost savings (that is, after taking into account the costs incurred to achieve such savings) of approximately \$749 million during the ten-year period following the Mergers. Approximately 45% of these savings are expected to be achieved through personnel reductions involving approximately 600 positions. Other potentially significant cost savings include reduced corporate and administrative programs, reduced electric production costs, nonfuel purchasing economies, lower gas supply costs, and other avoided or reduced operation and maintenance costs, such as the deferral of costs associated with adding new generating capacity.

Any actual savings in costs are expected through the regulatory process to inure to the benefit of both shareowners and ratepayers. The allocation of the benefits and cost savings among shareowners and ratepayers will depend on the results of regulatory proceedings in the various jurisdictions in which WPLH, IES and IPC operate their businesses. See "Regulatory Matters."

The foregoing discussion contains forward looking statements, including, without limitation, managements' estimates of potential net cost savings. Actual results might differ materially from those contained in the forward looking statements. The analyses employed in order to develop managements' estimates of potential savings as a result of the Mergers were necessarily based upon various assumptions that involve judgments with respect to, among other things, future national and regional economic and competitive conditions, technological developments, inflation rates, regulatory treatment, weather conditions, financial market conditions, future business decisions, and other uncertainties, all of which are difficult to predict and many of which are beyond the control of WPLH, IES and IPC. Accordingly, while WPLH, IES and IPC believe that such assumptions are reasonable for purposes of the development of estimates of potential savings, there can be no assurance that such assumptions will approximate actual experience or that such savings will be realized.

The WPLH Board, the IES Board and the IPC Board each considered the impact of Interstate Energy registering as a holding company under the 1935 Act in connection with the Mergers. Based on the benefits that each company believes will be derived from the Mergers, the potential detriments associated with Interstate Energy operating as a registered holding company were not deemed material. See "Regulatory Matters — Public Utility Holding Company Act of 1935."

*WPLH.* The WPLH Board believes that the terms of the Mergers are fair to, and in the best interests of, WPLH and its shareowners. Accordingly, the WPLH Board, by a unanimous vote, has approved the Merger Agreement (and the transactions contemplated thereby) and recommends its approval and adoption by WPLH's shareowners. The WPLH Board believes: that WPLH's shareowners will benefit by participation in the combined economic growth of the WP&L, Utilities and IPC service territories, and from the inherent increase in scale economies, the market diversification and the resulting increased financial stability and strength; that the Mergers will result in cost savings from decreased electric production and gas supply costs, a reduction in operating and maintenance expense and other factors discussed above; and that the combined enterprise can more effectively participate in the increasingly competitive market for the generation of power. All of these factors offer a potential increase in earnings and the creation of a larger, financially stronger company.

In reaching its conclusions, the WPLH Board considered (i) the financial performance, condition, business operations and prospects of each of WPLH, IES and IPC and that, on a combined basis, the companies will likely have greater financial stability and strength due to participation in the combined economic climate and growth of each of the WP&L, Utilities and IPC service territories, the inherent increase in scale economies, the market diversification resulting from the combination of customer bases and the impact of the potential operating efficiencies and other synergies which are expected to reduce operational and maintenance expenses, as more fully discussed above; (ii) current industry, economic, market and regulatory conditions which encourage consolidation to reduce risk and create new avenues for earnings growth (as discussed under "The Mergers — Background of the Mergers" above); (iii) the anticipated positive effect of the Mergers on shareowners and customers (as more fully discussed above); (iv) the terms of the Merger Agreement, the Stock Option Agreements, the Employment Agreements and other documents executed and to be executed in connection with the Mergers which provide for reciprocal representations and warranties, conditions to closing and rights to termination, balanced rights and obligations and protection for employees of WPLH (as discussed under "The Merger Agreement," "The Stock Option Agreements" and "— Employment Agreements"); (v) the management succession plan specified in the Merger Agreement and the Employment Agreements of Messrs. Liu, Davis, Stoppelmoor and Chase (as described under "— Employment Agreements" and "Interstate Energy Following the Mergers — Management of Interstate Energy") which provides a prudent plan for managing the integration of and transition in management; (vi) the impact of regulation under various state and federal laws (as described under "Regulatory Matters" and "— Background of the Mergers"); (vii) that the Mergers are expected to be treated as a tax-free reorganization to shareowners and to be accounted for as a pooling-of-interests transaction (which avoids the reduction in earnings which would result from the creation and amortization of goodwill under purchase accounting) (as discussed under "— Certain Federal Income Tax Consequences" and "— Accounting Treatment"); and (viii) the opinion of Merrill Lynch, described below, that the Ratios are fair to WPLH from a financial point of view. In determining that the Mergers are fair to and in the best interests of its shareowners, the WPLH Board considered the above factors as a whole and did not assign specific or relative weights to any one factor or group of factors.

The WPLH Board did, however, consider several countervailing factors associated with the Mergers. The first factor related to Utilities' ownership and operation of the Duane Arnold Energy Center, which is a 520 MW boiling water reactor nuclear power plant. The WPLH Board considered the fact that Utilities was a 70% owner of the plant and that this plant provided Utilities with approximately 18% of its generating capacity and 25% of its energy requirements. Comparable to the Kewaunee Nuclear facility (of which WP&L is a part owner) in terms of its licensed life, the Duane Arnold facility had a net book value in the fall of 1995 of approximately \$300 million. Available estimates suggested that the facility faced a decommissioning liability of approximately \$361 million (in 1993 dollars) of which Utilities is responsible for 70% or approximately \$253 million, with approximately \$34 million (at the end of 1994) thereof accumulated in an external trust fund and approximately \$21 million (at the end of 1994) thereof accumulated in an internal reserve. The WPLH Board considered this as a potential negative factor associated with the combination due to the uncertainty surrounding whether the Duane Arnold facility would be well-positioned to operate as a competitive power production facility in the event that the generation segment of the electric utility industry became substantially unregulated and fully competitive. The question presented was whether there was likely to be material financial risk in such a circumstance in the form of potential stranded investment.

The potential negative impact of the Duane Arnold facility was offset by various other factors. First, the WPLH Board believes, based on ongoing proceedings at FERC, that federal policymakers will ultimately allow for the recovery of stranded investment in the event that policies are implemented which bring about greater competition in the generation sector of the electric utility industry. Second, all available information led to the conclusion that the Duane Arnold facility was a well-operated and well-managed nuclear facility whose costs were generally more favorable than those of most nuclear plants in North America. Third, historical regulatory experiences in Iowa presented no evidence that unreasonable regulatory ratemaking policies would likely be implemented with respect to that facility.

A second concern considered by the WPLH Board related to the ownership by Utilities and IPC of former manufactured gas plant sites for which remediation costs will be incurred over time. Utilities owns or may have responsibility for remediation for 34 such sites while IPC owns or may have responsibility for remediation for nine such sites. With respect to the Utilities sites, information available to the WPLH Board suggested that while the potential magnitude of remaining clean-up costs was significant (approximately \$37 million based on then current estimates), Utilities had a well-established track record of effectively investigating and remediating its former manufactured gas plant sites and of seeking and receiving favorable regulatory rate treatment in the State of Iowa for the costs incurred in those efforts. With respect to a majority of the sites, IPC was found to be in the early stages of evaluating its manufactured gas plant obligations and potential financial exposures. As of the fall of 1995, IPC had received favorable regulatory rate treatment in the States of Iowa and Illinois with respect to costs incurred to date in the investigation of its former manufactured gas plant sites. In connection with the IPC sites located in Minnesota, a decision on rate recovery was then pending in a rate case and the WPLH Board did not rely on the potential for full or partial rate recovery (or the timing thereof) in analyzing the Mergers.

Although the WPLH Board considered the foregoing factors in approving the Mergers, due to the beneficial aspects of the Mergers described above, the WPLH Board concluded that the unfavorable aspects of the Mergers were outweighed by the positive impacts and potential opportunities.

**THE WPLH BOARD BY THE DIRECTORS PRESENT HAS UNANIMOUSLY APPROVED THE MERGER AGREEMENT AND BELIEVES THAT THE TERMS OF THE MERGERS ARE FAIR TO, AND IN THE BEST INTERESTS OF, WPLH'S SHAREOWNERS, HAS APPROVED EACH OF THE WPLH CHARTER AMENDMENTS, SUPPORTS THE ELECTION OF THE NOMINATED WPLH DIRECTORS AND SUPPORTS THE APPOINTMENT OF ARTHUR ANDERSEN LLP AS WPLH'S INDEPENDENT AUDITORS FOR THE YEAR ENDING DECEMBER 31, 1996. THE WPLH BOARD RECOMMENDS A VOTE FOR APPROVAL OF THE MERGER AGREEMENT, FOR APPROVAL OF EACH OF THE WPLH CHARTER AMENDMENTS, FOR THE ELECTION OF THE NOMINATED WPLH DIRECTORS AND FOR THE RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT AUDITORS.**

*IES.* The IES Board believes that the terms of the Mergers are fair to, and in the best interests of, IES and its shareholders. Accordingly, the IES Board, by a unanimous vote of the directors present, has approved the Merger Agreement and the transactions contemplated thereby and recommends its approval and adoption by IES's shareholders. The IES Board believes: that the IES Ratio offers IES shareholders an attractive premium over the recent historical trading prices of IES Common Stock; that IES shareholders will benefit by participation in the combined economic growth of the service territories of Utilities, WP&L and IPC, and from the inherent increase in scale economies, the market diversification and the resulting increased financial stability and strength of the combined entity; that the Mergers will result in cost savings from decreased electric production and gas supply costs, a reduction in operating and maintenance expense and other factors discussed above; that the combined enterprise can more effectively participate in the increasingly competitive market for the generation of power; and that the Mergers and various provisions of the Merger Agreement offer IES shareholders, ratepayers and employees a unique opportunity to realize the benefits created by combining the three entities. The IES Board believes that these factors offer a potential increase in earnings in excess of those that could be achieved by IES alone, and that the Mergers will result in the creation of a larger, financially stronger company.

In reaching its conclusions, the IES Board considered (i) the original and the adjusted IES Ratio and the fact that such ratios represent approximately an 11% premium and an 11.34% premium, respectively, over the closing price of IES Common Stock on the NYSE on November 10, 1995 (the last full trading day prior to the public announcement of the Mergers) and premiums of approximately 14% and 14.43%, respectively, over the closing price of IES Common Stock on the NYSE on October 10, 1995 (the trading day that is 30 days prior to the date on which the Mergers were publicly announced); (ii) the financial performance, condition, business operations and prospects of each of IES, WPLH and IPC and that, on a combined basis, the companies will likely have greater financial stability and strength due to

participation in the combined economic climate and growth of each of the Utilities, WP&L and IPC service territories, the inherent increase in scale economies, the market diversification resulting from the combination of customer bases and the impact of the potential operating efficiencies and other synergies which are expected to reduce operational and maintenance expenses, as more fully discussed above; (iii) current industry, economic, market and regulatory conditions which encourage consolidation to reduce risk and create new avenues for earnings growth (as discussed under "The Mergers — Background of the Mergers" above); (iv) IES's prospects for earnings and dividend growth on a stand-alone basis in light of IES's size relative to many of the electric utility companies abutting Utilities' service territory (IES ranks ninth out of 20 such companies based on aggregate market capitalization); (v) the recent wave of merger activity involving electric utility companies in markets near Utilities' service territory and IES's ability to remain competitive on an independent basis over the long-term; (vi) the anticipated positive effect of the Mergers on IES's shareholders and Utilities' customers, including maintaining competitiveness, integrating corporate and administrative functions and reducing operating costs (all as more fully described above); (vii) the terms of the Merger Agreement, the Stock Option Agreements, the Employment Agreements and other documents executed and to be executed in connection with the Mergers which provide for the adjustment of the IES Ratio in the event the McLeod Contingency is satisfied (which has occurred), reciprocal representations and warranties, conditions to closing and rights to termination, and balanced rights and obligations; (viii) the management succession plan specified in the Merger Agreement and the Employment Agreements of Messrs. Liu, Davis, Stoppelmoor and Chase (as described under "— Employment Agreements" and "Interstate Energy Following the Mergers — Management of Interstate Energy") which provides a prudent plan for managing the integration of and transition in management; (ix) the impact of regulation under various state and federal laws (as described under "Regulatory Matters" and "— Background of the Mergers"); (x) that the Mergers are expected to be treated as tax-free reorganizations to shareholders and to be accounted for as a pooling-of-interests transaction (which avoids the reduction in earnings which would result from the creation and amortization of goodwill under purchase accounting); and (xi) the opinion of Morgan Stanley, described below, that the IES Ratio, taking into account the IPC Ratio, is fair from a financial point of view to the holders of IES Common Stock. The IES Board recognizes that (i) giving effect to the Mergers, equivalent IES earnings per share will be slightly lower than IES earnings per share for the 12-months ended September 30, 1995, (ii) annual dividends per share of Interstate Energy Common Stock are expected to be lower than those which have been paid on IES Common Stock (see "Selected Historical and Pro Forma Data"), and (iii) recent operating revenues, operating income and other financial factors are slightly higher for IES than WPLH; and, although these factors are not immaterial, the IES Board believes the factors discussed in the preceding sentences, together with those reasons discussed above and the advice or assistance of its financial advisors and consultants as described herein, substantially outweigh any negatives and the terms of the Mergers are, as a whole, in the best interests of IES and its shareholders. In determining that the Mergers are fair to and in the best interests of shareholders, the IES Board considered the above factors as a whole and did not assign specific or relative weights to any one factor or group of factors.

**THE IES BOARD HAS APPROVED THE MERGER AGREEMENT BY UNANIMOUS VOTE OF THE DIRECTORS THEN PRESENT AND BELIEVES THAT THE TERMS OF THE MERGERS ARE FAIR TO, AND IN THE BEST INTERESTS OF, IES'S SHAREHOLDERS, AND SUPPORTS THE ELECTION OF THE NOMINATED IES DIRECTORS. THE IES BOARD RECOMMENDS A VOTE FOR APPROVAL OF THE MERGER AGREEMENT AND FOR THE ELECTION OF THE NOMINATED IES DIRECTORS.**

*IPC.* The IPC Board believes that the terms of the Mergers are fair to, and in the best interests of, IPC and its stockholders. Accordingly, the IPC Board, by a unanimous vote, has approved the Merger Agreement (and the transactions contemplated thereby) and recommends its approval and adoption by IPC's stockholders. The IPC Board further believes that the IPC Charter Amendment is an important precondition to the IPC Merger in order to secure tax-free reorganization status for the IPC Merger or the IPC Direct Merger, as the case may be, under the Code. Accordingly, the IPC Board, by a unanimous vote, has adopted a resolution setting forth the IPC Charter Amendment and

declaring its advisability, and recommends approval of the IPC Charter Amendment by IPC's stockholders. The IPC Board believes: that the IPC Ratio offers to IPC stockholders an attractive premium over the recent historical trading prices of IPC Common Stock; that IPC stockholders will benefit by participation in the combined economic growth of the service territories of IPC, WP&L and Utilities, and from the anticipated increase in scale economies, the market diversification and the resulting increased financial stability and strength of the combined entity; that the Mergers will result in cost savings from decreased electric production and gas supply costs, a reduction in operating and maintenance expense and other factors discussed above; that the combined enterprise can more effectively participate in the increasingly competitive market for the generation of power; and that the Mergers and various provisions of the Merger Agreement offer IPC stockholders, ratepayers and employees a unique opportunity to realize the benefits created by combining the three entities. The IPC Board believes that these factors offer a potential increase in earnings in excess of those that could be achieved by IPC alone, and the potential for IPC's stockholders to participate in the creation of a larger, financially stronger company.

In reaching its conclusions, the IPC Board considered (i) the IPC Ratio and the fact that it represents a premium of approximately 15.2% over the closing price of IPC's Common Stock on the NYSE on November 10, 1995 (the last full trading day prior to the public announcement of the Mergers) and a premium of approximately 22.4% over the closing price of IPC's Common Stock on October 10, 1995 (the trading day that is 30 days prior to the date on which the Mergers were publicly announced); (ii) the financial performance, condition, business operations and prospects of each of WPLH, IES and IPC and that, on a combined basis, the companies will likely have greater financial stability and strength due to participation in the combined economic climate and growth of each of the WP&L, Utilities and IPC service territories, the inherent increase in scale economies, the market diversification resulting from the combination of customer bases and the impact of the potential operating efficiencies and other synergies that are expected to reduce operational and maintenance expenses, as more fully discussed above; (iii) current industry, economic, market and regulatory conditions that encourage consolidation to reduce risk and create new avenues for earnings growth (as discussed under "The Mergers — Background of the Mergers" above); (iv) IPC's prospects for earnings and dividend growth on a stand-alone basis in light of IPC's size relative to many of the electric utility companies abutting IPC's service territory (each of which is at least three times larger than IPC when measured by any of a number of criteria); (v) the recent wave of merger activity involving electric utility companies in markets near IPC's service territory and IPC's ability to remain competitive on an independent basis over the long-term (vi) the anticipated positive effect of the Mergers on IPC's stockholders and customers (as disclosed in more detail in the preceding paragraph); (vii) the terms of the Merger Agreement, the Stock Option Agreements, the Employment Agreements and other documents executed and to be executed in connection with the Mergers which provide for reciprocal representations and warranties, conditions to closing and rights to termination, balanced rights and obligations and certain protections for employees of IPC; (viii) the management succession plan specified in the Merger Agreement and the Employment Agreements of Messrs. Liu, Davis, Stoppelmoor and Chase (as described under "— Employment Agreements" and "Interstate Energy Following the Mergers — Management of Interstate Energy") that provides a prudent plan for managing the integration of and transition in management; (ix) the impact of regulation under various state and federal laws (as described under "Regulatory Matters" and "— Background of the Mergers"); (x) that, subject to approval of the IPC Charter Amendment by the IPC stockholders at the IPC Meeting, the Mergers are expected to be treated as tax-free reorganizations to stockholders and to be accounted for as a pooling-of-interests transaction (which avoids the reduction in earnings that would result from the creation and amortization of goodwill under purchase accounting); and (xi) the opinion of Salomon Brothers, described below, that the IPC Ratio is fair to the holders of IPC Common Stock from a financial point of view. In determining that the Mergers are fair to and in the best interests of its stockholders, the IPC Board considered the above factors as a whole and did not assign specific or relative weights to any one factor or group of factors.

The IPC Board did, however, consider certain countervailing factors associated with the Mergers. The first factor related to the ownership by WP&L of the Kewaunee Nuclear Power facility and the ownership by Utilities of the Duane Arnold Energy Center, both of which are nuclear power plants. IPC does not own any interests in nuclear generating facilities. The IPC Board considered generally the ownership and operation of nuclear generating facilities and the potential generic risks and costs associated therewith, including premature permanent plant shutdown, temporary plant shutdown, uneconomic plant operation, consequences of a nuclear accident, fuel storage and fuel disposal and decommissioning costs. The IPC Board also considered factors specific to each of the Kewaunee and Duane Arnold facilities.

With respect to IES, the IPC Board considered the fact that Utilities was a 70% owner of the Duane Arnold facility and that the Duane Arnold facility provided Utilities with approximately 18% of its generating capability and 25% of its energy requirements. Available estimates suggested that the Duane Arnold facility faced a decommissioning liability of approximately \$361 million (in 1993 dollars) of which Utilities is responsible for 70% or approximately \$253 million, with approximately \$34 million (at the end of 1994) thereof accumulated in an external trust fund and approximately \$21 million (at the end of 1994) thereof accumulated in an internal reserve. In addition, the IPC Board considered that the adequacy of the Duane Arnold facility decommissioning plan funding depended in part on Utilities' success in obtaining approval from the IUB for a significant increase in its annual decommissioning fund allocation beginning in 1996. These factors caused the IPC Board to consider whether the Duane Arnold facility was likely to present a material financial risk in the form of stranded investment as the generation segment of the electric utility industry moved toward deregulation and open competition.

The IPC Board believed that the potential negative impact of the Duane Arnold facility was offset by various other factors. First, the IPC Board believes, based on ongoing proceedings at FERC, that federal policymakers will ultimately allow for the recovery of stranded investment in the event that policies are implemented which bring about greater competition in the generation sector of the electric utility industry. Second, all available information led to the conclusion that the Duane Arnold facility was a well-operated and well-managed nuclear facility whose costs were generally more favorable than those of most nuclear plants in North America. Third, historical regulatory experiences in Iowa presented no evidence that unreasonable regulatory ratemaking policies would likely be implemented with respect to the Duane Arnold facility.

With respect to the Kewaunee facility, the IPC Board considered the fact that WP&L was a 41% owner of the Kewaunee facility and that the Kewaunee facility provided WP&L with approximately 16% of its generating capability and 14% of its energy requirements. The IPC Board further considered the fact that the Kewaunee facility is experiencing certain steam generation equipment degradation that potentially threatens the economic viability of continued operation of the Kewaunee facility. These factors caused the IPC Board to consider whether the Kewaunee facility was likely to present a material financial risk in terms of its future economic viability.

The IPC Board believed that the potential negative impact of the Kewaunee facility was offset by various factors. First, the Kewaunee facility has historically been one of the top performing plants within the nuclear industry and has recently received the highest possible performance ratings assigned by applicable regulatory agencies. Second, there exist viable economic alternatives to the steam generator equipment degradation noted above, and WPLH's management has indicated its belief that the risks of these alternatives are manageable. Third, the IPC Board believes that the plans for decommissioning the Kewaunee facility at the end of its useful life are adequate.

Although the IPC Board considered the foregoing factors in approving the Mergers, the IPC Board concluded that the potential unfavorable aspects of the Mergers were outweighed by the positive impacts and potential benefits of the Mergers described above.

**THE IPC BOARD HAS UNANIMOUSLY APPROVED THE MERGER AGREEMENT AND BELIEVES THAT THE TERMS OF THE MERGERS ARE FAIR TO, AND IN THE BEST INTERESTS OF, IPC'S STOCKHOLDERS, HAS UNANIMOUSLY ADOPTED A RESOLUTION SETTING FORTH THE**



IPC CHARTER AMENDMENT AND DECLARING ITS ADVISABILITY, AND SUPPORTS THE ELECTION OF THE NOMINATED IPC DIRECTORS. THE IPC BOARD RECOMMENDS A VOTE FOR APPROVAL OF THE MERGER AGREEMENT, FOR APPROVAL OF THE IPC CHARTER AMENDMENT, AND FOR THE ELECTION OF THE NOMINATED IPC DIRECTORS.

**Opinions of Financial Advisors**

*WPLH's Financial Advisor:* During the course of discussions regarding a possible transaction, Merrill Lynch attended meetings of the WPLH Board as described in "The Mergers — Background of the Mergers." At such meetings, Merrill Lynch reviewed financial information concerning WPLH, IES and IPC and provided preliminary valuations of IES and IPC. The financial information reviewed by Merrill Lynch was the same financial information used in arriving at the Merrill Lynch Opinion (as updated through the relevant date), all of which information is described below. The results of the preliminary valuations presented by Merrill Lynch at such WPLH Board meetings are consistent with the results utilized by Merrill Lynch to arrive at the Merrill Lynch Opinion, which results are described below.

On November 10, 1995, Merrill Lynch delivered its written opinion to the WPLH Board to the effect that, as of such date, and based upon the assumptions made, matters considered and limits of review as set forth in such opinion, the Ratios (without adjustment of the IES Ratio to reflect the satisfaction of the McLeod Contingency) are fair to WPLH from a financial point of view. On May 7, 1996, at a meeting of the WPLH Board, Merrill Lynch discussed and reviewed with the WPLH Board the proposed contingent adjustment to the IES Ratio relating to the McLeod Contingency and orally confirmed that Merrill Lynch would be prepared to render an opinion dated the date of this Joint Proxy Statement/Prospectus to the effect that, as of such date, and based on the assumptions made, matters considered and limits of review as set forth in such opinion, the Ratios (including the IES Ratio as adjusted if the McLeod Contingency was satisfied) are fair to WPLH from a financial point of view. In a written opinion dated the date of this Joint Proxy Statement/Prospectus, Merrill Lynch confirmed (i) its November 10, 1995 opinion as it relates to the Ratios (including the IES Ratio as adjusted to reflect the satisfaction of the McLeod Contingency) and (ii) the appropriateness of its reliance on the analyses used to render the November 10, 1995 opinion by performing procedures to update such analyses and by reviewing the assumptions on which such analyses were based and the factors considered therewith. Merrill Lynch performed and updated the same analyses utilized in rendering the November 10, 1995 opinion, including reviewing the financial information on which such analyses were based and the recent financial results of WPLH, IES and IPC, and the results of such updated analyses were substantially similar to the prior results. References herein to the "Merrill Lynch Opinion" refer to the written opinion of Merrill Lynch dated November 10, 1995.

A copy of the Merrill Lynch opinion dated the date of this Joint Proxy Statement/Prospectus, which sets forth the assumptions made, matters considered and certain limitations on the scope of review undertaken by Merrill Lynch, is attached as Annex L to this Joint Proxy Statement/Prospectus. WPLH shareowners are urged to read such opinion in its entirety. The Merrill Lynch opinions are directed only to the fairness of the Ratios from a financial point of view and do not constitute a recommendation to any WPLH shareowner as to how such shareowner should vote at the WPLH Meeting. The summary of the Merrill Lynch Opinion set forth in this Joint Proxy Statement/Prospectus is qualified in its entirety by reference to the full text of the Merrill Lynch opinion attached as Annex L hereto. The Merrill Lynch opinion dated the date of this Joint Proxy Statement/Prospectus is substantially similar to the Merrill Lynch Opinion dated November 10, 1995.

In arriving at the Merrill Lynch Opinion, Merrill Lynch among other things (i) reviewed WPLH's, IES's, and IPC's Annual Reports, Forms 10-K and related financial information for the three fiscal years ended December 31, 1994, and Forms 10-Q and related unaudited financial information for the quarterly periods ended June 30, 1995; (ii) reviewed certain other filings with the SEC made by WPLH, IES, and IPC, including proxy statements, Forms 8-K, and registration statements, during the last three years; (iii) reviewed certain information, including financial forecasts, relating to the business, earnings, dividends, cash flow, assets and prospects of WPLH, IES, and IPC, furnished to Merrill Lynch by WPLH, IES, and IPC, respectively; (iv) conducted discussions with members of

senior management of WPLH, IES and IPC concerning their respective businesses, regulatory environments, prospects and strategic objectives and possible operating, administrative and capital synergies which might be realized for the combined companies following the Mergers; (v) reviewed the historical market prices and trading activity for WPLH Common Stock, IES Common Stock, and IPC Common Stock; (vi) compared the results of operations of WPLH, IES and IPC with those of certain companies deemed by Merrill Lynch to be reasonably similar to WPLH, IES and IPC, respectively; (vii) compared the proposed financial terms of the Mergers with the financial terms of certain other mergers and acquisitions which Merrill Lynch deemed to be relevant; (viii) analyzed the relative valuation of WPLH Common Stock, IES Common Stock, and IPC Common Stock using various valuation methodologies which Merrill Lynch deemed to be appropriate; (ix) considered the pro forma effect of the Mergers, in terms of net income available to common stockholders, dividends per common share, book value per common share and capitalization, on WPLH Common Stock; (x) reviewed drafts of the Merger Agreement and the Stock Option Agreements, dated November 10, 1995 and November 6, 1995, respectively; and (xi) reviewed such other financial studies and analyses and made such other inquiry and took into account such other matters deemed necessary or appropriate by Merrill Lynch for purposes of the Merrill Lynch Opinion.

In preparing the Merrill Lynch opinions, Merrill Lynch relied on the accuracy and completeness of all information supplied or otherwise made available to it by WPLH, IES and IPC, and did not independently verify such information or any underlying assumptions. Merrill Lynch did not undertake an independent appraisal or physical inspection of the assets or liabilities (contingent or otherwise) of WPLH, IES or IPC. Merrill Lynch also assumed that the financial forecasts and projected synergies furnished to it by WPLH, IES and IPC were reasonably prepared in accordance with accepted industry practices and reflected the best currently available estimates and judgments of WPLH's, IES's and IPC's management as to the expected future financial performance of WPLH, IES and IPC, respectively, and as to the expected future projected outcomes of various legal, regulatory and other contingencies. Merrill Lynch also assumed that the Mergers will be free of Federal tax to WPLH, IES, IPC and the respective holders of WPLH Common Stock, IES Common Stock and IPC Common Stock, and further assumed that the Mergers will be accounted for as a pooling of interests. Merrill Lynch's opinions are based upon general economic, market, monetary and other conditions as they existed and could be evaluated, and the information made available to it, as of the respective dates of such opinions. The Merrill Lynch opinions do not constitute a recommendation to any WPLH shareholder as to how such shareholder should vote at the WPLH Meeting.

The matters considered by Merrill Lynch in arriving at the Merrill Lynch opinions are based on numerous macroeconomic, operating and financial assumptions with respect to industry performance, general business and economic conditions, many of which are beyond the control of WPLH, IES and IPC, and involve the application of complex methodologies and educated judgment. Any estimates incorporated in the analyses performed by Merrill Lynch are not necessarily indicative of actual past or future results or values, which may be significantly more or less favorable than such estimates. Estimated values do not purport to be appraisals and do not necessarily reflect the prices at which businesses or companies may be sold in the future. The Merrill Lynch opinions do not present a discussion of the relative merits of the Mergers as compared to any other business plan or opportunity that might be presented to WPLH, or the effect of any other arrangement in which WPLH might engage.

The following is a summary of certain financial and comparative analyses performed by Merrill Lynch in arriving at its November 10, 1995 opinion. Merrill Lynch derived implied exchange ratios for WPLH Common Stock, IES Common Stock and IPC Common Stock based upon what these analyses, when considered in light of the judgment and experience of Merrill Lynch, suggested about their relative values. The Merrill Lynch Opinion is based upon Merrill Lynch's consideration of the collective results of all such analyses, together with the other factors referred to in its opinion letter. In the Mergers, each issued and outstanding share of IES Common Stock will be converted into the right to receive 0.98 of a share of Interstate Energy Common Stock (subsequently adjusted to 1.01 shares upon satisfaction of the McLeod Contingency), and each issued and outstanding share of IPC Common Stock will be ultimately converted into the right to receive 1.11 shares of Interstate Energy Common Stock. In concluding that the Ratios are fair to WPLH and in its discussions with the WPLH Board,

Merrill Lynch compared the IES Ratio and IPC Ratio to each range of implied exchange ratios set forth below, which were derived from the analyses performed by it, and noted as generally supporting its opinion that 0.98 (subsequently adjusted to 1.01 upon satisfaction of the McLeod Contingency) and 1.11 were consistent with the ranges of such implied exchange ratios for each of IES Common Stock to WPLH Common Stock and IPC Common Stock to WPLH Common Stock derived from comparable publicly traded company analysis (0.84 to 1.07 and 0.82 to 1.18, respectively), contribution analysis (0.91 to 1.16 and 0.82 to 1.09, respectively), dividend discount analysis (0.82 to 1.32 and 0.78 to 1.24, respectively), discounted cash flow analysis (0.75 to 1.38 and 0.65 to 1.28, respectively), and comparable acquisition transactions analysis (0.75 to 1.36 and 0.81 to 1.50, respectively).

*Trading Ratio Analysis.* Merrill Lynch reviewed the performance of the per share market price of WPLH Common Stock, IES Common Stock and IPC Common Stock over the five year period ended November 7, 1995. Merrill Lynch also calculated the ratio of the per share market price of each of IES Common Stock and IPC Common Stock to the per share market price of WPLH Common Stock from November 7, 1990 to November 7, 1995, November 7, 1992 to November 7, 1995, and November 7, 1994 to November 7, 1995. This analysis showed that over the five year period, the per share market price of IES Common Stock and IPC Common Stock compared to the price of WPLH Common Stock, traded at average ratios of 0.922 and 0.939, respectively. Over the three year period this analysis showed that the per share market price of IES Common Stock and IPC Common Stock compared to the price of WPLH Common Stock, traded at average ratios of 0.903 and 0.871, respectively. Over the one year period this analysis showed that the per share market price of IES Common Stock and IPC Common Stock compared to the price of WPLH Common Stock, traded at average ratios of 0.864 and 0.848, respectively. Based on the November 7, 1995 closing prices, the trading ratios of the IES Common Stock and IPC Common Stock were 0.886 and 0.980, respectively, compared to the closing price of WPLH Common Stock on that day.

*Comparable Publicly Traded Company Analysis.* Using publicly available information, Merrill Lynch compared certain financial and operating information and ratios (described below) for WPLH, IES and IPC, respectively, with the corresponding financial and operating information and ratios for separate groups of publicly traded companies that Merrill Lynch deemed to be reasonably comparable to WPLH, IES and IPC, respectively. The companies included in the WPLH comparable company analyses were: Delmarva Power and Light Company, Kansas City Power and Light Company, and WPS Resources Corporation (collectively, the "ML WPLH Comparables"). The companies included in the IES comparable company analyses were: MidAmerican Energy Company and Minnesota Power & Light Company (collectively, the "ML IES Comparables"). The companies included in the IPC comparable company analyses were: Central Hudson Gas & Electric Corporation, CILCORP, Inc., Madison Gas & Electric Company, Orange & Rockland Utilities, Inc. and Southern Indiana Gas & Electric Company (collectively, the "ML IPC Comparables"). Merrill Lynch selected the companies in the ML WPLH Comparables, ML IES Comparables and ML IPC Comparables, respectively, from the universe of possible comparable utility companies based upon Merrill Lynch's views as to the comparability of financial and operating characteristics of these companies to WPLH, IES and IPC, respectively.

In order to determine an implied exchange ratio range based upon comparable publicly traded company analysis, Merrill Lynch compared the market value of WPLH Common Stock, IES Common Stock, and IPC Common Stock as a multiple of (a) estimated 1995 earnings per share ("EPS"), which estimates were obtained from First Call (the "1995 EPS Ratio"), (b) estimated 1996 EPS, which estimates were obtained from First Call (the "1996 EPS Ratio"), (c) book value of common equity as of June 30, 1995, the most recently available fiscal quarter (the "Common Equity Ratio"), and (d) indicated dividend yield (the "Dividend Ratio"), to the corresponding ratios for each of the ML WPLH Comparables, ML IES Comparables and ML IPC Comparables. First Call is a data service which monitors and publishes a compilation of earnings estimates produced by selected research analysts on companies of interest to investors. The results of the foregoing were: (i) the 1995 EPS Ratio resulted in a range of implied exchange ratios for IES Common Stock to WPLH Common Stock and IPC Common Stock to WPLH Common Stock of 0.87 to 1.02 and 0.84 to 1.11, respectively, (ii) the

1996 EPS Ratio resulted in a range of implied exchange ratios of 0.89 to 1.04 and 0.82 to 1.05, respectively, (iii) the Common Equity Ratio resulted in a range of implied exchange ratios of 0.86 to 1.07 and 0.86 to 1.18, respectively, and (iv) the Dividend Ratio resulted in a range of implied exchange ratios of 0.84 to 1.01 and 0.92 to 1.16, respectively.

Utilizing comparable publicly traded company analysis, Merrill Lynch calculated implied exchange ratio ranges for IES Common Stock to WPLH Common Stock and IPC Common Stock to WPLH Common Stock of 0.84 to 1.07 and 0.82 to 1.18, respectively.

*Contribution Analysis.* In order to determine an implied exchange ratio range based upon contribution analysis, Merrill Lynch calculated the contribution of each of WPLH, IES and IPC to the pro forma combined company with respect to (i) earnings per common share (ii) common equity per common share and (iii) dividends per common share, for the years 1993 through 1994 (the "Historical Period") and, using certain projections provided by the respective managements of WPLH, IES and IPC, for the years 1995 through 1999 (the "Projected Period"). The analysis of earnings per common share yielded a range of implied exchange ratios for IES Common Stock to WPLH Common Stock and IPC Common Stock to WPLH Common Stock of 1.10 to 1.16 and 0.82 to 0.90, respectively during the Historical Period and 0.91 to 1.09 and 0.91 to 1.08, respectively during the Projected Period. The analysis of common equity per common share yielded a range of implied exchange ratios of 1.05 to 1.06 and 1.04 to 1.04, respectively during the Historical Period and 1.06 to 1.09 and 1.01 to 1.03, respectively during the Projected Period. The analysis of dividends per common share yielded a range of implied exchange ratios of 1.09 to 1.11 and 1.08 to 1.09, respectively during the Historical Period and 1.06 to 1.08 and 1.03 to 1.07, respectively during the Projected Period. In arriving at the Merrill Lynch Opinion, Merrill Lynch considered, as one of the factors in its analysis, that the Ratios are outside of certain of the implied exchange ratios.

*Dividend Discount Analysis.* In order to determine an implied exchange ratio range based upon dividend discount analysis, Merrill Lynch calculated ranges of value for WPLH Common Stock, IES Common Stock and IPC Common Stock based upon the sum of the present value, assuming equity discount rates ranging from 8.75% to 10.25%, of (a) each of WPLH's, IES's and IPC's projected dividends for the years 1996 through 1999 using the same management projections, and (b) the 1999 value of WPLH, IES and IPC, respectively, assuming perpetual dividend growth rates ranging from 1.50% to 2.00% for WPLH, 1.25% to 1.75% for IES and 1.00% to 1.50% for IPC.

Utilizing dividend discount analysis, Merrill Lynch calculated implied exchange ratio ranges for IES Common Stock to WPLH Common Stock and IPC Common Stock to WPLH Common Stock of 0.82 to 1.32 and 0.78 to 1.24, respectively.

*Discounted Cash Flow Analysis.* In order to determine an implied exchange ratio range based upon discounted cash flow ("DCF") analysis, Merrill Lynch performed unlevered DCF analyses for the primary businesses of WPLH, IES and IPC using the same management projections, and calculated ranges of value for WPLH Common Stock, IES Common Stock and IPC Common Stock.

Merrill Lynch performed separate discounted cash flow analyses for the following subsidiaries of WPLH: WP&L, Heartland Environmental Holding Company ("EHC"), and Heartland Properties, Inc. ("HPI"). WP&L's DCF was based upon the discount to present value, assuming discount rates ranging from 7.5% to 9.5%, of (i) its projected unlevered free cash flow for the years 1996 through 1999, and (ii) its 1999 value based upon a range of multiples from 12.0x to 13.0x its projected 1999 net income, and 1.6x to 1.8x its projected 1999 book value, plus in each case assumed debt and preferred stock at year-end 1999. EHC's DCF was based upon the discount to present value, assuming discount rates ranging from 10.0% to 12.0%, of (i) its projected unlevered free cash flow for the years 1996 through 1999, and (ii) its 1999 value based upon a range of multiples from 7.0x to 8.0x its projected 1999 earnings before interest and taxes ("EBIT"). HPI's DCF was based upon the discount to present value, assuming discount rates ranging from 10.0% to 14.0%, of its projected unlevered free cash flow

for the years 1996 through 1999. In addition, Merrill Lynch calculated a range of value for HPI based upon its book value. Based on these analyses, Merrill Lynch calculated a range of value for WPLH Common Stock of \$820 million to \$1,111 million.

Merrill Lynch performed separate discounted cash flow analyses for the following subsidiaries of IES: Utilities, Industrial Energy Applications ("IEA"), and Cedar Rapids and Iowa City Railway Company ("CRANDIC"). Utilities' DCF was based upon the discount to present value, assuming discount rates ranging from 7.5% to 9.5%, of (i) its projected unlevered free cash flow for the years 1996 through 1999, and (ii) its 1999 value based upon a range of multiples from 12.0x to 13.0x its projected 1999 net income, and 1.6x to 1.8x its projected 1999 book value, plus in each case assumed net debt and preferred stock at year-end 1999. IEA's DCF was based upon the discount to present value, assuming discount rates ranging from 10.0% to 12.0%, of (i) its projected unlevered free cash flow for the years 1996 through 1999, and (ii) its 1999 value based upon a range of multiples from 7.0x to 9.0x its projected 1999 earnings before interest, taxes, depreciation and amortization ("EBITDA"). CRANDIC's DCF was based upon the discount to present value, assuming discount rates ranging from 11.0% to 13.0%, (i) its projected unlevered free cash flow for the years 1996 through 1999, and (ii) its 1999 value based upon a range of multiples from 6.0x to 7.0x its projected 1999 EBITDA. In addition, Merrill Lynch calculated a range of value for IES's Whiting Petroleum Corporation subsidiary based upon a range of \$3.50 to \$5.00 per barrel of oil equivalents. Based on these analyses, Merrill Lynch calculated a range of value for IES Common Stock of \$788 million to \$1,075 million.

IPC's DCF was based upon the discount to present value, assuming discount rates ranging from 7.5% to 9.5%, of (i) its projected unlevered free cash flow for the years 1996 through 1999, and (ii) its 1999 value based upon a range of multiples from 11.5x to 12.5x its projected 1999 net income, and 1.6x to 1.8x its projected 1999 book value, plus in each case assumed net debt and preferred stock at year-end 1999. Based on this analysis, Merrill Lynch calculated a range of value for IPC Common Stock of \$223 million to \$326 million.

Utilizing DCF analysis, Merrill Lynch calculated implied exchange ratio ranges for IES Common Stock to WPLH Common Stock and IPC Common Stock to WPLH Common Stock were 0.75 to 1.38 and 0.65 to 1.28, respectively.

*Comparable Merger Transactions Analysis.* Using publicly available information, Merrill Lynch reviewed eleven transactions announced between March 16, 1990 and September 25, 1995, involving the merger of selected electric utility companies (the "Comparable Merger Transactions"). The Comparable Merger Transactions and the date the transaction was announced were as follows: Baltimore Gas and Electric Company/Potomac Electric Power Company (September 1995), Public Service Company of Colorado/Southwestern Public Service Company (August 1995), Union Electric Company/CIPSCO Incorporated (August 1995), Northern States Power Company/Wisconsin Energy Corporation (May 1995), Midwest Resources Inc./Iowa-Illinois Gas & Electric Company (July 1994), Washington Water Power Company/Sierra Pacific Resources (June 1994), Cincinnati Gas & Electric Company/PSI Resources, Inc. (August 1993), Entergy Corporation/Gulf States Utilities Company (June 1992), IE Industries, Inc./Iowa Southern, Inc. (February 1991), Kansas Power & Light Company/Kansas Gas & Electric Company (October 1990), and Iowa Resources, Inc./Midwest Energy Company (March 1990).

In order to determine an implied exchange ratio range based on comparable merger transactions analysis, Merrill Lynch (i) compared the offer value in each of the Comparable Merger Transactions as a multiple of the then publicly available (a) latest twelve months ("LTM") net income available to common stock (the "Net Income Multiple"), and (b) book value of common equity for the most recently available fiscal quarter preceding such transaction (the "Book Value Multiple") and (ii) compared the transaction value (defined to be the offer value plus the liquidation value of preferred stock plus the principal amount of debt less cash and option proceeds) for each of the Comparable Merger Transactions as a multiple of the then publicly available (a) LTM EBIT (the "EBIT Multiple"), and (b) LTM EBITDA (the "EBITDA Multiple"), to the corresponding multiples

for WPLH Common Stock, IES Common Stock and IPC Common Stock. The results of the foregoing were: (i) the Net Income Multiple resulted in a range of implied exchange ratios for IES Common Stock to WPLH Common Stock and IPC Common Stock to WPLH Common Stock of 0.85 to 1.22 and 0.83 to 1.20, respectively, (ii) the Book Value Multiple resulted in a range of implied exchange ratios of 0.92 to 1.17 and 0.93 to 1.17, respectively, (iii) the EBIT Multiple resulted in a range of implied exchange ratios of 0.75 to 1.36 and 0.81 to 1.50, respectively, and (iv) the EBITDA Multiple resulted in a range of implied exchange ratios of 0.87 to 1.35 and 0.84 to 1.32, respectively.

Utilizing the comparable merger transactions analysis, Merrill Lynch calculated implied exchange ratio ranges for IES Common Stock to WPLH Common Stock and IPC Common Stock to WPLH Common Stock of 0.75 to 1.36 and 0.81 to 1.50, respectively.

*Pro Forma Analysis.* Merrill Lynch also analyzed certain pro forma effects resulting from the Mergers, including the potential impact to earnings per share of WPLH Common Stock. Using the projected earnings for the years 1997 through 1999 provided by the respective managements of WPLH, IES and IPC, Merrill Lynch compared the projected earnings per share of WPLH on a stand-alone basis assuming the Mergers do not occur, to the earnings per share of Interstate Energy Common Stock assuming the Ratios of 0.98 (subsequently adjusted to 1.01 upon satisfaction of the McLeod Contingency) and 1.11 for IES and IPC, respectively, and certain estimated synergies that WPLH management expects to achieve as a result of the Mergers. The analysis indicated that the Mergers would be accretive to the projected earnings per share of a WPLH shareowner in amounts of 6.6% in 1997, 8.8% in 1998, and 8.3% in 1999. In addition, Merrill Lynch made a similar comparison assuming the Ratios of 0.98 (subsequently adjusted to 1.01 upon satisfaction of the McLeod Contingency) and 1.11 for IES and IPC, respectively, no synergies, and projected earnings for IES adjusted with the guidance of WPLH management to give effect to more conservative assumptions. The analysis indicated that the Mergers would be accretive to the projected earnings per share of a WPLH shareowner in the amount of 0.4% in 1997, and dilutive to the projected earnings per share of a WPLH shareowner in amounts of (2.4%) in 1998, and (3.0%) in 1999.

On May 7, 1996, at a meeting of the WPLH Board, Merrill Lynch discussed and reviewed with the WPLH Board the proposed contingent adjustment to the IES Ratio relating to the McLeod Contingency. Following is a summary of all of the analyses that Merrill Lynch performed in connection with the McLeod Contingency. Merrill Lynch calculated the potential contribution of the proceeds of McLeod's proposed initial public offering, based on a range of possible final pricing terms for McLeod's proposed initial public offering, and compared the overall aggregate percentage share ownership of the combined company assuming the Mergers were consummated at the Ratios (assuming the IES Ratio was not adjusted to 1.01) and the IES Ratio as adjusted if the McLeod Contingency was satisfied as follows: (i) the holders of WPLH Common Stock would own 43.6% of the combined company assuming the Mergers were consummated at the Ratios (assuming the IES Ratio was not adjusted to 1.01) compared to 43.0% of the combined company assuming the Mergers were consummated at the IES Ratio as adjusted if the McLeod Contingency was satisfied, (ii) the holders of IES Common Stock would own 41.3% of the combined company assuming the Mergers were consummated at the Ratios (assuming the IES Ratio was not adjusted to 1.01) compared to 42.1% of the combined company assuming the Mergers were consummated at the IES Ratio as adjusted if the McLeod Contingency was satisfied and (iii) the holders of IPC Common Stock would own 15.1% of the combined company assuming the Mergers were consummated at the Ratios (assuming the IES Ratio was not adjusted to 1.01) compared to 14.9% of the combined company assuming the Mergers were consummated at the IES Ratio as adjusted if the McLeod Contingency was satisfied.

The summary set forth above does not purport to be a complete description of the analyses performed by Merrill Lynch in arriving at the Merrill Lynch Opinion. The preparation of a fairness opinion is a complex process not necessarily susceptible to partial or summary description. Although certain of the implied exchange ratios calculated as described above are outside of the Ratios, Merrill Lynch believes that its analyses must be considered as a whole and that selecting portions of its analyses and of the factors considered by it, without considering all such factors and analyses, could

create a misleading view of the process underlying its analyses set forth in the Merrill Lynch Opinion. No company in the ML WPLH Comparables, the ML IES Comparables or the ML-IPC Comparables is identical to WPLH, IES, or IPC, respectively, and none of the Comparable Merger Transactions is identical to the Mergers. Accordingly, an analysis of comparable publicly traded companies and comparable acquisition transactions is not mathematical; rather it involves complex considerations and judgments concerning differences in financial and operating characteristics of the comparable companies and other factors that could affect the public trading value of the comparable companies or company to which they are being compared.

The WPLH Board selected Merrill Lynch to render a fairness opinion because Merrill Lynch is an internationally recognized investment banking firm with substantial experience in transactions similar to the Mergers and because it is familiar with WPLH and its business. Merrill Lynch has from time to time rendered investment banking, financial advisory and other services to WPLH, its subsidiary WP&L, IES, its subsidiary Utilities, and IPC, for which it has received customary compensation. As part of its investment banking business, Merrill Lynch is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions.

Pursuant to the terms of an engagement letter dated June 29, 1995, WPLH has agreed to pay Merrill Lynch (i) a \$100,000 retainer fee, payable as of the date of the engagement letter, (ii) \$200,000 payable upon the execution of the Merger Agreement, (iii) \$200,000 payable upon the delivery of the Merrill Lynch Opinion and (iv) a transaction fee payable only upon consummation of the Mergers equal to 0.40% of the product of the closing price of WPLH Common Stock on November 6, 1995, which was \$30.75, multiplied by the sum of (a) 10,616,359, the number of outstanding shares of IPC Common Stock as set forth in the Merger Agreement multiplied by the IPC Ratio, and (b) 29,639,029, the number of outstanding shares of IES Common Stock as set forth in the Merger Agreement multiplied by the IES Ratio (approximately \$4,951,413), against which the amounts referred to in clauses (i) - (iii) above will be credited. WPLH has also agreed to reimburse Merrill Lynch for its reasonable out-of-pocket expenses, including all reasonable fees and disbursements of its legal counsel, and to indemnify Merrill Lynch and certain related persons against certain liabilities in connection with its engagement, including certain liabilities under the federal securities laws.

In the ordinary course of Merrill Lynch's business, Merrill Lynch may actively trade the securities of WPLH, IES and IPC for its own account and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities.

*IES's Financial Advisor.* On June 30, 1995, Morgan Stanley was retained by IES to act as its financial advisor in connection with the Mergers. Morgan Stanley is an internationally recognized investment banking firm and was selected by IES based on Morgan Stanley's experience and expertise. In connection with Morgan Stanley's engagement, IES requested that Morgan Stanley evaluate the fairness of the IES Ratio, taking into account the IPC Ratio, from a financial point of view to the holders of IES Common Stock. On November 10, 1995, Morgan Stanley rendered to the IES Board an oral opinion to the effect that, as of such date, and based upon the procedures and subject to the assumptions stated at the meeting, the IES Ratio (prior to consideration of the McLeod Contingency), taking into account the IPC Ratio, was fair from a financial point of view to the holders of IES Common Stock. On April 29, 1996, at a telephonic meeting of the IES Board of Directors, Morgan Stanley discussed and reviewed with the IES Board the proposed contingent adjustment to the IES Ratio relating to the McLeod Contingency and orally confirmed that, notwithstanding the fact that Morgan Stanley had not yet convened its internal fairness opinion committee to consider such matters, based on the facts and circumstances existing at such time, Morgan Stanley anticipated that it would be able to render an opinion dated the date hereof, to the effect that, as of such date, and based upon the procedures and subject to the assumptions stated at the November 10, 1995 IES Board meeting and set forth in the fairness opinion dated the date of this Joint Proxy Statement/Prospectus, which is attached as Annex M to this Joint Proxy Statement/Prospectus, the IES Ratio (whether or

not the IES Ratio was adjusted if the McLeod Contingency was satisfied), taking into account the IPC Ratio, is fair from a financial point of view to the holders of IES Common Stock. In a written opinion dated the date hereof, Morgan Stanley confirmed its November 10, 1995 oral opinion.

The full text of Morgan Stanley's written opinion dated the date hereof, which sets forth the assumptions made, matters considered and limitations on the review undertaken, is attached as Annex M to this Joint Proxy Statement/Prospectus and is incorporated herein by reference. Holders of IES Common Stock are urged to, and should, read this opinion carefully in its entirety. Morgan Stanley's opinion addresses only the fairness of the IES Ratio (including the IES Ratio as adjusted to reflect the satisfaction of the McLeod Contingency), taking into account the IPC Ratio, from a financial point of view to the holders of IES Common Stock, and it does not address any other aspect of the Mergers nor does it constitute a recommendation to any holder of IES Common Stock as to how to vote at the IES Meeting. The summary of the opinion of Morgan Stanley set forth in this Joint Proxy Statement/Prospectus is qualified in its entirety by reference to the full text of such opinion.

In arriving at this opinion, Morgan Stanley: (i) analyzed certain publicly available financial statements and other information of IES, WPLH and IPC; (ii) analyzed certain internal financial statements and other historical financial and operating data concerning IES, WPLH and IPC prepared by their respective managements; (iii) analyzed certain financial projections of IES, WPLH and IPC prepared by their respective managements; (iv) reviewed certain public research reports concerning IES, WPLH and IPC prepared by certain equity research analysts and discussed these research reports, including financial projections contained therein, with senior executives of IES, WPLH and IPC, respectively; (v) discussed the past and current operations and financial condition and the prospects of IES, WPLH and IPC with senior executives of IES, WPLH and IPC, respectively; (vi) reviewed the reported prices and trading activity of each of IES Common Stock, WPLH Common Stock, IPC Common Stock and McLeod Class A common stock; (vii) compared the financial performance of IES, WPLH and IPC and the prices and trading activity of IES Common Stock, WPLH Common Stock and IPC Common Stock with that of certain other comparable publicly traded companies and their securities; (viii) reviewed the financial terms, to the extent publicly available, of certain comparable merger or acquisition transactions; (ix) analyzed the pro forma financial impact of the Mergers on IES; (x) participated in discussions and negotiations among representatives of IES, WPLH and IPC and their respective financial and legal advisors; (xi) reviewed the Merger Agreement, the Stock Option Agreements and certain related documents; (xii) reviewed and discussed with IES, WPLH and IPC an analysis prepared by IES, WPLH and IPC with the assistance of a third-party consultant to IES, WPLH and IPC regarding estimates of the amount and timing of the potential cost savings to be derived from the Mergers; (xiii) reviewed the amended registration statements filed by McLeod on Form S-1, dated May 15, 1996 and June 10, 1996, respectively, as well as the Investor Agreement among various parties including McLeod, IES Investments Inc., Midwest Capital Group Inc., MWR Investments Inc. and Clark and Mary McLeod, entered into as of April 1, 1996, which, among other things, sets forth certain restrictions on the transfer of McLeod stock owned by IES; (xiv) reviewed certain information pertaining to McLeod and McLeod's contemplated initial public offering provided by IES and discussed certain aspects of such information with the management of IES; and (xv) performed such other analyses and examinations and considered such other factors as Morgan Stanley deemed appropriate.

In rendering its opinion, Morgan Stanley assumed and relied upon without independent verification the accuracy and completeness of the information reviewed by Morgan Stanley for the purposes of its opinion. With respect to the financial projections and the estimates of potential cost savings to be derived from the Mergers, Morgan Stanley assumed that such projections and estimates were reasonably prepared on bases reflecting the best currently available estimates and judgments of the future financial performance of each of IES, WPLH and IPC, respectively, and of the amount and timing of such cost savings. Morgan Stanley did not make any independent valuation or appraisal of the assets or liabilities of IES, WPLH and IPC. In addition, Morgan Stanley assumed that the Mergers will be consummated in accordance with the terms set forth in the Merger Agreement, including, among



other things, that the Mergers will be accounted for as a "pooling-of-interests" business combination in accordance with United States generally accepted accounting principles and that the Mergers will be treated as a tax-free reorganization and/or exchange, in each case, pursuant to the Code. Morgan Stanley's opinion is necessarily based on economic, market and other conditions as in effect on, and the information made available to it as of, the date of its opinion.

In arriving at its opinion, Morgan Stanley assumed that in connection with the receipt of all the necessary regulatory and governmental approvals for the proposed Mergers, no restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived in the proposed Mergers. In addition, Morgan Stanley was not authorized to solicit, and did not solicit, interest from any party with respect to a merger with or other business combination transaction involving IES, or any of its assets, nor did Morgan Stanley have any discussions or negotiations with any parties, other than WPLH and IPC, in connection with the Mergers.

The following is a brief summary of certain analyses performed by Morgan Stanley and reviewed with the IES Board on November 10, 1995 in connection with Morgan Stanley's presentation and opinion to the IES Board on such date:

*Comparable Publicly Traded Company Analysis.* As part of its analysis, Morgan Stanley compared certain financial information of IES with that of a group of publicly traded electric utility companies, including MidAmerican Energy Company, Washington Water & Power, and Delmarva Power and Light Company (collectively, the "MS IES Comparables") and also compared certain financial information of WPLH with that of a group of publicly traded electric utility companies, including Kansas City Power & Light, WPS Resources Corporation, Union Electric, Western Resources, CILCORP Inc., Utilicorp United, CIPSCO Incorporated, and IPALCO Enterprises (collectively, the "MS WPLH Comparables"). Such financial information included price to LTM ended June 30, 1995, forecasted 1995 and forecasted 1996 earnings multiples, price to book value multiple, price to LTM operating cash flow multiple and dividend yield. In particular, such analyses indicated that as of November 7, 1995 and based on a compilation of earnings projections by securities research analysts as of October 28, 1995, IES and WPLH traded at 11.8 and 17.1 times historical LTM earnings, respectively, 12.6 and 13.6 times forecasted earnings for the calendar year 1995, respectively, 12.1 and 13.0 times forecasted earnings for the calendar year 1996, respectively, 1.35 and 1.58 times book value as of the quarter ended June 30, 1995, respectively, 4.7 and 6.6 times historical LTM operating cash flow, respectively, and a 7.7% and a 6.3% dividend yield, respectively. Morgan Stanley noted that, based on a compilation of earnings projections by securities research analysts as of October 28, 1995, the MS IES Comparables and MS WPLH Comparables traded in a range of 13.4 to 14.1 times and 14.2 to 17.3 times historical LTM earnings, respectively, 12.2 to 12.8 and 12.6 to 14.9 times 1995 forecasted earnings, respectively, 12.2 to 12.4 and 12.5 to 13.6 times 1996 forecasted earnings, respectively, and 1.33 to 1.50 and 1.53 to 1.95 times book value as of the quarter ended June 30, 1995, respectively, and had a 6.9% to 7.3% and a 5.6% to 6.3% dividend yield, respectively.

*Trading Ratio Analysis.* Morgan Stanley also reviewed the ratio of the IES Common Stock to WPLH Common Stock trading prices over varying intervals of time over the latest five years. This ratio ranged from approximately 0.86 to 0.92 and, based on the closing price of IES Common Stock and WPLH Common Stock on November 7, 1995 of \$27.13 and \$30.63, respectively, the ratio was 0.89.

*Contribution Analysis.* Morgan Stanley analyzed the pro forma contribution of each of IES, WPLH and IPC to Interstate Energy. Such analysis included, among other things, relative contributions of revenues, EBITDA, EBIT, net income, operating cash flow and book value at or over various time periods. In particular such analysis showed that IES, WPLH and IPC contributed approximately 41.9%, 42.1% and 16.0% of historical LTM revenues, 44.0%, 39.7% and 16.3% of historical LTM EBITDA, 46.8%, 37.8% and 15.4% of historical LTM EBIT, 45.2%, 40.1% and 14.7% of historical LTM operating cash flow, respectively, and 41.8%, 45.2% and 13.0% of the projected net income for calendar year 1995, 41.4%, 45.5% and 13.1% of the projected net income for calendar year 1996, and 41.7%, 42.2% and 16.1% of the book value, as of the quarter ended June 30, 1995, respectively. Morgan

Stanley observed that the aforementioned contribution percentages implied a range of exchange ratios between IES Common Stock and WPLH Common Stock of 0.88 to 1.30 and a range of implied exchange ratios between IPC Common Stock and WPLH Common Stock of 0.93 and 1.32. Based on this analysis, Morgan Stanley calculated mean and median implied exchange ratios between IES Common Stock and WPLH Common Stock of 1.06 and 1.04, respectively, and mean and median implied exchange ratios between IPC Common Stock and WPLH Common Stock of 1.12 and 1.18, respectively. While the mean of exchange ratios between the IES Common Stock and the WPLH Common Stock implied by the relative contribution of such companies across the eight LTM and forward operating statistics analyzed is above 0.98, the IES Ratio does fall within the broad range implied by this methodology and, in fact, is higher than the mean implied exchange ratios suggested by the relative contributions of IES and WPLH for three of such eight operating statistics.

*Discounted Cash Flow Analysis.* Morgan Stanley performed DCF analyses of IES and WPLH for the fiscal years ended 1995 through 1999 based on certain financial projections prepared by the respective managements of each company. Unlevered free cash flows of each company were calculated as net income available to common shareowners plus the aggregate of preferred stock dividends, depreciation and amortization, deferred taxes, and other non-cash expenses and after-tax net interest expense less the sum of capital expenditures and investment in non-cash working capital. Morgan Stanley calculated terminal values by applying a range of perpetual growth rates to the normalized unlevered free cash flows in fiscal 1999 from 1.0% to 2.0% and 0.5% to 1.5%, representing estimated ranges of long-term cash flow growth rates for IES and WPLH, respectively. The cash-flow streams and terminal values were then discounted to the present using a range of discount rates from 7.0% to 8.0%, representing an estimated range of the weighted average cost of capital for each of IES and WPLH. Based on this analysis, Morgan Stanley calculated median per share values for IES ranging from \$23.03 to \$30.99 and for WPLH ranging from \$32.63 to \$35.59.

*Discounted Dividend Analysis.* Morgan Stanley performed discounted dividend analyses of IES and WPLH for the fiscal years ended 1995 through 1999 based on certain dividend projections prepared by the respective managements of each company and on a compilation of earnings projections by securities research analysts as of October 28, 1995. Morgan Stanley calculated terminal values by applying a range of terminal multiples to the earnings per share in the fiscal year 1999 from 11.5 times to 12.5 times and 12.5 times to 13.5 times, representing estimated ranges of comparable forward price to earnings multiples for IES and WPLH. The dividend streams and terminal values were then discounted to the present using a range of discount rates from 9.0% to 10.0%, representing a range of the estimated cost of equity for each of IES and WPLH. Based on this analysis, Morgan Stanley calculated median per share values for IES ranging from \$27.27 to \$31.75 and for WPLH ranging from \$31.09 to \$32.41.

*Analysis of Selected Precedent Transactions.* Using publicly available information, Morgan Stanley reviewed the following four proposed or completed transactions constituting mergers of equals in the electric utility industry: Southwestern Public Service Co. and Public Service Co. of Colorado, Northern States Power and Wisconsin Energy Corp., Iowa-Illinois Gas & Electric and Midwest Resources, and Iowa Resources and Midwest Energy (collectively, the "Electric Utility MOE Transactions"). Morgan Stanley compared certain financial and market statistics of the Electric Utility MOE Transactions. The mean premium to unaffected market price (*i.e.*, the market price one month prior to the announcement of the transaction) was 3.6%, the mean price to book value multiple was 1.5 times, the mean LTM price to earnings multiple was 12.0 times and the mean LTM operating cash flow multiple was 5.3 times. Based on this analysis, Morgan Stanley calculated per share values for IES ranging from \$24.78 to \$32.06.

*Pro Forma Analysis of the Mergers.* Morgan Stanley analyzed the pro forma impact of the Mergers on IES earnings and dividends per share for the fiscal years ended 1997 through 1999. Such analysis was performed utilizing stand-alone earnings estimated for the fiscal years ended 1997

through 1999 for IES, WPLH and IPC based on certain financial projections prepared by the respective managements of each company and on a compilation of earnings projections by securities research analysts, in each case, taking into account the cost savings expected to be derived from the Mergers as estimated by the managements of IES, WPLH and IPC.

On April 29, 1996, at a meeting of the IES Board, Morgan Stanley discussed and reviewed with the IES Board the proposed contingent adjustment to the IES Ratio relating to the McLeod Contingency. In this regard, Morgan Stanley examined the potential contributions to the market price of IES Common Stock, based on the implied values for such stake suggested by the estimated offering price range as would be set forth in McLeod's amended registration statement on Form S-1, dated May 15, 1996, taking into account, among other things, the following factors: the execution risk involved in achieving a successful public offering, the underlying volatility which would be inherent in the publicly-traded McLeod Class A common stock, given the difference in industry fundamentals and anticipated shareholder profiles between McLeod and IES; the depressing effect an exit (if permissible) by one of McLeod's three founding shareholders would have on the initial public offering price; the illiquidity of the IES stake in light of the restrictions on transfer contained in the Investment Agreement; the taxes which would likely be payable by IES upon the eventual sale of its McLeod common stock once the aforementioned restrictions on transfer had lapsed; and the fact that with the adjusted 1.01 exchange ratio, IES shareholders, through their pro forma ownership of Interstate Energy, would effectively retain 42.1% of the value attributable to IES's ownership of McLeod shares.

*Pro Forma Ownership.* Morgan Stanley compared the overall aggregate percentage share ownership of the combined company assuming the Mergers were consummated at the Ratios (assuming the IES Ratio was not adjusted to 1.01) and the IES Ratio as adjusted if the McLeod Contingency was satisfied as follows: (i) the holders of IES Common Stock would own 41.3% of the combined company assuming the Mergers were consummated at the Ratios (assuming the IES Ratio was not adjusted to 1.01) compared to 42.1% of the combined company assuming the Mergers were consummated at the IES Ratio as adjusted if the McLeod Contingency was satisfied, (ii) the holders of WPLH Common Stock would own 43.6% of the combined company assuming the Mergers were consummated at the Ratios (assuming the IES Ratio was not adjusted to 1.01) compared to 43.0% of the combined company assuming the Mergers were consummated at the IES Ratio as adjusted if the McLeod Contingency was satisfied and (iii) the holders of IPC Common Stock would own 15.1% of the combined company assuming the Mergers were consummated at the Ratios (assuming the IES Ratio was not adjusted to 1.01) compared to 14.9% of the combined company assuming the Mergers were consummated at the IES Ratio as adjusted if the McLeod Contingency was satisfied.

*Updated Contribution Analysis.* Morgan Stanley analyzed the pro forma contribution of each of IES, WPLH and IPC to Interstate Energy based primarily on historical LTM financial information as of the quarter ended March 31, 1996. Such analysis included, among other things, relative contributions of revenue, EBITDA, EBIT, net income, operating cash flow and book value at or over various time periods. In particular such analysis showed that IES, WPLH and IPC contributed approximately 43.0%, 41.3% and 15.6% of historical LTM revenue, 45.1%, 42.3% and 12.6% of historical LTM EBITDA, 44.7%, 43.3% and 12.0% of historical LTM EBIT, 42.4%, 43.0% and 14.6% of historical LTM operating cash flow, respectively, in each case, LTM as of the quarter ended March 31, 1996, and 41.5%, 45.4% and 13.2% of projected net income for calendar year 1996, 41.4%, 45.2% and 13.3% of projected net income for calendar year 1997 and 43.0%, 42.9% and 14.1% of the book value, as of the quarter ended March 31, 1996, respectively. Morgan Stanley observed that the aforementioned contribution percentages implied a range of exchange ratios between IES Common Stock and WPLH Common Stock of 0.87 to 1.10 and a range of exchange ratios between IPC Common Stock and WPLH Common Stock of 0.89 to 1.22. Based on this analysis, Morgan Stanley calculated mean and median implied exchange ratios between IES Common Stock and WPLH Common Stock of 0.99 and 1.02, respectively, and mean and median implied exchange ratios between IPC Common Stock and WPLH Common Stock of 1.01 and 1.02, respectively.

*Updated Pro Forma Analysis of the Mergers.* Morgan Stanley analyzed the pro forma impact, taking into account the impact of the adjustment to the IES Ratio upon satisfying the McLeod Contingency, of the Mergers on IES earnings per share for the fiscal years ended 1997 through 1999. Such analysis was performed utilizing stand-alone earnings estimated for the fiscal years ended 1997 through 1999 for IES, WPLH and IPC based on certain updating discussions with the respective managements of IES, WPLH and IPC as to the current operating environment and future business prospects for each such company, and as an updated compilation of earnings projections by securities research analysts, in each case, taking into account the cost savings expected to be derived from the Mergers as estimated by the managements of IES, WPLH and IPC.

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to a partial analysis or summary description. Morgan Stanley believes that its analyses must be considered as a whole and that selecting portions of its analyses, without considering all analyses, would create an incomplete view of the process underlying its opinion. In addition, Morgan Stanley may have given various analyses more or less weight than other analyses, and may have deemed various assumptions more or less probable than other assumptions, so that the ranges of valuations resulting for any particular analysis described above should not be taken to be Morgan Stanley's view of the actual value of IES, WPLH and IPC.

In performing its analyses, Morgan Stanley made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of IES, WPLH and IPC. The analyses performed by Morgan Stanley are not necessarily indicative of actual value, which may be significantly more or less favorable than suggested by such analyses. Such analyses were prepared solely as part of Morgan Stanley's analysis of the fairness of the IES Ratio, taking into account the IPC Ratio, from a financial point of view to the holders of IES Common Stock and were provided to the IES Board in connection with the delivery of Morgan Stanley's written opinion dated the date hereof confirming its oral opinion of November 10, 1995. The analyses do not purport to be appraisals or to reflect the prices at which IES, WPLH and IPC might actually be sold. Because such estimates are inherently subject to uncertainty, none of IES, Morgan Stanley, or any other person assumes responsibility for their accuracy. In addition, as described above, Morgan Stanley's opinion and presentation to the IES Board was one of many factors taken into consideration by the IES Board in making its determination to approve the Mergers. Consequently, the Morgan Stanley analyses described above should not be viewed as determinative of the opinion of the IES Board or the view of management of either WPLH or IPC with respect to the value of WPLH and IPC or of whether the IES Board or the managements of WPLH and IPC would have been willing to agree to a different exchange ratio.

As part of its investment banking business, Morgan Stanley is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuation for estate, corporate and other purposes. In the ordinary course of its business, Morgan Stanley and its affiliates may actively trade the debt and equity securities of IES, WPLH and IPC for their own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities. In the past, Morgan Stanley has provided financial advisory and financing services to IES and WPLH, for which services Morgan Stanley has received customary fees. Morgan Stanley acted as co-lead manager of the McLeod initial public offering.

Morgan Stanley has been retained by IES to act as financial advisor to IES with respect to the Mergers. Pursuant to a letter agreement dated June 30, 1995 between IES and Morgan Stanley, Morgan Stanley is entitled to (i) an advisory fee for its time and efforts expended in connection with the engagement which is estimated to be between \$100,000 and \$250,000, which is payable in the event the transaction is not consummated, (ii) an announcement fee of \$1,000,000, which has been paid, and (iii) a transaction fee equal to the product of 0.472562% multiplied by the Aggregate Value of the transaction (as such term is defined in such letter agreement), or approximately \$4,370,228, which is payable only upon consummation of the transaction. Any amounts paid or payable to Morgan

Stanley as advisory or announcement fees will be credited against the transaction fee. IES has agreed to reimburse Morgan Stanley for its expenses, including reasonable fees and expenses of its counsel, and to indemnify Morgan Stanley and its affiliates against certain liabilities and expenses, including liabilities under federal securities laws.

*IPC's Financial Advisor.* Salomon Brothers has acted as financial advisor to IPC in connection with the Mergers. During the course of discussions regarding a possible transaction, Salomon Brothers attended meetings of the IPC Board as described in "The Mergers — Background of the Mergers." At such meetings, Salomon Brothers reviewed financial information concerning IPC, WPLH and IES and provided preliminary valuations. The financial information reviewed by Salomon Brothers at these meetings was the same financial information used by Salomon Brothers in arriving at its opinions (as updated through the relevant date), all of which information is described below. The results of the preliminary valuations presented by Salomon Brothers at such IPC Board meetings are consistent with the results utilized by Salomon Brothers to arrive at the opinions of Salomon Brothers which results are described below.

Salomon Brothers delivered to the IPC Board its written opinion dated November 10, 1995 to the effect that, based upon and subject to various considerations set forth in such opinion, as of such date, the IPC Ratio (without adjustment of the IES Ratio for satisfaction of the McLeod Contingency) is fair to the holders of IPC Common Stock (other than WPLH, IES or any of their respective affiliates) from a financial point of view. At the May 10, 1996 meeting of the IPC Board, Salomon Brothers reviewed with the IPC Board the proposed contingent adjustment to the IES Ratio relating to the McLeod Contingency. Salomon Brothers advised the IPC Board that if the proposed amendment were adopted, Salomon Brothers could render an opinion to the effect that, based upon and subject to various considerations that would be set forth in such opinion, as of May 10, 1996, the IPC Ratio (assuming adjustment of the IES Ratio for satisfaction of the McLeod Contingency) is fair to the holders of IPC Common Stock (other than WPLH, IES or any of their respective affiliates) from a financial point of view. In addition, Salomon Brothers has delivered to the IPC Board its written opinion, dated the date of this Joint Proxy Statement/Prospectus, to the effect that, based upon and subject to various considerations set forth in such opinion, as of such date, the IPC Ratio (with the IES Ratio adjusted for the satisfaction of the McLeod Contingency) is fair to the holders of IPC Common Stock (other than WPLH, IES or any of their respective affiliates) from a financial point of view.

The full text of Salomon Brothers' opinion dated the date of this Joint Proxy Statement/Prospectus, which sets forth the assumptions made, general procedures followed, matters considered and limits on the review undertaken, is attached as Annex N to this Joint Proxy Statement/Prospectus and is incorporated herein by reference. Salomon Brothers' opinions are directed only to the fairness, from a financial point of view, to the IPC stockholders of the IPC Ratio and do not address IPC's underlying business decision to enter into the Mergers or constitute a recommendation to any IPC stockholder as to how such stockholder should vote with respect to the Merger Agreement. The summary of Salomon Brothers' opinions set forth below is qualified in its entirety by reference to the full text of Salomon Brothers' opinion dated the date of this Joint Proxy Statement/Prospectus attached as Annex N hereto. **IPC STOCKHOLDERS ARE URGED TO, AND SHOULD, READ THE OPINION CAREFULLY AND IN ITS ENTIRETY.** The opinion dated the date of this Joint Proxy Statement/Prospectus is substantially similar to the Salomon Brothers' opinion dated November 10, 1995.

In arriving at its opinions, Salomon Brothers reviewed the Merger Agreement and its related exhibits and, in the case of the opinion dated the date hereof, this Joint Proxy Statement/Prospectus. Salomon Brothers also reviewed certain publicly available information relating to IPC, WPLH and IES, as well as certain other information, including financial projections, provided to Salomon Brothers by IPC, WPLH and IES. Salomon Brothers discussed the past and current operations and financial condition and prospects of IPC, WPLH and IES with their respective senior management. Salomon Brothers also considered such other information, financial studies, analyses, investigations and financial, economic, market and trading criteria as it deemed relevant, including the amended registration statement filed by McLeod on Form S-1.

Salomon Brothers assumed and relied upon the accuracy and completeness of the information reviewed by it for the purpose of its opinions and did not assume any responsibility for independent verification of such information or for independent evaluation or appraisal of the assets of IPC, WPLH or IES. With respect to the financial projections of IPC, WPLH and IES, Salomon Brothers assumed that they had been reasonably prepared on bases reflecting the best currently available estimates and judgments of the management of IPC, WPLH or IES, as the case may be, as to the future financial performance of such entity, and Salomon Brothers expressed no opinion with respect to such forecasts or the assumptions on which they were based.

Salomon Brothers' opinions were necessarily based upon business, market, economic and other conditions as they existed on, and could be evaluated as of, the respective dates of its opinions and did not address IPC's underlying business decision to enter into the Mergers or constitute a recommendation to any IPC stockholder as to how such stockholder should vote with respect to the Merger Agreement. Salomon Brothers was not requested to, and did not, solicit third party offers to acquire all or any part of IPC. Salomon Brothers' opinions do not imply any conclusion as to the likely trading range for WPLH Common Stock following the consummation of the Mergers, which may vary depending on, among other factors, changes in interest rates, dividend rates, market conditions, general economic conditions and other factors that generally influence the price of securities.

The following is a summary of the report (the "Salomon Brothers Report") presented by Salomon Brothers to the IPC Board on November 10, 1995, in connection with the delivery of the Salomon Brothers opinion dated such date. In connection with the Salomon Brothers' opinion dated the date of this Joint Proxy Statement/Prospectus, Salomon Brothers performed certain procedures, including each of the financial analyses described below, to update its analyses made in connection with the delivery of its opinion dated November 10, 1995 and reviewed with the managements of IPC, WPLH and IES the financial information on which such analyses were based and other factors, including the current financial results of such companies and the future prospects for such companies.

*Comparable Public Company Analysis.* Salomon Brothers reviewed the financial and market performance of the following group of publicly traded utilities with those of IPC: Black Hills Corporation, Central Louisiana Electric Company, Inc., Empire District Electric Company, Northwestern Public Service Company, Orange & Rockland Utilities, Inc., Otter Tail Power Company and Sierra Pacific Resources (collectively, the "SB IPC Comparable Group"). For IPC and each company in the SB IPC Comparable Group, Salomon Brothers calculated multiples of Firm Value to LTM EBIT and EBITDA and to property, plant and equipment and investments ("PP&E") and multiples of closing stock prices ("Stock Price") at November 3, 1995, to book value, LTM EPS and 1995 and 1996 estimated EPS. The projected results were based on published research reports of certain analysts covering the SB IPC Comparable Group. This analysis yielded the following multiple ranges for the SB IPC Comparable Group: Firm Value to LTM EBIT (9.9x to 12.9x); Firm Value to LTM EBITDA (7.1x to 8.8x); Firm Value to PP&E (1.02x to 1.34x); Stock Price to Book Value (1.32x to 2.17x); Stock Price to LTM EPS (12.7x to 15.4x); Stock Price to 1995 estimated EPS (11.8x to 14.9x); and Stock Price to 1996 estimated EPS (11.5x to 14.5x). Salomon Brothers also calculated a range of dividend yields for the SB IPC Comparable Group of 4.8% to 7.2%.

Salomon Brothers performed the same analysis for WPLH using the following group of publicly traded utilities: Duke Power Company, FPL Group, Inc., Northern States Power Company, Union Electric Company, Wisconsin Energy Corporation and WPS Resources Corporation (collectively, the "SB WPLH Comparable Group"). The analysis yielded the following multiple ranges for the SB WPLH Comparable Group: Firm Value to LTM EBIT (9.9x to 12.4x); Firm Value to LTM EBITDA (5.9x to 8.2x); Firm Value to PP&E (1.14x to 1.36x); Stock Price to Book Value (1.66x to 1.98x); Stock Price to LTM EPS (13.9x to 15.2x); Stock Price to 1995 estimated EPS (13.4x to 14.3x); and Stock Price to 1996 estimated EPS (13.0x to 14.3x). The range of dividend yields for the SB WPLH Comparable Group was 4.2% to 6.2%.

For IES, Salomon Brothers compared the financial and market data of the following group of publicly traded utility companies: Carolina Power & Light Company, Florida Progress Corporation,

The Kansas City Power & Light Company, MidAmerican Energy Company, SCANA Corporation and Western Resources, Inc. (collectively, the "SB IES Comparable Group"). Salomon Brothers calculated the following ranges of multiples for the SB IES Comparable Group: Firm Value to LTM EBIT (10.6x to 12.8x); Firm Value to EBITDA (6.3x to 9.2x); Firm Value to PP&E (0.89x to 1.24x); Stock Price to Book Value (1.39x to 1.97x); Stock Price to LTM EPS (13.3x to 16.9x); Stock Price to 1995 estimated EPS (12.3x to 14.6x); and Stock Price to 1996 estimated EPS (12.1x to 14.0x). The dividend yield range for the SB IES Comparable Group was 5.3% to 7.3%.

*Comparable Transaction Analysis.* Salomon Brothers also reviewed the consideration paid or proposed to be paid in recent acquisitions of utility companies. Specifically, Salomon Brothers reviewed the following acquiror/acquiree transactions: PECO Energy Company/PP&L Resources, Inc. (1995); Union Electric Company/CIPSCO Incorporated (1995); Cincinnati Gas & Electric Company/PSI Resources, Inc. (1992); Entergy Corporation/Gulf States Utilities Company (1992); IE Industries Inc./Iowa Southern Utilities Company (1991); The Kansas Power & Light Company/Kansas Gas and Electric Company (1990); PacifiCorp./Pinnacle West Capital Corporation (1989); WPLH/Madison Gas and Electric Company (1989); SCEcorp./San Diego Gas & Electric Company (1988); The Southern Company/Savannah Electric and Power Company (1987); and PacifiCorp./Utah Power & Light Company (1987). For these transactions, Salomon Brothers calculated the following ranges of multiples of the aggregate value of each such transaction to the aggregate market value of the acquiree one month prior to the first indication that the acquiree is a merger candidate (1.23x to 1.65x, with a median of 1.36x); to the book value of the acquiree (1.14x to 2.34x, with a median of 1.78x); and to the acquiree's EPS for the trailing 12 months (11.1x to 20.3x, with a median of 14.8x). Salomon Brothers applied these multiples to corresponding data for IPC and calculated an implied exchange ratio range for IPC Common Stock to WPLH Common Stock of 0.98 to 1.30.

In addition, Salomon Brothers reviewed the consideration paid or payable in the following mergers of equals: Baltimore Gas & Electric Company/Potomac Electric Power Company (1995); Public Service Company of Colorado/Southwestern Public Service Company (1995); Northern States Power Company/Wisconsin Energy Corporation (1995); Midwest Resources, Inc./Iowa-Illinois Gas & Electric Company (1994); Washington Water Power Company/Sierra Pacific Resources (1994); Midwest Energy Company/Iowa Resources Inc. (1990); Fitchburg Gas and Electric Light Company/UNITIL (1989); and San Diego Gas & Electric Company/Tucson Electric Power Company (1988). For these transactions, Salomon Brothers calculated a range for the multiple of each transaction's aggregate value to the acquiree's aggregate market value of 1.00x to 1.21x (with a median of 1.00x). Based on that data, Salomon Brothers calculated an implied exchange ratio of IES Common Stock to WPLH Common Stock of 0.88 to 1.06.

*Discounted Cash Flow Analysis.* Using a DCF analysis, Salomon Brothers estimated the present value of the future cash flows that each of IPC, WPLH and IES could produce over a five-year period from 1995 through 1999, if each of them were to perform on a stand-alone basis (without giving effect to any operating or other efficiencies pursuant to the Mergers) in accordance with forecasts developed by the managements of IPC, WPLH and IES, respectively. Salomon Brothers determined implied equity values for each of IPC, WPLH and IES based upon the sum of (i) the aggregate discounted value (using various discount rates ranging from 6.75% to 7.75%) of the five-year unleveraged free cash flows of IPC, WPLH and IES, as the case may be, plus (ii) the discounted value (using the same discount rate range) of the sum of (a) the product of (x) the final year's projected net income multiplied by (y) numbers representing various terminal or exit multiples (ranging from 12.50x to 14.50x for IPC and IES and from 13.00x to 15.00x for WPLH) and (b) the projected net debt and preferred equity in the final year.

Utilizing this DCF analysis, Salomon Brothers calculated a range of value for IPC Common Stock, WPLH Common Stock and IES Common Stock of \$256 million to \$313 million, \$944 million to \$1,125 million and \$877 million to \$1,077 million, respectively.

*Contribution Analysis.* Salomon Brothers analyzed the pro forma contributions from each of WPLH, IES and IPC to the combined company, assuming the Mergers are consummated as set forth in

the Merger Agreement. Salomon Brothers analyzed, among other things, in each case for the fiscal years ending December 31, 1994, 1996 and 1997, the relative contribution to the combined company from each of WPLH's, IES's and IPC's revenues, EBITDA, EBIT and net income. The analysis did not assume the realization of any synergies in the Mergers or include any transaction costs or purchase adjustments, but did assume that pooling accounting was used. The analysis determined that WPLH, IES and IPC would have contributed the following percentages to the combined company's results in 1994: revenues — 42.7%, 41.2% and 16.1%, respectively; EBITDA — 40.9%, 45.3% and 13.8%, respectively; EBIT — 40.5%, 46.0% and 13.5%, respectively; and net income — 43.4%, 44.5% and 12.1%, respectively. Book value contributions at June 30, 1995, would have been 43.2%, 42.8% and 14.0% from WPLH, IES and IPC, respectively. Utilizing this contribution analysis, Salomon Brothers calculated implied exchange ratio ranges for IPC Common Stock to WPLH Common Stock and IES Common Stock to WPLH Common Stock of 0.89 to 1.24 and 0.91 to 1.25, respectively.

*Pro Forma Merger Consequences Analysis.* Salomon Brothers analyzed certain pro forma effects on WPLH, IPC and IES resulting from the Mergers for the projected twelve-month periods ending December 31, 1997, 1998 and 1999. Such analysis was performed utilizing stand-alone earnings estimates prepared by the respective managements of each company.

*Exchange Ratio Analysis.* Salomon Brothers reviewed and analyzed the historical ratios of the daily closing prices of IPC Common Stock and IES Common Stock to WPLH Common Stock during the five-year period ending November 3, 1995. The exchange ratios for the daily closing per share prices of IPC Common Stock to WPLH Common Stock ranged from a low of 0.74 to a high of 1.18, with an average of 0.94. The exchange ratios for IES Common Stock to WPLH Common Stock ranged from 0.73 to 1.19, with an average of 0.92.

On May 10, 1996, at a meeting of the IPC Board, Salomon Brothers reviewed with the IPC Board the proposed contingent adjustment to the IES Ratio relating to the McLeod Contingency. In this regard, Salomon Brothers calculated the potential contribution of the proceeds of McLeod's proposed initial public offering, based on a range of possible final pricing terms for McLeod's proposed initial public offering, and compared the percentage share ownership of former holders of IPC Common Stock of the combined company assuming the Mergers were consummated at the Ratios (assuming the McLeod Contingency was not satisfied and the IES Ratio was not adjusted to 1.01) and the adjusted IES Ratio (assuming the McLeod Contingency was satisfied and the IES Ratio was adjusted to 1.01). Assuming the McLeod Contingency was not satisfied and the Mergers were consummated at the Ratios (with the IES Ratio not adjusted to 1.01), the former holders of IPC Common Stock would own 15.1% of the combined company. Alternatively, assuming the McLeod Contingency was satisfied and the IES Merger was consummated at the adjusted IES Ratio, the former holders of IPC Common Stock would own 14.9% of the combined company. Additionally, Salomon Brothers reviewed a range of potential values attributable to IES's ownership of McLeod shares and the allocation of those values among WPLH, IES and IPC assuming the Mergers were consummated at the Ratios (without the IES Ratio being adjusted for the McLeod Contingency) in comparison to the allocation assuming the Mergers were consummated and the IES Ratio was adjusted for satisfaction of the McLeod Contingency. The analysis demonstrated that if the value attributable to IES's ownership of McLeod shares reflected in the combined company's market value exceeded approximately \$26.6 million, the adjustment of the IES Ratio for satisfaction of the McLeod Contingency would not result in a decrease in the market capitalization of the combined company attributable to IPC stockholders.

In arriving at its opinions, in preparing the Salomon Brothers Report and in reviewing the McLeod Contingency, Salomon Brothers performed a variety of financial analyses, the material portions of which are summarized above. The summary set forth above does not purport to be a complete description of the analyses performed by Salomon Brothers or its presentation to the IPC Board. In addition, Salomon Brothers believes that its analyses must be considered as a whole and that selecting portions of such analyses and the factors considered by it, without considering all such analyses and factors, could create an incomplete view of the process underlying its analyses set forth in the opinions and in the Salomon Brothers Report. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. In



addition, Salomon Brothers made no attempt to assign specific weights to particular analyses. With regard to the comparable public company analysis and the comparable acquisition analysis summarized above, Salomon Brothers selected comparable public companies on the basis of various factors, including the size of the public company and similarity of the line of business; however, no public company or transaction utilized as a comparison is identical to IPC, WPLH, IES or the Mergers. Accordingly, an analysis of the foregoing is not mathematical; rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the comparable companies and other factors that could affect the acquisition or public trading value of the comparable companies and transactions to which IPC, WPLH, IES and the Mergers are being compared.

In performing its analyses, Salomon Brothers made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of IPC, WPLH and IES. Any estimates contained in such analyses are not necessarily indicative of actual past or future results or values, which may be significantly more or less than such estimates. Actual values will depend upon several factors, including events affecting the utility industry, general economic, market and interest rate conditions and other factors which generally influence the price of securities. Additionally, all projections and estimates for future results of IPC, WPLH and IES referred to above were based on information provided by the respective managements of such companies.

Salomon Brothers is an internationally recognized investment banking firm and regularly engages in the valuation of businesses and their securities in connection with mergers and acquisitions and for other purposes. The IPC Board selected Salomon Brothers to act as its financial advisor on the basis of Salomon Brothers' international reputation and Salomon Brothers' familiarity with IPC and the utility industry. Salomon Brothers acted as underwriter for IPC in connection with three of its prior financings, as well as lead manager for the McLeod initial public offering. In the ordinary course of its business, Salomon Brothers actively trades the debt and equity securities of IPC, WPLH and IES for Salomon Brothers' own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities. The Ratios were determined by arms'-length negotiations among IPC, WPLH and IES, in consultation with their respective financial advisors and other representatives.

Pursuant to a letter agreement dated September 13, 1995, between IPC and Salomon Brothers, Salomon Brothers agreed to act as financial advisor to IPC in connection with the Mergers. IPC is obligated to pay Salomon Brothers a monthly fee of \$25,000 during the term of the engagement and an additional fee equal to the product of 0.75% multiplied by the aggregate consideration paid for IPC's common equity (approximately \$2,448,000). This additional fee is due Salomon Brothers as follows: 25% contingent upon and payable following execution of the Merger Agreement; 25% contingent upon and payable following approval by the IPC stockholders; and the remainder (less all monthly fees paid or payable) contingent upon and only payable following consummation of the Mergers. IPC also agreed to reimburse Salomon Brothers for its reasonable out-of-pocket expenses, including fees and disbursements of counsel, and to indemnify Salomon Brothers and its affiliates, their respective directors, officers, agents and employees and each person, if any, controlling Salomon Brothers or any of its affiliates against certain liabilities, including liabilities under the federal securities laws, relating to, or arising out of, its engagement.

As noted under the caption "The Mergers — Reasons for the Mergers; Recommendations of the Boards of Directors," the fairness opinion of Salomon Brothers was only one of many factors considered by the IPC Board in determining to approve the Merger Agreement and the IPC Merger.

#### **Interests of Certain Persons in the Mergers**

In considering the recommendations of the WPLH Board, the IES Board and the IPC Board with respect to the Mergers, shareowners should be aware that certain members of WPLH's, IES's and IPC's management and Boards of Directors have certain interests in the Mergers that are in addition

to their interest, if any, as shareowners of WPLH, IES and IPC generally. The Boards of Directors of each of WPLH, IES and IPC were aware of these interests and considered them, among other things, in approving the Merger Agreement and the transactions contemplated thereby.

*Employment Agreements.* The Employment Agreements with each of Messrs. Liu, Davis, Stopelmoor and Chase will become effective only at the Effective Time. The Employment Agreements are described in greater detailed under "— Employment Agreements" below.

*Severance Arrangements.* Under certain severance arrangements and other employee agreements maintained, or entered into, by each of WPLH, IES and IPC, certain benefits may become vested, and certain payments may become payable, in connection with the Mergers. WPLH has employment and severance agreements with each of thirteen executives of WPLH and certain of its subsidiaries which provide these executives with a measure of security against changes in their relationship with WPLH and its subsidiaries in the event of a change in control of WPLH. These agreements provide that each executive officer that is a party thereto is entitled to benefits if, within five years after a change in control of WPLH (as defined in the agreements), the officer's employment is ended through (a) termination by WPLH or its subsidiaries, other than by reason of death or disability or for cause (as defined in the agreements), or (b) termination by the officer due to a breach of the agreement by WPLH or its subsidiaries or a significant change in the officer's responsibilities, or (c) in the case of Mr. Davis's agreement only, termination by Mr. Davis following the first anniversary of the change in control. The benefits provided under each of the agreements include: (a) a cash termination payment of one, two or three times (depending on which executive is involved) the sum of the executive officer's annual salary and his or her average annual bonus during the three years before the termination and (b) continuation for up to five years of equivalent hospital, medical, dental, accident, disability and life insurance coverage as in effect at the time of termination. The agreements also provide the foregoing benefits in connection with certain terminations which are effected in anticipation of a change in control. Each agreement provides that if any portion of the benefits under the agreement or under any other agreement for the officer would constitute an excess payment for purposes of the Code, benefits will be reduced so that the officer will be entitled to receive \$1 less than the maximum amount which he or she could have received without becoming subject to the 20% excise tax imposed by the Code on certain excess payments, or which WPLH may pay without the loss of deduction under the Code. The WPLH Board has authorized that each of the foregoing agreements be amended to specifically provide that the consummation of the Mergers will constitute a change in control in certain circumstances for purposes of the agreements.

Based on the compensation paid to the executives in 1995 and assuming the occurrence of a termination for which severance benefits would be payable following a change of control of WPLH, the maximum amounts payable to each of Messrs. Davis, Harvey, Protsch, Ahearn and Amato and all of the other executives of WPLH as a group (eight persons) under their employment and severance agreements would be \$1,623,524, \$745,524, \$745,704, \$737,310, \$577,962 and \$2,583,641, respectively.

IES has severance agreements with twelve of its and Utilities' executives, including Mr. Liu, James E. Hoffman, Executive Vice President of Utilities, and John F. Franz, Jr., Vice President of Utilities. The severance agreements run for terms of one year, subject to automatic renewal unless either party gives notice of non-renewal to the other party at least 60 days prior to the annual renewal date. Each agreement provides for salary continuation and certain other benefits in the event the covered executive is terminated within a three-year period following a change of control of IES. The Mergers will constitute a change of control for purposes of each of the IES severance agreements. Specifically, the agreements provide that following termination of a covered executive's employment, except terminations for just cause, death, retirement, disability or voluntary resignation (other than resignation for "good reason"), the executive's salary will be continued, at a level equal to his salary just prior to termination, for a period ranging from eighteen to thirty-six months (depending on the executive involved and, in certain cases, his length of service). Additionally, certain benefits will be

continued during the applicable severance period, including life and health insurance, and the executive will continue to receive annual incentive award payments equal to the average annual incentive awards paid to executives of the same or comparable designation during the three years prior to the change in control. In the event the executive dies during the severance period, the salary and benefit payments described above shall be payable during the remainder of the term to the executive's surviving spouse or his estate. The executive will also become immediately vested and entitled to receive awards of restricted stock or other rights granted to the executive under IES' Long-Term Incentive Plan. With respect to a covered executive who is age 56 or older at the time of the change of control, the severance agreement further provides that the change of control will cause the executive to become fully vested in his supplemental retirement plan benefit (his "SERP"), and that if the executive is terminated within three years following the change of control, he will be able to commence his SERP payments on the earlier of the date he attains age 65 or the date salary continuation payments cease under his severance agreement. With respect to an executive who is under age 56 at the time of the change of control, the severance agreement further provides that upon the change of control the executive will receive an annuity with a value of six months' salary if the executive has been employed by IES or Utilities for less than ten years, and one year's salary otherwise.

In November 1995, IES approved certain amendments to the existing severance agreements which will take effect no later than the next annual renewal of each agreement, subject to each executive's execution of an amended form of agreement. The amendments to the severance agreement for Mr. Liu provides, among other things, that during the applicable severance period Mr. Liu will be entitled to receive payments equal to the average value of both the long-term and the annual incentive awards received by executives of the same or comparable designation during the three years prior to the change of control. In addition, the amendments for all covered executives provide reimbursement, in an aggregate amount not to exceed 15% of the executive's base salary, for outplacement services and legal fees incurred by the executive in connection with his termination, and also provide severance benefits in the event of certain employment terminations within 180 days prior to a change in control.

The provisions of the severance agreement covering Mr. Liu have been incorporated into the Employment Agreement to be executed between Mr. Liu and Interstate Energy in connection with the Mergers (described below and attached as Annex H), and after the Effective Time his Employment Agreement will supersede his existing severance agreement.

Based on the compensation paid to the executives in 1995 and assuming the occurrence of a termination for which severance benefits would be payable following a change in control of IES, the maximum amounts payable to each of Messrs. Liu, Hoffman and Franz and all of the other executives of IES as a group (nine persons) under their severance agreements would be \$2,269,694, \$549,614, \$297,696 and \$3,146,135, respectively.

Effective as of November 8, 1995, IPC entered into agreements (the "IPC Severance Agreements") providing certain severance benefits with nine executive officers of IPC, including Messrs. Stoppelmoor and Chase (collectively, the "IPC Executives"). The IPC Severance Agreements will provide benefits to the IPC Executives whose employment is terminated under certain circumstances at any time within thirty-six months after the month in which a change in control (as defined in the IPC Severance Agreements) occurs. The term of the IPC Severance Agreements expires on December 31, 1998 and may be extended for additional one year periods. However, the term of the IPC Severance Agreements will not extend beyond the date on which the covered IPC Executive attains the age of sixty-two.

The severance benefits described below will be paid if an IPC Executive's employment is terminated after a change in control unless the termination is: (i) by IPC for cause; (ii) by the IPC Executive without "good reason" (as defined in the IPC Severance Agreements); (iii) due to the retirement of the IPC Executive; (iv) due to the death of the IPC Executive; or (v) due to the disability of the IPC Executive. An IPC Executive's employment will be deemed to have been terminated following a change in control by IPC without cause or by the IPC Executive for good reason if the IPC Executive

reasonably demonstrates that the IPC Executive was terminated either: (i) as a result of the request of a person who has entered into a change in control agreement with IPC, or (ii) otherwise in connection with, as a result of, or in anticipation of, a change in control.

The severance benefits provided under the IPC Severance Agreements consist of: (i) a cash lump sum payment of up to three times the sum of the IPC Executive's annual salary and his or her average annual bonus during the three years prior to the IPC Executive's termination of employment, (ii) continuation of life, disability, accident and health insurance benefits similar to those that the IPC Executive enjoyed prior to the change in control for thirty six months after the date of termination, or if sooner, until the IPC Executive reaches the age of sixty-two years; (iii) outplacement services on an individualized basis at a level commensurate with the IPC Executive's status with IPC; and (iv) the immediate vesting of all outstanding stock options and all shares of restricted stock.

Mr. Stoppelmoor is not expected to receive any payments under the IPC Severance Agreements because he has already attained age 62. If a change in control were to occur on December 31, 1995 and all covered executives were immediately terminated with each such executive being entitled to receive the full benefits provided under his IPC Severance Agreement, the approximate amounts that would be payable to certain executive officers of IPC would be as follows: Mr. Chase \$467,000; Mr. Hamill \$321,000; and Mr. Troy \$318,000; under these assumptions, which would maximize the benefits that could be received under the IPC Severance Agreements, the aggregate amount of all of the payments that could be received by all of the executives covered under the IPC Severance Agreements would not exceed \$2,800,000.

*Board of Directors.* As provided in the Merger Agreement, at the Effective Time, the Interstate Energy Board will consist of fifteen directors, six of whom will be designated by WPLH, including Mr. Davis, six of whom will be designated by IES, including Mr. Liu, and three of whom will be designated by IPC, including Mr. Stoppelmoor. See "Interstate Energy Following the Mergers — Management of Interstate Energy."

*Indemnification.* Pursuant to the Merger Agreement, to the extent, if any, not provided by an existing right of indemnification or other agreement or policy, from and after the Effective Time, Interstate Energy will, to the fullest extent permitted by applicable law, indemnify, defend and hold harmless each person who was at, or who has been at any time prior to the date of the Merger Agreement, or who becomes prior to the Effective Time, an officer, director or employee of WPLH, IES or IPC or any of their subsidiaries (including New Utilities and New IPC) against all losses, expenses (including reasonable attorneys' fees and expenses), claims, damages or liabilities or, subject to certain restrictions, amounts paid in settlement, (i) arising out of actions or omissions occurring at or prior to the Effective Time (and whether asserted or claimed prior to, at or after the Effective Time) that are in whole or part based on, or arising out of, the fact that such person is or was a director, officer or employee of such party, or (ii) based on, arising out of or pertaining to the transactions contemplated by the Merger Agreement. See "The Merger Agreement — Indemnification."

#### **Certain Arrangements Regarding the Directors and Management of Interstate Energy Following the Mergers**

In connection with the Mergers, the Interstate Energy Board, at the Effective Time, will consist of fifteen persons, six of whom will be designated by WPLH, including Mr. Davis, six of whom will be designated by IES, including Mr. Liu, and three of whom will be designated by IPC, including Mr. Stoppelmoor. The Merger Agreement also provides for the designation of certain senior officers of Interstate Energy and its subsidiaries following the Effective Time. See "Interstate Energy Following the Mergers — Management of Interstate Energy." In addition, the Merger Agreement provides that during the three-year period following the Effective Time, certain provisions thereof (including provisions relating to existing employee agreements, workforce matters, benefit plans, stock option and other plans, certain officer positions at Interstate Energy and its subsidiaries and certain post-merger operations) may be enforced on behalf of the officers, directors and employees of WPLH, IES and IPC, as the case may be, by the directors designated by each of such companies (or their

successors), respectively. The Merger Agreement also provides such directors with the standing to enforce provisions relating to the composition of and other matters relating to the Interstate Energy Board for as long as such provisions are applicable, including the provisions governing the selection of each of the WPLH, IES and IPC designated directors until the date of the third annual meeting of shareowners of Interstate Energy and the provisions limiting the designation of employee directors for a period of five years following the Effective Time. Finally, the Merger Agreement provides that the directors designated by WPLH will be entitled to enforce for a five-year period provisions relating to the selection of Mr. Davis as the Chief Executive Officer (and, following Mr. Liu's retirement, as Chairman of the Board) of Interstate Energy and his selection to serve in certain other capacities.

#### Employment Agreements

The forms of the Employment Agreements for Messrs. Liu, Davis, Stoppelmoor and Chase are attached hereto as Annexes H through K, respectively. The Employment Agreements will become effective only at the Effective Time.

Pursuant to Mr. Liu's Employment Agreement, Mr. Liu will serve as Chairman of Interstate Energy, for a period of two years following the Effective Time and thereafter will retire as an officer of Interstate Energy, although he may continue to serve as a director. Under Mr. Davis's Employment Agreement, Mr. Davis will, following the Effective Time, serve as President and Chief Executive Officer of Interstate Energy for a period of five years following the Effective Time and, for the three-year period following Mr. Liu's retirement, Mr. Davis will also serve as Chairman of Interstate Energy. Following the initial five-year term of Mr. Davis's Employment Agreement, the Employment Agreement will automatically renew for successive one-year terms, unless either party gives prior written notice of his or its intent to terminate the Employment Agreement. Mr. Davis's Employment Agreement also provides that he serve as Chief Executive Officer of each subsidiary of Interstate Energy during the three-year period following the Effective Time and as a director of such companies during the term of his Employment Agreement. Pursuant to Mr. Stoppelmoor's Employment Agreement, Mr. Stoppelmoor will serve as Vice Chairman of Interstate Energy for a period of two years following the Effective Time and thereafter will retire as an officer of Interstate Energy, although he may continue to serve as a director. The provisions of the Employment Agreements for each of Messrs. Liu, Davis and Stoppelmoor which relate to such persons serving as directors of Interstate Energy assume that such persons are, to the extent applicable, reelected and not removed from the Interstate Energy Board by the Interstate Energy shareowners. Pursuant to Mr. Chase's Employment Agreement, Mr. Chase will serve as President of IPC or New IPC, as the case may be, following the Effective Time and until the last day of the calendar month immediately following the calendar month in which Mr. Chase attains age 62.

Mr. Liu's Employment Agreement provides that he will receive an annual base salary of not less than \$400,000, and supplemental retirement benefits and the opportunity to earn short-term and long-term incentive compensation (including stock options, restricted stock and other long-term incentive compensation) in amounts no less than he was eligible to receive from IES before the Effective Time. Pursuant to Mr. Davis's Employment Agreement, he will be paid an annual base salary not less than his aggregate annual salary from WPLH and its subsidiaries as in effect immediately prior to the Effective Time (\$450,000 as of January 1, 1996). Mr. Davis will also have the opportunity to earn short-term and long-term incentive compensation (including stock options, restricted stock and other long-term incentive compensation) in amounts no less than he was eligible to receive before the Effective Time, as well as supplemental retirement benefits (including continued participation in the WP&L Executive Tenure Compensation Plan) in an amount no less than he was eligible to receive before the Effective Time and life insurance providing a death benefit of three times his annual salary. Under Mr. Stoppelmoor's Employment Agreement, he will receive an annual base salary of not less than \$300,000, and supplemental retirement benefits and the opportunity to earn short-term and long-term incentive compensation (including stock options, restricted stock and other long-term incentive compensation) in amounts no less than he was eligible to receive from IPC before the Effective Time. Mr. Stoppelmoor's Employment Agreement also provides that, following his

retirement as Vice Chairman of the Board of Interstate Energy, he will serve as a consultant to the Chief Executive Officer of Interstate Energy for a one-year period. In consideration for his services as a consultant, Mr. Stoppelmoor will be paid a fee of \$16,667 per month and will be reimbursed for reasonable expenses incurred in the performance of such services. Under Mr. Chase's Employment Agreement, he will receive an annual base salary not less than the aggregate annual base salary he was paid by IPC immediately prior to the Effective Time (\$165,000 as of January 1, 1996). Mr. Chase will also receive supplemental retirement benefits and will have the opportunity to earn short-term and long-term incentive compensation (including stock options, restricted stock and other long-term compensation) offered to other senior executive officers of Interstate Energy and its affiliates in amounts not less than he was eligible to receive from IPC before the Effective Time.

If the employment of any of the officers with Employment Agreements is terminated without cause (as defined in the Employment Agreements) or if any officer terminates his employment for good reason (as defined in the Employment Agreements), Interstate Energy or its affiliates will continue to provide the compensation and benefits called for by the respective Employment Agreement through the end of the term of such Employment Agreement (with incentive compensation based on the maximum potential awards or, in the case of Mr. Chase, on the average awards received during the prior three years, and with any stock compensation paid in cash), and all unvested stock compensation will vest immediately. If the officer dies or becomes disabled, or terminates his employment without good reason, during the term of the Employment Agreement, Interstate Energy or its affiliates will pay to the officer or his beneficiaries or estate all compensation earned through the date of death, disability or such termination (including previously deferred compensation and pro rata incentive compensation based upon the maximum potential awards). If the officer is terminated for cause, Interstate Energy or its affiliates will pay his base salary through the date of termination plus any previously deferred compensation. Notwithstanding the foregoing, in the event that any payments to an officer under his Employment Agreement or otherwise are subject to the excise tax on excess parachute payments under the Code, then the total payments to be made under the Employment Agreement will be reduced so that the value of these payments the officer is entitled to receive is \$1 less than the amount that would subject the officer to the excise tax.

#### **Certain Federal Income Tax Consequences**

*General.* The following is a summary description of the material federal income tax consequences of the Mergers and summarizes the respective opinions of counsel to WPLH, IES and IPC, subject to the following qualification. This description summarizes the opinion of Foley & Lardner, counsel to WPLH, only insofar as it relates to consequences of the IES Merger and the IPC Direct Merger (or the IPC Merger, if applicable) to WPLH's shareowners, it summarizes the opinion of Winthrop, Stimson, Putnam & Roberts, counsel to IES, only insofar as it relates to consequences of the IES Merger (and the Utilities Reincorporation Merger, if applicable) to IES's shareholders, and it summarizes the opinion of Milbank, Tweed, Hadley & McCloy, counsel to IPC, only insofar as it relates to consequences of the IPC Direct Merger (or the IPC Merger and the IPC Reincorporation Merger, if applicable) to IPC's stockholders. The opinions summarized below are filed as exhibits to the Joint Registration Statement.

This summary is not a complete description of all of the consequences of the Mergers and, in particular, may not address federal income tax considerations that may affect the treatment of a shareowner that, at the Effective Time, is not a U.S. person or is a tax-exempt entity or an individual who acquired IES Common Stock or IPC Common Stock pursuant to an employee stock option or otherwise as compensation. In addition, no information is provided with respect to the tax consequences of the Mergers under foreign, state or local laws. The discussion is based on the Code as in effect on the date of this Joint Proxy Statement/Prospectus, without consideration of the particular facts or circumstances of any shareowner. Consequently, each shareowner is advised to consult his, her or its own tax advisor as to the specific tax consequences to him, her or it of the Mergers.

*The Mergers.* The respective obligations of the parties to effect the Mergers are conditioned on their receipt of certain additional tax opinions described in the remainder of this paragraph and the following two paragraphs. The WPLH obligation to effect the combined IES Merger and IPC Direct Merger (or IPC Merger, if applicable) is conditioned on the delivery of an opinion to WPLH from Foley & Lardner, its counsel, dated as of the Closing Date, based upon certain customary representations and assumptions set forth therein, substantially to the effect that, for federal income tax purposes, each of the IES Merger and the IPC Direct Merger (or the IPC Merger, if applicable) constitutes a tax-free reorganization within the meaning of Section 368(a) of the Code.

The IES obligation to effect the IES Merger (and the Utilities Reincorporation Merger, if applicable) is conditioned on the delivery of an opinion to IES from Winthrop, Stimson, Putnam & Roberts, its counsel, dated as of the Closing Date, based upon certain customary representations and assumptions set forth therein, substantially to the effect that, for federal income tax purposes, the IES Merger (and the Utilities Reincorporation Merger, if applicable) constitutes a tax-free reorganization within the meaning of Section 368(a) of the Code.

The IPC obligation to effect the IPC Direct Merger (or the IPC Merger and the IPC Reincorporation Merger, if applicable) is conditioned on the delivery of an opinion to IPC from Milbank, Tweed, Hadley & McCloy, its counsel, dated as of the Closing Date, based upon certain customary representations and assumptions set forth therein, substantially to the effect that, for federal income tax purposes, the IPC Direct Merger (or the IPC Merger and the IPC Reincorporation Merger, if applicable) constitutes a tax-free reorganization within the meaning of Section 368(a) of the Code.

Rulings will not be sought from the Internal Revenue Service regarding the Mergers and the Internal Revenue Service may disagree with the conclusions expressed in the opinions of counsel referred to above.

Based on the foregoing, and subject in all events to the approval of the IPC Charter Amendment by the IPC stockholders at the IPC Meeting, the following is a summary of the material federal income tax consequences of the Mergers as described in the opinions of Foley & Lardner, Winthrop, Stimson, Putnam & Roberts and Milbank, Tweed, Hadley & McCloy filed as exhibits to the Joint Registration Statement:

(i) WPLH, IES, IPC and Acquisition (and New IPC, Utilities and New Utilities, if applicable) will each be a party to a reorganization within the meaning of Section 368(b) of the Code;

(ii) No gain or loss will be recognized by WPLH, IES, IPC or Acquisition (or New IPC, Utilities and New Utilities, if applicable) pursuant to the Mergers;

(iii) No gain or loss will be recognized by the holders of IES Common Stock upon the exchange of their IES Common Stock for Interstate Energy Common Stock pursuant to the IES Merger, except that a holder of IES Common Stock that receives cash in lieu of a fractional share interest in Interstate Energy Common Stock will recognize gain or loss equal to the difference between the cash received and the tax basis allocated to the fractional share interest. Any gain or loss recognized by a holder will constitute capital gain or loss if such holder's IES Common Stock with respect to which gain or loss is recognized is held as a capital asset at the Effective Time;

(iv) A holder of IES Common Stock that receives cash for IES Dissenting Shares will recognize gain or loss equal to the difference between the amount of such cash and the tax basis of such holder's IES Dissenting Shares. Any such gain or loss recognized by a holder will constitute capital gain or loss if such holder's IES Dissenting Shares are held as capital assets at the Effective Time;

(v) No gain or loss will be recognized by the holders of IPC Common Stock upon the exchange of their IPC Common Stock for Interstate Energy Common Stock pursuant to the IPC Direct Merger, except that a holder of IPC Common Stock that receives cash in lieu of a fractional share interest in Interstate Energy Common Stock will recognize gain or loss equal to the

difference between the cash received and the tax basis allocated to the fractional share interest. Any gain or loss recognized by a holder will constitute capital gain or loss if such holder's IPC Common Stock with respect to which gain or loss is recognized is held as a capital asset at the Effective Time;

(vi) The tax basis of the Interstate Energy Common Stock received by a holder of IES Common Stock or IPC Common Stock, as the case may be, will be the same as such holder's tax basis in the IES Common Stock or IPC Common Stock that was exchanged pursuant to the IES Merger or IPC Direct Merger, as the case may be, reduced by the tax basis allocable to any fractional share interest in Interstate Energy Common Stock with respect to which cash is being received;

(vii) The holding period of the Interstate Energy Common Stock received in the IES Merger or IPC Direct Merger, as the case may be, will include the holder's holding period with respect to the IES Common Stock or IPC Common Stock that was exchanged pursuant to the IES Merger or IPC Direct Merger, as the case may be (*provided* that such stock was held as a capital asset at the Effective Time);

(viii) No gain or loss will be recognized by the holders of IPC Preferred Stock under the IPC Direct Merger, except that a holder of IPC Preferred Stock that receives cash for IPC Dissenting Shares will recognize gain or loss equal to the difference between the amount of such cash and the tax basis of such holder's IPC Dissenting Shares. Any such gain or loss recognized by a holder will constitute capital gain or loss if such holder's IPC Dissenting Shares are held as capital assets at the Effective Time;

(ix) Assuming the IPC Reincorporation Merger and the IPC Merger are effected, no gain or loss will be recognized by the holders of IPC Preferred Stock (other than for holders of IPC Dissenting Shares who will incur the tax treatment as described in subparagraph (viii) above) and IPC Common Stock upon the exchange of their IPC Preferred Stock or IPC Common Stock for New IPC Preferred Stock or New IPC Common Stock, as the case may be, pursuant to the IPC Reincorporation Merger, and no gain or loss will be recognized by the holders of New IPC Common Stock upon the exchange of their New IPC Common Stock for Interstate Energy Common Stock pursuant to the IPC Merger, except that a holder of New IPC Common Stock that receives cash in lieu of a fractional share interest in Interstate Energy Common Stock will recognize gain or loss equal to the difference between the cash received and the tax basis allocated to the fractional share interest. Any gain or loss recognized by a holder will constitute capital gain or loss if such holder's New IPC Common Stock with respect to which gain or loss is recognized is held as a capital asset at the Effective Time;

(x) Assuming the IPC Reincorporation Merger and the IPC Merger are effected, the tax basis of the New IPC Preferred Stock or New IPC Common Stock received by a holder of IPC Preferred Stock or IPC Common Stock will be the same as such holder's tax basis in the IPC Preferred Stock or IPC Common Stock that was exchanged pursuant to the IPC Reincorporation Merger, and the tax basis of the Interstate Energy Common Stock received by a holder of New IPC Common Stock will be the same as such holder's tax basis in the New IPC Common Stock that was exchanged pursuant to the IPC Merger;

(xi) Assuming the IPC Reincorporation Merger and the IPC Merger are effected, the holding period of the New IPC Preferred Stock or New IPC Common Stock received by a holder of IPC Preferred Stock or IPC Common Stock will include the holder's holding period with respect to the IPC Preferred Stock or IPC Common Stock that was exchanged pursuant to the IPC Reincorporation Merger, and the holding period of the Interstate Energy Common Stock received by a holder of New IPC Common Stock will include the holder's holding period with respect to the New IPC Common Stock that was exchanged pursuant to the IPC Merger (*provided*, in each case, that such stock was held as a capital asset at the Effective Time); and



(xii) No gain or loss will be recognized by a shareowner of WPLH upon consummation of the Mergers.

#### **Accounting Treatment**

The Mergers will be treated by the parties as a pooling of interests for accounting and financial reporting purposes. Under this method of accounting, the recorded assets and liabilities of WPLH, IES and IPC will be carried forward to the consolidated financial statements of Interstate Energy at their recorded amounts; income of Interstate Energy will include income of WPLH, IES and IPC for the entire fiscal year in which the Mergers occur; and the reported income of the separate corporations for prior periods will be combined and restated as income of Interstate Energy. The receipt by each of WPLH, IES and IPC of a letter from their respective independent accountants, stating that the Mergers will qualify as a pooling of interests, is a condition precedent to consummation of the Mergers. Representatives of Arthur Andersen LLP are expected to be present at the WPLH Meeting and the IES Meeting and representatives of Deloitte & Touche LLP are expected to be present at the IPC Meeting and in each case to be available to respond to questions, and will have an opportunity to make a statement if they desire to do so. See "The Merger Agreement — Conditions to Each Party's Obligation to Effect the Mergers" and "Unaudited Pro Forma Combined Financial Information."

#### **Stock Exchange Listing of Interstate Energy Common Stock**

Application will be made for the listing on the NYSE of the shares of Interstate Energy Common Stock to be issued pursuant to the terms of the Merger Agreement. The listing on the NYSE of such shares, subject to notice of issuance, is a condition precedent to the consummation of the Mergers. So long as WPLH, IES and IPC continue to meet the requirements of the NYSE, WPLH Common Stock, IES Common Stock and IPC Common Stock, as the case may be, will continue to be listed on the NYSE until the Effective Time. So long as WPLH continues to meet the requirements of the BSE, the CSE and the PSE, the other national securities exchanges which list WPLH Common Stock, WPLH Common Stock will continue to be listed on the BSE, the CSE and the PSE. So long as IES and IPC continue to meet the requirements of the CSE and the PSE, and IES continues to meet the requirements of the BSE and the PhSE, the other national securities exchanges which list IES Common Stock and IPC Common Stock, IES Common Stock and IPC Common Stock will continue to be listed on the CSE and the PSE, and the IES Common Stock will continue to be listed on the BSE and the PhSE, until the Effective Time.

#### **Redemption of Utilities Preferred Stock**

If the Utilities Reincorporation Merger is necessary for regulatory reasons, it is currently anticipated that shares of Utilities Preferred Stock then outstanding will be redeemed by Utilities prior to the consummation of such merger in order to avoid the need to obtain a class vote of the holders of such stock to approve the Utilities Reincorporation Merger. The Amended and Restated Articles of Incorporation of Utilities provides that the three outstanding series of Utilities Preferred Stock (*i.e.*, 4.30%, 4.80% and 6.10%) are currently redeemable in whole or in part at the option of Utilities at any time or from time to time on not less than 30 days' notice at \$51.00 per share for the 4.30% Series, \$50.25 per share for the 4.80% Series and \$51.00 per share for the 6.10% Series, together, in each case, with an amount equal to the accrued and unpaid dividends to and including the date of redemption.

#### **Federal Securities Law Consequences**

All shares of Interstate Energy Common Stock and New IPC Preferred Stock (assuming the IPC Reincorporation Merger is effected) received by shareowners of IES and IPC in the Mergers will be freely transferable, except that shares of Interstate Energy Common Stock and New IPC Preferred Stock received by persons who are deemed to be "affiliates" (as such term is defined under the Securities Act) of WPLH, IES, IPC or New IPC prior to the Mergers may be resold by them only in transactions permitted by the resale provisions of Rule 145 promulgated under the Securities Act (or Rule 144, in the case of such persons who become affiliates of Interstate Energy or New IPC) or as otherwise permitted under the Securities Act. Persons who may be deemed to be affiliates of Interstate Energy, WPLH, IES, IPC or New IPC generally include individuals or entities that control, are

controlled by, or are under common control with, such party and may include certain officers and directors of such party as well as principal shareowners of such party. The Merger Agreement requires each of WPLH, IES and IPC to use all reasonable efforts to cause each of its affiliates to execute a written agreement to the effect that such affiliate will not offer or sell or otherwise dispose of (i) any shares of WPLH, IES, IPC or Interstate Energy during the period beginning 30 days prior to the Effective Time and continuing until such time as results covering at least 30 days of post-Effective Time operations of Interstate Energy have been published or (ii) any of the shares of Interstate Energy Common Stock or New IPC Preferred Stock issued to such affiliate in or pursuant to the Mergers in violation of the Securities Act or the rules and regulations promulgated by the SEC thereunder.

This Joint Proxy Statement/Prospectus does not cover resales of Interstate Energy Common Stock or New IPC Preferred Stock received by any person who may be deemed to be an affiliate of WPLH, IES, IPC, New IPC or Interstate Energy.

#### No Wisconsin Dissenters' Rights

The WBCL does not give WPLH shareowners the right to dissent from, and obtain payment of the fair value of their shares in connection with, the matters to be considered at the WPLH Meeting.

#### Iowa Dissenters' Rights

The IBCA provides dissenters' rights for shareholders who object to the IES Merger and meet the requisite statutory requirements contained in Sections 490.1301 through 490.1331 of the IBCA. Sections 490.1301 through 490.1331 of the IBCA are reprinted in their entirety as Annex P to this Joint Proxy Statement/Prospectus.

The following discussion includes all material elements of the IBCA relating to dissenters' rights but is not a complete statement of the provisions of Sections 490.1301 through 490.1331 of the IBCA and is qualified in its entirety by reference to Annex P hereto and to any amendments to such sections as may be adopted after the date of this Joint Proxy Statement/Prospectus. **THIS DISCUSSION AND ANNEX P SHOULD BE REVIEWED CAREFULLY BY ANY HOLDER OF IES COMMON STOCK WHO WISHES TO EXERCISE STATUTORY DISSENTERS' RIGHTS OR WHO WISHES TO PRESERVE THE RIGHT TO DO SO BECAUSE FAILURE STRICTLY TO COMPLY WITH THE PROCEDURES SET FORTH HEREIN AND THEREIN WILL RESULT IN THE LOSS OF DISSENTERS' RIGHTS.**

A shareholder may dissent as to less than all of the shares of capital stock registered in the name of such shareholder only if such shareholder dissents with respect to all shares beneficially owned by any one person and notifies IES in writing of the name and address of each person on whose behalf such shareholder asserts dissenters' rights. The rights of a partial dissenter are determined as if the shares of capital stock as to which the shareholder dissents and such shareholder's other shares of capital stock were registered in the names of different shareholders. A beneficial shareholder may assert dissenters' rights as to shares held on such shareholder's behalf only if such shareholder (i) submits to IES the record shareholder's written consent to the dissent not later than the time the beneficial shareholder asserts dissenters' rights and (ii) asserts dissenters' rights with respect to all shares of capital stock of which the shareholder is the beneficial shareholder or over which such beneficial shareholder has the power to direct the vote.

The IBCA requires that a shareholder who wishes to assert dissenters' rights (i) deliver to IES, before the vote is taken, written notice of the shareholder's intent to demand payment for shares of common stock if the IES Merger is consummated and (ii) not vote such shares of capital stock in favor of the Mergers. Any such notice by shareholders of IES must be received by IES at IES Tower, 200 First Street S.E., Cedar Rapids, Iowa 52401, Attention: Vice President, General Counsel and Secretary, prior to such vote. A vote against the Merger Agreement will not satisfy the notice requirement. The submission by a shareholder of a blank proxy card or one voted in favor of the Merger Agreement (if not

revoked) will count as a vote in favor of the Merger Agreement and will serve to waive dissenters' rights. However, failure to return a proxy or to vote against or abstain from voting will not serve to waive such rights.

Within ten days after the date on which the Merger Agreement is approved by its shareholders, IES must deliver a written dissenters' notice to all of its shareholders that have given a written notice and not voted in favor of the Merger Agreement in accordance with the preceding paragraph. The dissenters' notice will (i) state where the payment demand must be sent and where and when certificates for shares of capital stock must be deposited, (ii) supply a form for demanding payment that includes the date of the first announcement to the news media or to shareholders of the terms of the proposed IES Merger and which requires that the shareholder asserting dissenters' rights certify whether or not such shareholder acquired beneficial ownership of the shares before such date, (iii) set a date by which IES must receive the payment demand, which date will be not less than 30 nor more than 60 days from the date such dissenters' notice is delivered, and (iv) be accompanied by the relevant sections of the IBCA.

A shareholder who has received a dissenters' notice as described above and who wishes to assert dissenters' rights must demand payment, certify whether the shareholder acquired beneficial ownership of the shares before the date set forth in the dissenters' notice and deposit the certificate representing the shares in accordance with the terms of the notice. A shareholder who does not demand payment or deposit the shareholder's share certificates where required, each by the date set in the dissenters' notice, is not entitled to payment for the shareholder's shares.

Upon receipt of the payment demand, or at the Effective Time, whichever occurs later, Interstate Energy must pay each dissenting shareholder that has complied with the provisions of the IBCA the amount estimated to be the fair value of the dissenter's shares, plus accrued interest from the Effective Time to the date of payment at the average rate paid by Interstate Energy on its bank loans or, if none, at a rate that is fair and equitable under all the circumstances. Such payment must be accompanied by certain financial data relating to Interstate Energy and other specified information as required by the IBCA. If the proposed IES Merger is not effected within 60 days after the date set for demanding payment and depositing the capital share certificates, IES will return the deposited certificates and, if the IES Merger is subsequently effected, Interstate Energy will deliver a new dissenters' notice as if the corporate action was taken without the vote of the shareholders and repeat the payment demand procedure. Interstate Energy may elect to withhold payment from a dissenting shareholder unless the dissenting shareholder was the beneficial owner of the shares before the date set forth in the dissenters' notice as the date of the first announcement of the terms of the proposed IES Merger. If Interstate Energy so elects to withhold payment, it must, after the Effective Time, estimate the fair value of the shares, plus accrued interest at the rate described above, and pay such amount and provide certain other specified information as set forth in the IBCA to each such dissenting shareholder who agrees to accept it in full satisfaction of the dissenter's demand.

Shareholders considering seeking dissenters' rights should be aware that the "fair value" of their shares of IES Common Stock determined under Sections 490.1301 through 490.1331 of the IBCA could be more than, the same as or less than the market value of such securities and that opinions of investment banking firms as to fairness, from a financial point of view, may not provide a reliable guide to fair value under Sections 490.1301 through 490.1331. If (i) the dissenter believes that the amount offered or paid is less than the fair value of the dissenter's shares or that the interest due is incorrectly calculated, (ii) Interstate Energy fails to make payment within 60 days after the date set for demanding payment, or (iii) IES, having failed to effect the Mergers, does not return the deposited certificates within 60 days after the date set for demanding payment, dissenters may, within 30 days after the payment was made or offered, notify Interstate Energy or IES, as the case may be, in writing of the dissenting shareholder's own estimate of the fair value of the shares and the amount of interest due, and demand payment of the fair value of such shares and interest so calculated less payments received by such dissenting shareholder, if any. A dissenter waives the right to demand payment as described in this paragraph unless the dissenter notifies Interstate Energy of the dissenter's demand

within 30 days after Interstate Energy made or offered payment for the dissenter's shares. If demand of a dissenter for payment remains unsettled, Interstate Energy must (i) commence a proceeding in the Iowa District Court for Linn County, Iowa, within 60 days after receiving the payment demand to determine the fair value of the shares and accrued interest or (ii) pay to each such dissenter the amount demanded. The costs of a proceeding, including the reasonable compensation and expenses of appraisers appointed by the court, will generally be assessed against Interstate Energy. The court may, however, assess such court costs, including the fees and expenses of counsel and experts, against a dissenter that is found by the court to have acted arbitrarily, vexatiously or not in good faith in demanding payment.

#### **Delaware Dissenters' Rights**

In connection with the Mergers, holders of shares of IPC Preferred Stock are entitled to appraisal rights under Section 262 of the DGCL ("Section 262") as to shares owned by them. Section 262 is reprinted in its entirety as Annex Q to this Joint Proxy Statement/Prospectus. All references in this summary to a "stockholder" are to the record holder of the shares of IPC Preferred Stock as to which appraisal rights are asserted. A person having a beneficial interest in shares of IPC Preferred Stock that are held of record in the name of another person, such as a broker or nominee, must act promptly to cause the record holder to follow the steps summarized below properly and in a timely manner to perfect whatever appraisal rights the beneficial owner may have.

The following discussion includes all material elements of the law relating to appraisal rights but is not a complete statement of such rights and is qualified in its entirety by reference to Annex Q. **THIS DISCUSSION AND ANNEX Q SHOULD BE REVIEWED CAREFULLY BY ANY HOLDER OF IPC PREFERRED STOCK WHO WISHES TO EXERCISE STATUTORY APPRAISAL RIGHTS OR WHO WISHES TO PRESERVE THE RIGHT TO DO SO BECAUSE FAILURE STRICTLY TO COMPLY WITH THE PROCEDURES SET FORTH HEREIN AND THEREIN WILL RESULT IN THE LOSS OF APPRAISAL RIGHTS.**

Each stockholder electing to demand the appraisal of his or her shares of IPC Preferred Stock must deliver to IPC, before the taking of the vote on the Mergers at the IPC Meeting, a written demand for appraisal of his or her shares of IPC Preferred Stock. Any such stockholder must mail or deliver his or her written demand to the Secretary of IPC at 1000 Main Street, Dubuque, IA 52001. The written demand for appraisal must specify the stockholder's name and mailing address, the number of shares of IPC Preferred Stock owned, and that the stockholder is thereby demanding appraisal of his or her shares of IPC Preferred Stock. **Because the holders of IPC Preferred Stock will not vote on approval of the Merger Agreement and the transactions contemplated thereby, the failure of a holder of IPC Preferred Stock to vote against approval of the Merger Agreement will not affect such holder's ability to demand or perfect appraisal rights.** Appraisal rights will not be available under Section 262 if the stockholder does not continuously hold through the Effective Time the shares of IPC Preferred Stock with respect to which he, she or it demands appraisal. Within ten days after the Effective Time, IPC must provide notice of the Effective Time to all stockholders who have complied with Section 262.

A demand for appraisal must be executed by or for the stockholder of record, fully and correctly, as such stockholder's name appears on the IPC Certificate or Certificates. If the shares of IPC Preferred Stock are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, such demand must be executed by the fiduciary. If the shares of IPC Preferred Stock are owned of record by more than one person, as in a joint tenancy or tenancy in common, such demand must be executed by all joint owners. An authorized agent, including an agent for two or more joint owners, may execute the demand for appraisal for a stockholder of record; however, the agent must identify the record owner and expressly disclose the fact that, in exercising the demand, such person is acting as agent for the record owner.

A record owner, such as a broker, who holds shares of IPC Preferred Stock as nominee for others, may exercise appraisal rights with respect to the shares of IPC Preferred Stock held for all or less than all beneficial owners of shares of IPC Preferred Stock as to which such person is the record owner. In

such case the written demand must set forth the number of shares of IPC Preferred Stock covered by such demand. Where the number of shares of IPC Preferred Stock is not expressly stated, the demand will be presumed to cover all shares of IPC Preferred Stock outstanding in the name of such record owner. Beneficial owners who are not record owners and who intend to exercise appraisal rights should instruct the record owner to comply strictly with the statutory requirements with respect to the exercise of appraisal rights before the taking of the vote on the Mergers at the IPC Meeting.

Within 120 days after the Effective Time, either the surviving corporation in the IPC Merger or any stockholder who has complied with the required conditions of Section 262 may file a petition in the Delaware Chancery Court demanding a determination of the value of the shares of IPC Preferred Stock. If a petition for an appraisal is timely filed, after a hearing on such petition, the Delaware Chancery Court will determine which stockholders are entitled to appraisal rights and will appraise the shares of IPC Preferred Stock owned by such stockholders determining the fair value of such shares of IPC Preferred Stock, exclusive of any element of value arising from the accomplishment or expectation of the IPC Merger, together with a fair rate of interest, if any, to be paid upon the amount determined to be the fair value. In determining such fair value, the Delaware Chancery Court is to take into account all relevant factors. In *Weinberger v. UOP Inc., et al.*, decided February 1, 1983, the Delaware Supreme Court discussed the factors that could be considered in determining fair value in an appraisal proceeding, stating that "proof of value by any techniques or methods which are generally considered acceptable in the financial community and otherwise admissible in court" should be considered and that "fair price obviously requires consideration of all relevant factors involving the value of a company." The Delaware Supreme Court stated that in making this determination of fair value the court must consider market value, asset value, dividends, earnings prospects, the nature of the enterprise and any other facts which could be ascertained as of the date of the merger which throw any light on future prospects of the merged corporation. Section 262 provides that fair value is to be "exclusive of any element of value arising from the accomplishment or expectation of the merger." In *Weinberger*, the Delaware Supreme Court construed Section 262 to mean that "elements of future value, including the nature of the enterprise, which are known or susceptible of proof as of the date of the merger and not the product of speculation, may be considered."

Stockholders considering seeking appraisal should have in mind that the "fair value" of their shares of IPC Preferred Stock determined under Section 262 could be more than, the same as or less than the market value of such securities. The cost of the appraisal proceeding may be determined by the Delaware Chancery Court and taxed against the parties as the Delaware Chancery Court deems equitable in the circumstances. Upon application of a dissenting stockholder, the Delaware Chancery Court may order that all or a portion of the expenses incurred by any dissenting stockholder in connection with the appraisal proceeding, including without limitation, reasonable attorneys' fees and the fees and expenses of experts, be charged pro rata against the value of all shares of IPC Preferred Stock entitled to appraisal.

Within 120 days after the Effective Time, any stockholder who has complied with the requirements for exercise of appraisal rights, as discussed above, is entitled, upon written request, to receive from the surviving corporation in the IPC Merger, or the IPC Direct Merger, as the case may be, a statement setting forth the aggregate number of shares of IPC Preferred Stock with respect to which demands for appraisal have been made and the aggregate number of holders of such shares. Such statement must be mailed within 10 days after the written request therefor has been received by the surviving corporation in the IPC Merger, or the IPC Direct Merger, as the case may be.

Any stockholder who has duly demanded appraisal in compliance with Section 262 will not, from and after the Effective Time, be entitled to vote for any purpose the shares of IPC Preferred Stock subject to such demand or to receive payment of dividends or other distributions on such shares of IPC Preferred Stock, except for dividends or distributions payable to stockholders of record at a date prior to the Effective Time.

At any time within 60 days after the Effective Time, any stockholder shall have the right to withdraw his or her demand for appraisal and to accept the terms offered in the Mergers whereby such holder will obtain a like number of shares of New IPC Preferred Stock if the IPC Reincorporation Merger is effected or retain his or her shares of IPC Preferred Stock if the IPC Direct Merger is effected; after this period, the stockholder may withdraw his or her demand for appraisal only with the consent of the surviving corporation in the IPC Merger or the IPC Direct Merger, as the case may be. If no petition for appraisal is filed with the Delaware Chancery Court within 120 days after the Effective Time, stockholders' rights to appraisal shall cease. Inasmuch as IPC will have no obligation to file such a petition, and has no present intention to do so, any stockholder who desires such a petition to be filed is advised to file it on a timely basis. However, no petition timely filed in the Delaware Chancery Court demanding appraisal shall be dismissed as to any stockholder without the approval of the Delaware Chancery Court, and such approval may be conditioned upon such terms as the Delaware Chancery Court deems just. Any holder of IPC Preferred Stock who effectively withdraws his or her demand for appraisal, or whose right to an appraisal shall cease, shall be deemed to have lost such holder's appraisal rights.

### REGULATORY MATTERS

As indicated below, consummation of the Mergers is subject to numerous regulatory approvals, which are presently anticipated to be received during the first half of 1997. Set forth below is a summary of the material regulatory requirements affecting the Mergers.

#### State Approvals and Related Matters

WP&L is subject to the jurisdiction of the Wisconsin Commission with respect to retail utility service provided in Wisconsin. WPLH and WP&L are each public utility holding companies under the Wisconsin Holding Company Act and are subject to the jurisdiction of the Wisconsin Commission. A wholly-owned subsidiary of WP&L with utility operations in Illinois is subject to the jurisdiction of the ICC with respect to its operations.

Utilities is currently subject to the jurisdiction of the IUB with respect to its utility operations in Iowa. IPC is subject to the jurisdiction of the IUB, the ICC and the Minnesota Commission with respect to its utility operations in Iowa, Illinois and Minnesota.

Applications for approval of the Mergers and related transactions, including, in the case of certain commissions, the issuance of securities in connection therewith, were initially filed in early March 1996 with the Wisconsin Commission, the IUB, the ICC and the Minnesota Commission.

Interstate Energy will remain a public utility holding company under the Wisconsin Holding Company Act and will remain subject to the jurisdiction of the Wisconsin Commission. The following is a brief summary of certain provisions of the Wisconsin Holding Company Act that will continue to apply to Interstate Energy after the Effective Time.

The Wisconsin Holding Company Act prohibits any person from forming a public utility holding company or acquiring or holding more than 10% of the outstanding voting securities of a public utility holding company, without Wisconsin Commission approval. The Wisconsin Commission, if it finds the capital of any public utility affiliate will be impaired by payment of a dividend, may order the utility affiliate to limit or cease payment of dividends to the public utility holding company. Various transactions by a public utility affiliate with others in the public utility holding company system are prohibited, including lending money, guaranteeing obligations, combined advertising, providing utility service on terms different from those for other consumers in the same class, and, without Wisconsin Commission approval after establishment that the utility affiliate will be paid at fair market value, certain sales or leases of real property and use of services of utility employees. The Wisconsin Holding Company Act prohibits (i) any public utility affiliate from providing any non-utility product or service in a manner or at a price that unfairly discriminates against any competing provider; (ii) any non-utility activity from being subsidized materially by the customers of any public utility in the system;

(iii) the operation of the system in any way which materially impairs the credit, ability to acquire capital on reasonable terms or ability to provide safe, reasonable, reliable and adequate utility service, of any public utility affiliate in the system; (iv) any transfer by a public utility affiliate to any other system company of any confidential public utility information, including customer lists, for any non-utility purpose, unless the Wisconsin Commission has approved the transfer; and (v) any termination of the system's interest in a public utility affiliate without Wisconsin Commission approval. Other statutory provisions which pre-existed the Wisconsin Holding Company Act include requirements for submission to the Wisconsin Commission for approval of certain contracts or other arrangements for furnishing property or services between a public utility and an affiliate.

The Wisconsin Holding Company Act also limits non-utility diversification, in that, stated generally, the net book value of the assets (other than investment in system affiliates) of all non-utility affiliates may not exceed the sum of 25% of the net book value of the assets of all electric utility affiliates and a percentage, to be determined by the Wisconsin Commission (but not less than 25%), of the net book value of the assets of all other public utility affiliates. Based on an applicable review of legislative history and principles of statutory interpretation, WPLH, IES and IPC believe and intend to take appropriate action to establish that the utility subsidiaries of Interstate Energy following consummation of the Mergers will qualify as "public utility affiliates" of Interstate Energy within the meaning of the Wisconsin Holding Company Act. If, however, IPC and Utilities, as presently constituted, were to be deemed nonutility affiliates (because they are not Wisconsin utilities or Wisconsin corporations), the parties reserve the right to take such action as may be required to cause IPC and Utilities to be treated as "public utility affiliates" for purposes of the Wisconsin Holding Company Act. Under the alternative structure set forth in the Merger Agreement, IPC and Utilities would become Wisconsin corporations and acquire certain of the water utility operations currently conducted by WP&L within the State of Wisconsin. The parties currently intend to seek regulatory approval to effect the transactions under either structure. Although the parties believe that the Mergers can be consummated under either or both structures in compliance with the Wisconsin Holding Company Act, that statute has not been authoritatively construed, and no assurance as to the interpretation of the Wisconsin Holding Company Act can be given.

In addition, the Wisconsin Holding Company Act requires the Wisconsin Commission to periodically investigate the impact of the operation of every holding company system on every public utility affiliate in the system and to determine whether each non-utility affiliate does, or can reasonably be expected to do, at least one of the following: (i) substantially retain, attract or promote business activity or employment or provide capital to businesses within the service territory of any public utility affiliate or certain others, (ii) increase or promote energy conservation or develop, produce or sell renewable energy products or equipment, (iii) conduct a business that is functionally related to the provision of utility service or to the development or acquisition of energy resources, and (iv) develop or operate commercial or industrial parks in the service territory of any public utility affiliate. WPLH and IES believe that their existing non-utility businesses meet the requirements of the Wisconsin Holding Company Act. The Wisconsin Commission also is authorized to order a holding company to terminate its interest in a public utility affiliate if the Wisconsin Commission finds that, based upon clear and convincing evidence, termination of the interest is necessary to protect the interest of utility investors in a financially healthy utility and the interest of consumers in reasonably adequate utility service at a just and reasonable price.

Given WPLH's experience of operating under the Wisconsin Holding Company Act, WPLH, IES and IPC do not expect the restrictions of the Wisconsin Holding Company Act to have a materially adverse effect upon the operations of Interstate Energy following the Mergers.

Under either transaction structure described above, IPC's utility operations would remain subject to regulation by the IUB, the ICC and the Minnesota Commission, Utilities' utility operations would remain subject to regulation by the IUB and WP&L's utility operations would remain subject to regulation by the Wisconsin Commission. In addition, under the reincorporation structure, New Utilities and New IPC would become Wisconsin utilities by virtue of their acquisitions of certain water

utility properties from WP&L and would become subject to the jurisdiction of the Wisconsin Commission with respect to such water utility service. Based on historical experience and preliminary discussions with the staff of the Wisconsin Commission, WPLH, IES and IPC believe that, under the reincorporation structure, the Wisconsin Commission would not seek to regulate activities of New Utilities and New IPC following the Mergers other than those activities directly related to the water utility properties and the provision of water utility service in the State of Wisconsin.

#### Public Utility Holding Company Act of 1935

Interstate Energy is required to obtain SEC approval under Section 9(a)(2) of the 1935 Act in connection with the Mergers. Section 9(a)(2) of the 1935 Act provides that it is unlawful for any person to acquire any security of any public utility company if that person owned, or by virtue of that transaction will come to own, 5% or more of the voting securities of that public utility company and of any other public utility company, without the prior approval of the SEC. An application for approval of the Mergers will be filed by WPLH, IES and IPC at the appropriate time. Under the applicable standards of the 1935 Act, the SEC is directed to approve a proposed acquisition unless it finds that (i) the acquisition would tend towards detrimental interlocking relations or a detrimental concentration of control, (ii) the consideration to be paid in connection with the acquisition is not reasonable, (iii) the acquisition would unduly complicate the capital structure of the applicant's holding company system or would be detrimental to the public interest or the interest of investors or consumers or the proper functioning of the applicant's holding company system, or (iv) the acquisition would violate applicable state law. In order to approve a proposed acquisition, the SEC must also find that the acquisition would tend towards the economical and efficient development of an integrated public utility system and would otherwise conform to the 1935 Act's integration and corporate simplification standards.

WPLH is currently exempt from the registration and other requirements of the 1935 Act, other than from Section 9(a)(2) thereof, pursuant to an order of the SEC under Section 3(a)(1) of the 1935 Act. The basis of the exemption under Section 3(a)(1) is that WPLH and its public utility subsidiaries are predominantly intrastate in character and carry on their businesses substantially in a single state in which they are organized (Wisconsin). IES is also currently exempt from the registration and other requirements of the 1935 Act, other than from Section 9(a)(2) thereof, pursuant to an order of the SEC under Section 3(a)(1) of the 1935 Act. The basis of the exemption under Section 3(a)(1) is that IES and its public utility subsidiaries are predominantly intrastate in character and carry on their businesses substantially in a single state in which they are organized (Iowa). IPC is currently not subject to the requirements of the 1935 Act because it is not a public utility holding company within the definition of the 1935 Act. The Section 3(a)(1) exemption under which WPLH and IES currently operate will not be available to Interstate Energy after consummation of the Mergers.

Accordingly, upon consummation of the Mergers, Interstate Energy must register as a holding company under the 1935 Act. The 1935 Act imposes numerous restrictions on the operations of a registered holding company and its subsidiaries and affiliates. Subject to limited exceptions, SEC approval is required under the 1935 Act for a registered holding company or any of its subsidiaries to: (i) issue securities, (ii) acquire utility assets from a third person, (iii) acquire any securities of another public utility, (iv) amend its articles of incorporation, or (v) acquire stock, extend credit, pay dividends, lend money or invest in any manner in any other businesses. SEC approval under the 1935 Act also will be required for certain proposed transactions relating to the Mergers. For example, SEC approval will be required for Interstate Energy's issuance of securities pursuant to employee benefit plans and the establishment of a service company to provide various administrative and support services to Interstate Energy and certain of its subsidiaries. The 1935 Act also limits the ability of registered holding companies to engage in non-utility ventures and regulates holding company system service companies and the rendering of services by holding company affiliates to the system's utilities. WPLH, IES and IPC believe the foregoing restrictions and limitations imposed by the 1935 Act in its current form may limit possible operations of Interstate Energy following the Mergers. However, WPLH, IES and IPC believe the benefits of the Mergers exceed the potential adverse effects of such



1935 Act regulation. In reaching this determination, WPLH, IES and IPC concluded that there are various registered public utility holding companies which have operated successfully within the limitations imposed under the 1935 Act. In addition, WPLH, IES and IPC considered existing initiatives to lessen the impact of the 1935 Act and the legislation to repeal the 1935 Act, all of which are discussed below.

In addition, the SEC historically has interpreted the 1935 Act to preclude registered holding companies, with limited exceptions, from owning both electric and gas utility systems. Although the SEC has recently recommended that registered holding companies be allowed to hold both gas and electric utility operations if the affected states agree, it remains possible that the SEC may require as a condition to its approval of the Mergers that WPLH, IES and IPC divest their gas utility properties and possibly certain non-utility ventures of WPLH and IES within a reasonable time after the Mergers. In a few cases, the SEC has allowed the retention of such properties or deferred the question of divestiture for a substantial period of time. In those cases in which divestiture has taken place, the SEC has usually allowed enough time to complete the divestiture so as to allow the applicant to complete an orderly sale of the divested assets. WPLH, IES and IPC believe there are strong policy reasons and prior SEC decisions which support their retention of existing gas utility properties and non-utility ventures, or, alternatively, which support deferring the question of divestiture for a substantial period of time. Accordingly, WPLH, IES and IPC will request in their 1935 Act application that Interstate Energy be allowed to retain, or, in the alternative, that the question of divestiture be deferred with respect to, the existing gas utility properties and non-utility ventures of WPLH, IES and IPC. Should the SEC deny this request, a required divestiture could, under certain circumstances, be at a price below fair market value or otherwise on terms deemed unsatisfactory by Interstate Energy and could have a materially adverse effect on the operations, earnings and financial condition of Interstate Energy.

On June 20, 1995, the SEC issued a series of new proposed regulations that are designed, among other things, to ease the restrictions on and regulation of the activities of registered holding companies, including investment by registered holding companies in non-utility businesses. At the same time, the SEC's Division of Investment Management (the "Division") issued a report of legislative and administrative recommendations, including the Division's preferred recommendation that Congress repeal the 1935 Act, subject to the transfer of certain authority over the books and records of registered holding companies to state utility commissions and to the FERC. The report also recommended liberalizing the SEC's interpretation of the 1935 Act to permit registered holding companies to own both electric and gas utility systems where the affected states concur. After the release of the report, legislation to repeal the 1935 Act was introduced in Congress and is pending. There is no assurance that the legislation to repeal the 1935 Act will be enacted or that regulations proposed by the SEC will be implemented or that the recommendations made in the Division's report will be adopted. To the extent that some or all of the regulations and recommendations are implemented, however, restrictions on and regulation of Interstate Energy's activities may be reduced or eliminated, and Interstate Energy's ability to retain ownership of the gas utility properties and some or all of the non-utility ventures currently operated by WPLH, IES and IPC would be enhanced.

#### **Federal Power Act**

Section 203 of the Federal Power Act provides that no public utility shall sell or otherwise dispose of its jurisdictional facilities or, directly or indirectly, merge or consolidate such facilities with those of any other person or acquire any security of any other public utility without first having obtained authorization from the FERC. The approval of the FERC is required in order to consummate the Mergers. Under Section 203 of the Federal Power Act, the FERC will approve a merger if it finds the merger "consistent with the public interest." In reviewing a merger, the FERC generally has evaluated: (i) whether the merger will adversely affect competition, (ii) whether the merger will adversely affect operating costs and rates, (iii) whether the merger will impair the effectiveness of regulation, (iv) whether the purchase price is reasonable, (v) whether the merger is the result of coercion, and (vi) whether the accounting treatment is reasonable. It should be noted, however, that certain FERC

commissioners have called for FERC to reevaluate its merger policy; and it cannot be predicted how any such reevaluation would affect the FERC's review of the Mergers. On March 1, 1996, WPLH, IES and IPC filed a combined application with the FERC requesting that the FERC approve the Mergers under Section 203 of the Federal Power Act (the "FERC Application"). Following the filing of the FERC Application, certain parties, including several consumer-owned municipal electric utilities, intervened in the FERC proceeding. The intervenors have raised issues regarding their access to transmission facilities following consummation of the Mergers and the impact of the Mergers on existing power supply agreements. It is presently anticipated that such issues will be favorably resolved and will not adversely impact the FERC proceedings relative to approval of the Mergers. Based on recent FERC proceedings and prior experience, WPLH, IES and IPC believe that FERC will reject several of the issues raised by the intervenors and that any remaining issues will be susceptible to successful resolution through negotiations with the intervening parties.

In addition, Utilities and IPC hold certain certificates of public convenience and necessity under Section 7 of the Natural Gas Act. The Mergers will constitute transfers of the certificates of public convenience and necessity, requiring approval from the FERC.

Furthermore, prior to the IPC Reincorporation Merger and the Utilities Reincorporation Merger, if such mergers are to be effected, the approval of the FERC under Section 204 of the Federal Power Act is required for New IPC and New Utilities to assume the debt of IPC and Utilities, respectively.

#### **Antitrust Considerations**

The HSR Act and the rules and regulations promulgated thereunder provide that certain transactions (including the Mergers) may not be consummated until certain information has been submitted to the Antitrust Division of the Department of Justice (the "Antitrust Division") and the Federal Trade Commission (the "FTC") and specified HSR Act waiting period requirements have been satisfied. On June 7, 1996, WPLH, IES and IPC filed their premerger notification forms pursuant to the HSR Act and on July 7, 1996 the HSR Act waiting period expired. The expiration of the HSR Act waiting period does not preclude the Antitrust Division or the FTC from challenging the Mergers on antitrust grounds. However, neither WPLH, IES nor IPC believes that the Mergers will violate federal antitrust laws. With the expiration of the waiting period, there are no remaining federal antitrust issues to be resolved in order to consummate the Mergers. If the Mergers are not consummated within 12 months after the expiration of the initial HSR Act waiting period, WPLH, IES and IPC would be required to submit new information to the Antitrust Division and the FTC, and a new HSR Act waiting period would have to expire or be earlier terminated before the Mergers could be consummated.

#### **Atomic Energy Act**

Utilities holds an NRC operating license authorizing Utilities to hold an ownership interest in the Duane Arnold Energy Center and to operate the facility. WP&L also holds an NRC operating license authorizing WP&L to hold an ownership interest in the Kewaunee nuclear generating facility. The Atomic Energy Act provides that no NRC license may be transferred, assigned, or in any manner disposed of, directly or indirectly, through transfer of control of any license to any person unless the NRC finds that the transfer is in accordance with the Atomic Energy Act and consents to the transfer. WPLH and IES will seek any approvals required from the NRC pursuant to the Atomic Energy Act to reflect the fact that New Utilities or Utilities, as the case may be, and WP&L will continue to hold their existing NRC licenses as operating company subsidiaries of Interstate Energy upon the consummation of the Mergers.

#### **Other**

Utilities and IPC possess municipal franchises and environmental permits and licenses that may need to be renewed or replaced as a result of the Mergers. Utilities and IPC do not anticipate any difficulties at the present time in obtaining such renewals or replacements.

## General

Under the Merger Agreement, WPLH, IES and IPC have agreed to use all reasonable efforts to obtain all necessary material permits, licenses, franchises and other governmental authorizations necessary or advisable to consummate or effect the transactions contemplated by the Merger Agreement. Various parties may seek to intervene in these proceedings to oppose the Mergers or to have conditions imposed upon the receipt of necessary approvals. While WPLH, IES and IPC believe that they will receive the requisite regulatory approvals for the Mergers, there can be no assurance as to the timing of such approvals or the ability of such parties to obtain such approvals on satisfactory terms or otherwise.

It is a condition to the consummation of the Mergers that final orders approving the Mergers be obtained from the various federal and state regulatory bodies described above on terms and conditions which would not have, or would not be reasonably likely to have, a material adverse effect on the business, assets, financial condition, results of operations or prospects of Interstate Energy or which would be materially inconsistent with the agreements of the parties contained in the Merger Agreement. There can be no assurance that any such approvals will not contain terms or conditions that cause such approvals to fail to satisfy such condition to the consummation of the Mergers. Should any approvals contain terms or conditions unsatisfactory to WPLH, IES or IPC, such party may waive such condition to consummation of, and may proceed with, the Mergers. Any determination to waive a condition would depend upon the facts and circumstances existing at the time of such waiver and would be made by the waiving party's Board of Directors, exercising its fiduciary duties to its shareowners. Such facts and circumstances may be different than the facts and circumstances existing at the time the parties entered into the Merger Agreement or at the time of the WPLH Meeting, the IES Meeting or the IPC Meeting and could be more or less favorable to WPLH, IES, IPC or their respective shareowners than such earlier facts and circumstances. No shareowner approval will be required or sought for any such waiver, and the shareowners' approval of the Merger Agreement constitutes approval of such waivers as may be granted by the WPLH Board, the IES Board or the IPC Board, as the case may be, in its discretion.

## THE MERGER AGREEMENT

The following is a brief summary of certain provisions of the Merger Agreement, which is attached as Annex A and is incorporated herein by reference. This summary is qualified in its entirety by reference to the Merger Agreement.

### The Mergers

The Merger Agreement provides that, following the approval of the Merger Agreement by the shareowners of WPLH, IES and IPC, and the satisfaction or waiver of the other conditions to the Mergers, including obtaining the requisite regulatory approvals and, if the Utilities Reincorporation Merger is to be effected, the redemption of the then issued and outstanding shares of Utilities Preferred Stock, either the IES Merger and the IPC Direct Merger will be effected or the IPC Reincorporation Merger, the IES Merger, the IPC Merger and the Utilities Reincorporation Merger will be effected.

If the Merger Agreement is approved by the shareowners of WPLH, IES and IPC, and the other conditions to the Mergers are satisfied or waived, the closing of the Mergers (the "Closing") will take place on the second business day immediately following the date on which the last of the conditions referred to below under "— Conditions to Each Party's Obligation to Effect the Merger" is fulfilled or waived, or at such time and date as WPLH, IES and IPC shall mutually agree (the "Closing Date"). On or after the Closing Date, (i) the IES Merger will become effective at the Effective Time, as specified in the articles of merger filed by WPLH with the Secretaries of State of the States of Wisconsin and Iowa and (ii) the IPC Direct Merger will become effective at the Effective Time, as specified in the articles of merger filed by IPC with the Secretaries of State of the States of Delaware and Wisconsin. It is intended that both the IES Merger and the IPC Direct Merger will be effected simultaneously. If the

IPC Reincorporation Merger and the Utilities Reincorporation Merger are deemed by the parties to be required for regulatory purposes, (i) the IES Merger will become effective at the time specified in the articles of merger filed by WPLH with the Secretaries of State of the States of Wisconsin and Iowa, (ii) the IPC Reincorporation Merger will become effective at the IPC Reincorporation Effective Time, as specified in the articles of merger and certificate of merger filed by New IPC with the Secretaries of State of the States of Wisconsin and Delaware, (iii) the IPC Merger will become effective at the time specified in the articles of merger filed by New IPC with the Secretary of State of the State of Wisconsin, and (iv) the Utilities Reincorporation Merger will become effective at the time specified in the articles of merger filed by New Utilities with the Secretaries of State of the States of Wisconsin and Iowa. If the IPC Reincorporation Merger and the Utilities Reincorporation Merger are to be consummated, it is intended that the IES Merger, the IPC Merger and the Utilities Reincorporation Merger would be effected simultaneously after the IPC Reincorporation Effective Time.

Subject to the condition that the opinions from Merrill Lynch, Morgan Stanley and Salomon Brothers as to the fairness of the IES Ratio and IPC Ratio to WPLH and to the holders of IES Common Stock and IPC Common Stock, respectively, shall not have been withdrawn, WPLH, IES and IPC have agreed in the Merger Agreement to call, give notice of, convene and hold a meeting of their respective shareowners as soon as reasonably practicable for the purpose of securing their approval to the Mergers.

*Consummation of the Mergers.* Upon the consummation of the Mergers:

- Each share of IES that is owned by IES, WPLH or IPC or any of their respective subsidiaries ("IES Cancelled Shares") will be cancelled and will cease to exist.
- Each share of IPC or New IPC that is owned by IES, WPLH or IPC or any of their respective subsidiaries ("IPC Cancelled Shares") will be cancelled and will cease to exist.
- Each issued and outstanding share of IES Common Stock, other than IES Cancelled Shares and IES Dissenting Shares, will be converted into the right to receive 1.01 shares of Interstate Energy Common Stock (as adjusted from 0.98 to reflect satisfaction of the McLeod Contingency) in the IES Merger.
- In the IPC Direct Merger, each issued and outstanding share of IPC Common Stock, other than IPC Cancelled Shares, will be converted into the right to receive 1.11 shares of Interstate Energy Common Stock.
- In the IPC Direct Merger, each issued and outstanding share of IPC Preferred Stock, other than IPC Dissenting Shares, will be unchanged (including with respect to the additional voting rights proposed to be approved at the IPC Meeting) as a result of the IPC Direct Merger and will remain outstanding thereafter.
- IES Dissenting Shares will be cancelled and converted into such consideration as may be due with respect to such shares pursuant to the applicable provisions of the IBCA, unless and until the right of such holder to receive fair value for such IES Dissenting Shares terminates in accordance with the IBCA, in which case such shares will cease to be IES Dissenting Shares and will represent the right to receive Interstate Energy Common Stock pursuant to the Merger Agreement.
- If the IPC Reincorporation Merger is consummated, each issued and outstanding share of IPC Common Stock, other than IPC Cancelled Shares, will be converted into an equal number of shares of New IPC Common Stock.
- If the IPC Reincorporation Merger is consummated, each issued and outstanding share of IPC Preferred Stock, other than IPC Dissenting Shares, will be converted into an equal number of shares of New IPC Preferred Stock.

- If the IPC Merger is consummated, each issued and outstanding share of New IPC Common Stock, other than IPC Cancelled Shares, will immediately be converted into the right to receive 1.11 shares of Interstate Energy Common Stock.
- If the IPC Merger is consummated, each issued and outstanding share of New IPC Preferred Stock, other than IPC Dissenting Shares, will be unchanged as a result of the IPC Merger and will remain outstanding thereafter.
- IPC Dissenting Shares will be cancelled and converted into such consideration as may be due with respect to such shares pursuant to the applicable provisions of the DGCL, unless and until the right of such holder to receive fair value for such IPC Dissenting Shares terminates in accordance with the DGCL, in which case such shares will cease to be IPC Dissenting Shares and will either represent the right to receive New IPC Preferred Stock or remain as IPC Preferred Stock, as the case may be, pursuant to the Merger Agreement.
- If the Utilities Reincorporation Merger is consummated, each issued and outstanding share of Utilities Common Stock will be converted into an equal number of shares of New Utilities Common Stock.
- Upon the conversions of the IES Common Stock in the IES Merger and the IPC Common Stock in the IPC Direct Merger or, in the alternative, the New IPC Common Stock in the IPC Merger, except for IES Dissenting Shares, all such shares of IES Common Stock and IPC Common Stock or New IPC Common Stock, as the case may be, will be cancelled and cease to exist, and each holder thereof will cease to have rights with respect thereto, except the right to receive the shares of Interstate Energy Common Stock and any cash in lieu of fractional shares of Interstate Energy Common Stock to be issued in consideration therefor.
- Each issued and outstanding share of WPLH Common Stock will remain outstanding and unchanged as a result of the Mergers and will remain as one share of Interstate Energy Common Stock.

Based upon the capitalization of WPLH, IES and IPC on November 10, 1995, and the IES Ratio of 1.01 shares of Interstate Energy Common Stock per share of IES Common Stock and the IPC Ratio of 1.11 shares of Interstate Energy Common Stock per share of IPC Common Stock, holders of WPLH Common Stock, as a group, IES Common Stock, as a group, and IPC Common Stock, as a group, would have held 43.3%, 41.7% and 15.0% of the common equity of Interstate Energy if the Mergers had been consummated as of such date.

Based on the capitalization of WPLH, IES and IPC on July 10, 1996, and the IES Ratio and the IPC Ratio, holders of WPLH Common Stock, as a group, IES Common Stock, as a group, and IPC Common Stock, as a group, would have held 43%, 42.2% and 14.8% of the common equity of Interstate Energy if the Mergers had been consummated as of such date.

If any holder of IES Common Stock or IPC Common Stock would be entitled to receive a number of shares of Interstate Energy Common Stock that includes a fraction, then in lieu of a fractional share, such holder will be entitled to receive a cash payment in an amount determined by multiplying the fractional share interest by the average of the last reported sales price, regular way, per share of WPLH Common Stock on the NYSE for the ten business days prior to and including the last business day prior to the Effective Time on which shares of IES Common Stock and IPC Common Stock were traded on the NYSE, without any interest thereon.

As soon as practicable after the Effective Time, a company mutually acceptable to WPLH, IES and IPC (the "Exchange Agent") will mail to each holder of record of a Certificate which immediately prior to the Effective Time (or, if applicable, the IPC Reincorporation Effective Time) represented outstanding shares of IES Common Stock or IPC Common Stock that were cancelled and became instead the right to receive shares of Interstate Energy Common Stock and a letter of transmittal and instructions for use in effecting the surrender of the Certificates for certificates representing shares of

Interstate Energy Common Stock. Upon surrender of a Certificate to the Exchange Agent for cancellation, together with a duly executed letter of transmittal and such other documents, if any, as the Exchange Agent may require, the holder of such Certificate will be entitled to receive a certificate representing that number of whole shares of Interstate Energy Common Stock and any cash in lieu of fractional shares of Interstate Energy Common Stock which such holder has the right to receive pursuant to the provisions of the Merger Agreement. Until surrendered, each Certificate will be deemed at any time after the Effective Time to represent only the right to receive upon surrender the certificate representing shares of Interstate Energy Common Stock and cash in lieu of any fractional share of Interstate Energy Common Stock.

The letter of transmittal may, at the option of Interstate Energy, provide for the ability of a holder of one or more Certificates to elect that the shares of Interstate Energy to be received in exchange for the shares of IES Common Stock and/or IPC Common Stock formerly represented by such surrendered Certificates be issued in uncertificated form or to elect that such shares be credited to an account established for such holder under the WPLH DRIP, which will become the Interstate Energy DRIP following the Effective Time.

No dividends or other distributions declared or made after the Effective Time with respect to shares of Interstate Energy Common Stock with a record date after the Effective Time will be paid to the holder of any unsurrendered Certificate and no cash payment in lieu of fractional shares will be paid to any such holder until such Certificate is surrendered. After such surrender, subject to applicable law, there will be paid to such holder, without interest, the unpaid dividends and distributions, and any cash payment in lieu of a fractional share, to which such holder is entitled.

Certificates which immediately prior to the Effective Time represented shares of WPLH Common Stock need not be exchanged and will be deemed to represent a like number of shares of Interstate Energy Common Stock from and after the Effective Time. Certificates which immediately prior to the Effective Time represented shares of IPC Preferred Stock also need not be exchanged and will, except for IPC Dissenting Shares, continue to represent IPC Preferred Stock, or, if applicable, will be deemed to represent a like number of shares of New IPC Preferred Stock, from and after the Effective Time.

**HOLDERS OF IES COMMON STOCK AND IPC COMMON STOCK SHOULD NOT SEND IN THEIR CERTIFICATES UNTIL THEY RECEIVE A LETTER OF TRANSMITTAL. SHAREOWNERS OF WPLH AND HOLDERS OF IPC PREFERRED STOCK NEED NOT EXCHANGE THEIR CERTIFICATES.**

#### **Subsidiaries and Joint Ventures**

The Merger Agreement designates the majority-owned subsidiaries of WPLH, IES and IPC, respectively, as "WPLH Subsidiaries," "IES Subsidiaries" and "IPC Subsidiaries" (which are collectively referred to as "Subsidiaries"). The remaining subsidiaries, joint venture interests and investments of WPLH, IES and IPC are referred to as "WPLH Joint Ventures," "IES Joint Ventures" and "IPC Joint Ventures," respectively. The representations, warranties and covenants of WPLH, IES and IPC in the Merger Agreement apply only to the parties themselves and their Subsidiaries.

#### **Representations and Warranties**

The Merger Agreement contains customary representations and warranties by each of WPLH, IES and IPC relating to, among other things, (a) their respective organizations, the organization of their respective Subsidiaries and similar corporate matters; (b) their respective capital structures; (c) authorization, execution, delivery, performance and enforceability of the Merger Agreement and related matters; (d) required regulatory approvals; (e) their compliance with applicable laws and agreements; (f) reports and financial statements filed with the SEC and the accuracy of information contained therein; (g) the absence of any material adverse effect on their business, assets, financial condition, results of operations, or prospects; (h) the absence of adverse material suits, claims or proceedings, and other litigation issues; (i) the accuracy of information supplied by each of WPLH, IES and IPC for use in the Joint Registration Statement of which this Joint Proxy Statement/

Prospectus forms a part; (j) tax matters; (k) retirement and other employee benefit plans and matters relating to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"); (l) labor matters; (m) compliance with all applicable environmental laws, possession of all material environmental, health, and safety permits and other environmental issues; (n) the regulation of WPLH, IES and IPC and their subsidiaries as public utilities in specified states; (o) the shareowner vote required in connection with the Merger Agreement and the transactions contemplated thereby (as set forth in this Joint Proxy Statement/Prospectus) being the only vote required; (p) that neither WPLH, IES and IPC or any of their respective affiliates have taken or agreed to take any action that would prevent the Mergers as being accounted for as a pooling of interests; (q) the inapplicability of certain provisions of applicable state law relating to changes in control; (r) the delivery of fairness opinions by Merrill Lynch in the case of WPLH, Morgan Stanley in the case of IES, and Salomon Brothers in the case of IPC; (s) the maintenance of adequate insurance and (t) the absence of ownership of each other's stock. In addition, each of WPLH and IES provides representations with respect to their respective shareowner rights plans not being triggered by the consummation of the Mergers and with respect to the operations of their nuclear facilities.

#### Certain Covenants

Pursuant to the Merger Agreement, each of WPLH, IES and IPC have agreed that, during the period from the date of the Merger Agreement until the Effective Time, except as permitted by the Merger Agreement (including the disclosure schedules thereto) or the Stock Option Agreements, or as otherwise consented to in writing by the other parties, it will (and will cause its Subsidiaries to), subject to certain exceptions specified therein, among other things: (a) carry on its business in the ordinary course consistent with prior practice; (b) not declare or pay any dividends on or make other distributions in respect of any of its capital stock, other than to such party or its wholly-owned subsidiaries, dividends required to be paid on any IES Preferred Stock (no shares of which are currently outstanding), Utilities Preferred Stock, WP&L Preferred Stock or IPC Preferred Stock, and regular quarterly dividends to be paid on WPLH Common Stock not to exceed in any fiscal year 105% of the dividends for the prior fiscal year, and regular quarterly dividends to be paid on IES Common Stock and IPC Common Stock not to exceed in any fiscal year 100% of the dividends for the prior fiscal year; (c) not effect certain other changes in its capitalization other than redeeming any series of IES Preferred Stock, Utilities Preferred Stock, WP&L Preferred Stock or IPC Preferred Stock, as required by their respective terms, or in connection with a refunding of preferred stock at a lower cost of funds, or if necessary to facilitate the transactions contemplated by the Merger Agreement; (d) not issue or encumber any capital stock, rights, warrants, options or convertible or similar securities other than (i) issuances pursuant to the Stock Option Agreements, (ii) issuances pursuant to the benefit plans relating to certain WPLH Subsidiaries; (iii) intercompany issuances, (iv) issuances in connection with refunding preferred stock with preferred stock or debt at a lower cost of funds, (v) issuances in connection with dividend reinvestment plans or shareowner rights plans, as applicable, and (vi) up to 450,000 shares of IES Common Stock, 1,000,000 shares of WPLH Common Stock and 200,000 shares of IPC Common Stock to be issued for general corporate purposes, including issuances in connection with acquisitions and financings and issuances pursuant to employee benefit plans, stock option and other incentive compensation plans and directors' plans; (e) not amend its articles of incorporation, by-laws or regulations or similar corporate documents; (f) not engage in material acquisitions in excess of \$10,000,000 in the case of each of WPLH and IES or \$5,000,000 in the case of IPC in the aggregate over the amounts budgeted or forecasted by each such party; (g) not enter into any written commitments for the purchase of sulfur dioxide emission allowances as provided for by the Clean Air Act Amendments of 1990 in excess of an aggregate of \$1,000,000 in the case of WPLH, \$500,000 in the case of IES and \$250,000 in the case of IPC; (h) not make any capital expenditures in excess of \$50,000,000 in the case of WPLH, \$80,000,000 in the case of IES and \$16,000,000 in the case of IPC in the aggregate over the amounts budgeted by each such party for capital expenditures; (i) not sell, lease, encumber or otherwise dispose of material assets in an aggregate amount equalling or exceeding \$10,000,000 in the case of each of WPLH and IES and \$2,000,000 in the case of IPC, other than planned or ordinary course of business dispositions and encumbrances; (j) not incur indebtedness (or

guarantees thereof), other than (i) short-term indebtedness in the ordinary course of business consistent with prior practice, (ii) long-term indebtedness not aggregating more than \$40,000,000 in the case of WPLH, \$60,000,000 in the case of IES and \$20,000,000 in the case of IPC; (iii) arrangements between such party and its Subsidiaries or among its Subsidiaries, (iv) in connection with the refunding of existing indebtedness at a lower cost of funds, or (v) in connection with any permitted refunding of preferred stock; (k) not enter into, adopt or amend or increase the amount or accelerate the payment or vesting of any benefit or amount payable under, any employee benefit plan or other agreement, commitment, arrangement, plan or policy, except for normal increases in the ordinary course of business consistent with past practice that, in the aggregate, do not result in a material increase in benefits or compensation expense to such party or any of its Subsidiaries; (l) not engage in any activity which would cause a change in its status under the 1935 Act; (m) not commence construction of or obligate itself to purchase any additional generating, transmission or delivery capacity in an amount in excess of \$30,000,000 in the case of WPLH, \$80,000,000 in the case of IES and \$16,000,000 in the case of IPC, other than in the ordinary course of business consistent with past practice or pursuant to tariffs on file with the FERC or as budgeted or forecasted; (n) not make any material change in their accounting methods other than as required by law or in accordance with generally accepted accounting principles; (o) not take any action to prevent Interstate Energy from accounting for the business combination to be effected by the Mergers as a pooling of interests; (p) not take any action that would adversely affect the status of the Mergers as a tax-free transaction; (q) not enter into agreements with affiliates (other than wholly-owned Subsidiaries) other than on an arm's-length basis; (r) cooperate with the other parties, provide reasonable access to its books and records and notify the other parties of any significant changes; (s) use all commercially reasonable efforts to obtain certain third-party consents to the Mergers; (t) not take any action that would or is reasonably likely to result in a material breach of any provision of the Merger Agreement or the Stock Option Agreements or cause any of the representations and warranties therein to be untrue on or as of the Closing Date; (u) not take any action that is likely to jeopardize the qualification of WP&L's, Utilities' or IPC's outstanding revenue bonds as tax-exempt industrial revenue bonds; (v) create a joint transition steering team to examine alternatives to effect the integration of the parties after the Effective Time; (w) take, and cause their Subsidiaries to take, only those actions that are required, permitted or contemplated by the Merger Agreement from the date thereof to the Effective Time; (x) refrain from taking specified actions relating to certain tax matters; (y) not discharge or satisfy any claims, liabilities or obligations, other than discharges in the ordinary course of business or in accordance with their terms, of liabilities reflected in the most recent consolidated financial statements; (z) not, except in the ordinary course of business, change the status of any of its material contracts or agreements or waive or release or assign any material rights or claims; and (aa) maintain adequate insurance and use reasonable efforts to maintain all existing governmental permits.

The parties also agreed in the Merger Agreement that, prior to the Closing Date, (a) WPLH and IPC will take all actions necessary so the WPLH Charter Amendments become effective no later than the Effective Time and the IPC Charter Amendment becomes effective prior to the Effective Time; and (b) IES will amend its rights agreement to terminate no later than the Effective Time.

The Merger Agreement provides that if the parties are unable to obtain the necessary statutory approvals and other third-party consents which are necessary to effect the strategic combination of WPLH, IES and IPC in the form contemplated by the Merger Agreement, and the adoption of an alternative structure (that otherwise substantially preserves for WPLH, IES and IPC the economic benefits of the Mergers) would result in such conditions being satisfied or waived, then the parties shall use their respective best efforts to effect a business combination among themselves by means of a mutually agreed upon structure other than the Mergers that so preserves such benefits.

#### **No Solicitation of Transactions**

The Merger Agreement provides that no party thereto will, and each such party will cause its Subsidiaries not to, and each such party will not permit any of its officers, directors, employees, accountants, counsel, investment bankers, financial advisors and other representatives (collectively,



"Representatives") to, and each such party will use its best efforts to cause such persons not to, directly or indirectly: initiate, solicit or encourage, or take any action to facilitate the making of any offer or proposal which constitutes or is reasonably likely to lead to, any Business Combination Proposal (as defined herein), or, in the event of an unsolicited Business Combination Proposal, except to the extent required by their fiduciary duties under applicable law if so advised in a written opinion of outside counsel, engage in negotiations or provide any information or data to any person relating to any Business Combination Proposal. As used above, "Business Combination Proposal" means any tender or exchange offer, proposal for a merger, consolidation or other business combination involving any party to the Merger Agreement or any of its material Subsidiaries, or any proposal or offer (in each case, whether or not in writing and whether or not delivered to the shareowners of a party generally) to acquire in any manner, directly or indirectly, a substantial equity interest in or a substantial portion of the assets of any party to the Merger Agreement, or any of its material Subsidiaries, other than pursuant to the transactions contemplated by the Merger Agreement.

#### **Interstate Energy Board of Directors**

The Merger Agreement provides that the WPLH Board, the IES Board and the IPC Board will take such action as may be necessary to cause the number of directors comprising the full Interstate Energy Board at the Effective Time to be fifteen persons. The directors will be divided into three classes (hereafter referred to as "Class I," "Class II" and "Class III") of five directors each. Class I directors will be appointed for a term expiring at the first annual meeting of the shareowners of Interstate Energy following the Effective Time, Class II directors will be appointed for a term expiring at the second annual meeting of shareowners of Interstate Energy following the Effective Time, and Class III directors will be appointed for a term expiring at the third annual meeting of shareowners of Interstate Energy following the Effective Time, and in each case until their respective successors have been duly elected and qualified. Prior to the Effective Time, WPLH and IES will each designate two directors and IPC will designate one director for each of Classes I and II. Class III directors will consist of Mr. Liu, Mr. Davis and Mr. Stoppelmoo, as well as two additional directors, one of whom will be designated by each of WPLH and IES prior to the Effective Time. Directors designated by WPLH, IES and IPC (including their successors) are hereinafter sometimes referred to as the "WPLH Directors," the "IES Directors" and the "IPC Directors," respectively. To date, WPLH, IES and IPC have not determined who, in addition to Messrs. Liu, Davis and Stoppelmoo, will be designated to serve on the Interstate Energy Board after the Effective Time. If after their selection and prior to the Effective Time, any of such designees shall decline or be unable to serve, the party that designated such person shall designate another person to serve in such person's stead.

The Merger Agreement also provides that for a period commencing with the Effective Time and expiring on the date of the third annual meeting of the shareowners of the Company following the Effective Time, the WPLH, IES and IPC Directors (each as a separate group) will be entitled to nominate those persons who will be eligible to be appointed, elected or reelected as WPLH, IES and IPC Directors, respectively. The WPLH Board, the IES Board and the IPC Board will also take such action as may be necessary to cause the Nominating, Audit and Compensation Committees of the Interstate Energy Board at the Effective Time to consist proportionately (to the extent reasonably practicable) of designees of each of WPLH, IES and IPC.

The Merger Agreement further provides that for a period of five years following the Effective Date, no person who is an executive officer or employee of Interstate Energy or any of its subsidiaries will be eligible to serve as a director of Interstate Energy except for Messrs. Liu, Davis and Stoppelmoo. However, if Mr. Davis is not then serving as Chief Executive Officer of Interstate Energy, the person serving in such capacity will be eligible to serve as a director of Interstate Energy.

#### **Indemnification**

The Merger Agreement provides that, to the extent, if any, not provided by an existing right of indemnification or other agreement or policy, from and after the Effective Time, Interstate Energy will, to the fullest extent permitted by applicable law, indemnify, defend and hold harmless each person who was at, or who had been at any time prior to, the date of the Merger Agreement, or who becomes prior to the Effective Time, an officer, director or employee of any of the parties thereto or

any subsidiary (the "Indemnified Parties") against all losses, expenses (including reasonable attorney's fees and expenses), claims, damages or liabilities or, subject to the proviso of the next succeeding sentence, amounts paid in settlement, arising out of actions or omissions occurring at or prior to the Effective Time (and whether asserted or claimed prior to, at or after the Effective Time) that are, in whole or in part, based on or arising out of the fact that such person is or was a director, officer or employee of such party, and all such indemnified liabilities to the extent they are based on arise out of or pertain to the transactions contemplated by the Merger Agreement. In the event of any such loss, expense, claim, damage or liability (whether or not arising before the Effective Time), (i) Interstate Energy will pay the reasonable fees and expenses of counsel selected by the Indemnified Parties, which counsel will be reasonably satisfactory to Interstate Energy and otherwise advance to such Indemnified Party upon request reimbursement of documented expenses reasonably incurred, (ii) Interstate Energy will cooperate in the defense of any such matter and (iii) any determination required to be made with respect to whether an Indemnified Party's conduct complies with the standards set forth under Wisconsin law and the Interstate Energy Charter or the Interstate Energy Bylaws will be made by independent counsel mutually acceptable to Interstate Energy and the Indemnified Party; *provided, however*, that Interstate Energy will not be liable for any settlement effected without its written consent (which consent shall not be unreasonably withheld). The Merger Agreement further provides that the Indemnified Parties as a group may retain only one law firm with respect to each unrelated matter except to the extent there is, in the opinion of counsel to an Indemnified Party, under applicable standards of professional conduct, a conflict on any significant issue between positions of such Indemnified Party and any other Indemnified Party or Indemnified Parties.

In addition, the Merger Agreement requires that for a period of six years after the Effective Time, Interstate Energy will cause to be maintained in effect policies of directors' and officers' liability insurance maintained by WPLH, IES and IPC for the benefit of those persons who were covered by such policies as of the date of the Merger Agreement on terms no less favorable than the terms of such insurance coverage, *provided* that Interstate Energy will not be required to expend in any year an amount in excess of 150% of the annual aggregate premiums currently paid by WPLH, IES and IPC for such insurance and, *provided further* that if the annual premiums of such insurance coverage exceed such amount, Interstate Energy shall be obligated to obtain a policy with the best coverage available, in the reasonable judgment of the Interstate Energy Board, for a cost not exceeding such amount. Also, the Merger Agreement provides that to the fullest extent allowed by law, from and after the Effective Time, all rights to indemnification existing in favor of the employees, agents, directors and officers of WPLH, IES and Interstate and their respective subsidiaries with respect to their activities as such prior to the Effective Time, as provided in their respective articles of incorporation and bylaws in effect on the date of the Merger Agreement or otherwise in effect on the date of the Merger Agreement will survive the Mergers and will continue in full force and effect for a period of not less than six years from the Effective Time.

#### Conditions to Each Party's Obligation to Effect the Mergers

The respective obligations of WPLH, IES and IPC to effect the Mergers are subject to the following conditions: (a) the approval of the Merger Agreement and the transactions contemplated thereby by the shareowners of WPLH, IES and IPC, the approval of the IPC Charter Amendment by the shareowners of IPC and the approval of the WPLH Charter Amendments by the shareowners of WPLH; (b) no temporary restraining order, preliminary or permanent injunction or other order by any federal or state court shall be in effect that prevents consummation of the Mergers; (c) the Joint Registration Statement shall have become effective in accordance with the provisions of the Securities Act and shall not be the subject of a stop order suspending such effectiveness; (d) the shares of Interstate Energy Common Stock issuable in connection with the Merger shall have been authorized for listing on the NYSE, upon official notice of issuance; (e) the receipt of all material governmental authorizations, consents, orders or approvals which do not impose terms or conditions which could reasonably be expected to have a material adverse effect on Interstate Energy; (f) the receipt by each of WPLH, IES and IPC of letters from their independent accountants stating that the business combination to be effected by the Mergers will qualify as a pooling of interests transaction under generally accepted accounting principles and applicable SEC regulations; (g) the performance in all

material respects of all obligations of the other parties required to be performed under the Merger Agreement and the Stock Option Agreements; (h) the accuracy of the representations and warranties of the other parties set forth in the Merger Agreement as of the date of the Merger Agreement and as of the Closing Date (except as would not reasonably be likely to result in a material adverse effect); (i) WPLH, IES and IPC having received officers' certificates from each other stating that certain conditions set forth in the Merger Agreement have been satisfied; (j) there having been no material adverse effect on the business, assets, financial condition, results of operations or prospects of the other parties and their subsidiaries taken as a whole; (k) the receipt of tax opinions from counsel to each party to the effect that the Mergers will be treated as tax-free reorganizations under Section 368(a) of the Code; (l) the receipt by the other parties of certain material third-party consents; and (m) the receipt by Interstate Energy of letter agreements relating to trading in securities of WPLH, IES and IPC (substantially in the form attached as an exhibit to the Merger Agreement), duly executed by each affiliate of the other party.

In addition, the Merger Agreement provides that it shall be a condition to the obligations of WPLH to hold the WPLH Meeting that the opinion of Merrill Lynch attached hereto as Annex L shall not have been withdrawn, it shall be a condition to the obligation of IES to hold the IES Meeting that the opinion of Morgan Stanley attached hereto as Annex M shall not have been withdrawn, and it shall be a condition to the obligation of IPC to hold the IPC Meeting that the opinion of Salomon Brothers attached hereto as Annex N shall not have been withdrawn.

At any time prior to the Effective Time, to the extent permitted by applicable law, the conditions to the obligations of each of WPLH, IES or IPC to consummate the Mergers may be waived in writing by such party. Any determination to waive a condition would depend upon the facts and circumstances existing at the time of such waiver and would be made by the waiving party's Board of Directors, exercising its fiduciary duties to its shareowners. No shareowner approval will be required or sought for any such waiver; a shareowner's approval of the Merger Agreement constitutes approval of such waivers as may be granted by the Board of Directors in its discretion. See " — Amendment and Waiver."

#### **Benefit Plans**

Except for the benefit plans referred to in the immediately following paragraph, each of the benefit plans of WPLH, IES and IPC in effect as of the date of the Merger Agreement will be continued for the employees or former employees of WPLH, IES and IPC and any of their Subsidiaries who are covered by such plans immediately prior to the Closing Date, until Interstate Energy otherwise determines after the Effective Time (subject to any reserved right contained in any such benefit plan to amend, modify, suspend, revoke or terminate such plan). To the extent certain of such benefit plans are not continued, Interstate Energy or its subsidiaries have agreed to provide, for at least one year following the Effective Time, benefits which are no less favorable in the aggregate than the benefits provided under the affected WPLH, IES or IPC benefit plans. Each participant in a WPLH, IES or IPC benefit plan shall receive credit for purposes of eligibility to receive benefits under, vesting and benefit accrual under an Interstate Energy benefit plan for service credited for the corresponding purpose under such benefit plan. Any employee first hired after the Closing Date will be eligible to participate in any benefit plan maintained, or contributed to, by the subsidiary, division or operation employing such person, so long as such person meets the eligibility requirements of such plan.

Prior to the Effective Time, (i) each outstanding option to purchase shares of IES Common Stock under an IES stock plan (each an "IES Stock Option") along with any tandem stock appreciation right, will constitute an option to acquire on the same terms and conditions as were applicable under such option (subject to the adjustments necessary to give effect to the IES Merger), shares of Interstate Energy Common Stock based on the same number of shares of Interstate Energy Common Stock as the holder of such IES Stock Option would have been entitled to receive pursuant to the IES Merger had such holder exercised such option in full immediately prior to the Effective Time and (ii) each

other outstanding award under an IES stock plan (each an "IES Stock Award") will constitute an award based upon the same number of shares of Interstate Energy Common Stock as the holder of such IES Stock Award would have been entitled to receive pursuant to the IES Merger had such holder been the owner, immediately before the Effective Time of the shares of IES Common Stock on which such IES Stock Award is based, and otherwise on the same terms and conditions as governed such IES Stock Award immediately before the Effective Time.

#### Termination

The Merger Agreement may be terminated at any time prior to the Closing Date, whether before or after approval by the shareowners of WPLH, IES and IPC: (a) by mutual written consent of WPLH, IES and IPC; (b) by any party thereto, by written notice to the other parties, if the Effective Time shall not have occurred on or before May 10, 1997 (which date shall be extended to May 10, 1998 if the required statutory approvals and consents have not been obtained by May 10, 1997, but all other conditions to Closing shall be, or shall be capable of being fulfilled); *provided, however*, that such right to terminate the Merger Agreement will not be available to any party whose failure to fulfill any obligation under the Merger Agreement has been the cause of, or resulted in, the failure of the Effective Time to occur on or before that date; (c) by any party thereto if any required shareowner approval was not obtained at a duly held meeting of shareowners or at any adjournment thereof; (d) by any party thereto, if any state or federal law, order, rule or regulation is adopted or issued, which has the effect of prohibiting the Mergers, or any court of competent jurisdiction in the U.S. or any state shall have issued an order, judgment or decree permanently restraining, enjoining or otherwise prohibiting the Mergers, and such order, judgment or decree shall have become final and nonappealable; (e) by WPLH, IES or IPC upon two days' prior notice to the other parties, if, as a result of a tender offer by a person other than the other parties, or any of their affiliates, or any written offer or proposal with respect to a merger of such party, sale of a material portion of such party's assets or other business combination involving such party (each, a "Business Combination") by a person other than the other parties, or any of their affiliates, the Board of Directors of such party determines in good faith that its fiduciary obligations under applicable law require that such tender offer or other written offer or proposal be accepted; *provided, however*, that (i) the Board of Directors of such party has been advised in writing by outside counsel that notwithstanding a binding commitment to consummate an agreement of the nature of the Merger Agreement entered into in the proper exercise of their applicable fiduciary duties and notwithstanding all concessions which may be offered by the other parties, such fiduciary duties would also require the directors to reconsider such commitment as a result of such tender offer or other written offer or proposal; and (ii) prior to any such termination, such party shall, and shall cause its respective financial and legal advisors to, negotiate with the other parties to make such adjustments in the terms and conditions of the Merger Agreement as would enable such party to proceed with the transactions contemplated thereby on such adjusted terms, or (f) by either WPLH, IES or IPC, by written notice to the other parties, if (i) there exist breaches of the representations and warranties on the part of either of the other parties made in the Merger Agreement or the Stock Option Agreements as of the date thereof which breaches, individually or in the aggregate, would or would be reasonably likely to result in a material adverse effect on the business, assets, financial condition, results of operations or prospects of such other party and its subsidiaries taken as a whole, and such breaches shall not have been remedied within 20 days after receipt by the breaching party of notice in writing from the non-breaching party or parties, specifying the nature of such breaches and requesting that they be remedied; (ii) either of the other parties (and/or their appropriate Subsidiaries) has not performed and complied in all respects with certain agreements and covenants relating to the absence of changes in capitalization or issuance of securities or has failed to perform and comply, in all material respects, with its other agreements and covenants under the Merger Agreement or under the Stock Option Agreements, and such failure to perform or comply has not been remedied within 20 days after receipt by the breaching party of notice in writing from the non-breaching party, specifying the nature of such failure and requesting that it be remedied, or (iii) the Board of Directors of either of the other parties or any committee thereof (A) shall withdraw or modify in any manner adverse to such party its approval or recommendation of the Merger Agreement

or the Mergers, (B) shall fail to reaffirm such approval or recommendation upon such party's request, (C) shall approve or recommend any acquisition of either of the other parties or a material portion of their assets or any tender offer for either of the other parties' common stock, in each case by a party other than such party or any of its affiliates or (D) shall resolve to take any of the actions specified in clause (A), (B), or (C).

In the event of termination of the Merger Agreement by either WPLH, IES or IPC as provided above, there shall be no liability or obligation on the part of WPLH, IES or IPC or their respective officers or directors thereunder other than: to hold in strict confidence all documents furnished to the other in accordance with the Confidentiality Agreement, dated September 19, 1995, as may be amended from time to time (the "Confidentiality Agreement"); to pay certain fees and expenses pursuant to certain specified provisions of the Merger Agreement described below under "— Termination Fees" and "— Expenses"; and to comply with certain other specified provisions of the Merger Agreement.

The Merger Agreement does not provide for any modification in the Ratios due to changes in the operating results, financial condition or trading prices of the WPLH Common Stock, IES Common Stock or IPC Common Stock between the time of the execution of the Merger Agreement and the consummation of the transactions contemplated thereby.

#### Termination Fees

The Merger Agreement provides that if the Merger Agreement is terminated at such time as it is terminable by WPLH, IES or IPC (but not all three) for breaches of any representations or warranties contained in the Merger Agreement as of the date thereof, or of agreements and covenants contained in the Merger Agreement or the Stock Option Agreements, pursuant to the provisions of the Merger Agreement described in clauses (f)(i) and (f)(ii) under "— Termination" above, then if such breach is not willful, each non-breaching party is entitled to reimbursement of its documented out-of-pocket expenses, not to exceed \$5,000,000 per each non-breaching party. In the event of a willful breach, the non-breaching party or parties will be entitled to its or their out-of-pocket expenses and fees (which shall not be limited to \$5,000,000) and any remedies it or they may have at law or in equity, and provided that if, at the time of the breaching party's or parties' willful breach, there shall have been a third-party tender offer or proposal for a Business Combination which has not been rejected by the breaching party or parties or withdrawn by the third party, and within two and one-half years of any termination by the non-breaching party or parties, the breaching party or parties become a subsidiary of such offeror or of an affiliate of such offeror or accept an offer to consummate or consummates a Business Combination with such third party, then such breaching party or parties, upon the closing of such Business Combination, will pay to the non-breaching party or parties an additional aggregate fee equal to \$25,000,000, if WPLH or IES is the breaching party, or \$12,500,000, if IPC is the breaching party.

The Merger Agreement also requires payment of an aggregate termination fee of \$25,000,000, if WPLH or IES is the Target Party (as hereinafter defined), or \$12,500,000, if IPC is the Target Party, together with reimbursement of out-of-pocket expenses, by one party (the "Target Party") to the other parties in the following circumstances: (1) the Merger Agreement is terminated (x) as a result of the acceptance by the Target Party of a third-party tender offer or proposal for a Business Combination, (y) following a failure of the shareowners of the Target Party to grant their approval to the Mergers or (z) as a result of the Target Party's material failure to convene a shareowner meeting, distribute proxy materials and, subject to its Board of Directors' fiduciary duties, recommend the Mergers to its shareowners; (2) at the time of such termination or prior to the meeting of such party's shareowners there has been a third-party tender offer or proposal for a Business Combination which shall not have been rejected by the Target Party or withdrawn by such third party; and (3) within two and one-half years of any such termination described in clause (1) above, the Target Party accepts an

offer to consummate or consummates a Business Combination with such third party. The applicable termination fee and out-of-pocket expenses referred to in the previous sentence will be paid at the closing of such third-party Business Combination.

In addition to the foregoing, if the Merger Agreement is terminated under circumstances that give rise to the payment of the termination fee discussed above by the Target Party referred to above and within nine months of such termination one of the non-terminating parties is acquired by the same third-party offeror, the sole remaining party will be entitled to (i) a second termination fee of \$25,000,000, if WPLH or IES is the second target party, or \$12,500,000 if IPC is the second target party, on the signing of a definitive agreement, or if no such agreement is signed at the closing, relating to such Business Combination, and (ii) payment of any termination fee paid to such second target party by the original terminating party (*i.e.*, the first Target Party) pursuant to the termination of the Merger Agreement. If only one party must pay expenses, or is entitled to receive a termination fee as set forth above, such party will pay or receive one hundred percent (100%) of the applicable expenses or fee. If two parties are required to pay expenses or entitled to receive any such fee, each such party's percentage of such expenses or fee will equal a fraction, the numerator of which shall be, in the case of IES or IPC, the number of shares of Interstate Energy Common Stock which would have been issuable (on a fully diluted basis) to such party's shareowners, or, in the case of WPLH, the number of shares of Interstate Energy Common Stock (on a fully diluted basis) that would have been retained by its shareowners, had the Effective Time occurred at the time the Merger Agreement is terminated, and the denominator of which will be the aggregate number of shares of Interstate Energy Common Stock that would have been issuable to or retained by (in either case on a fully diluted basis) the shareowners of the two parties required to pay expenses or entitled to receive such fee had the Effective Time occurred at the time the Merger Agreement is terminated.

In the event that the Merger Agreement becomes terminable under circumstances in which a termination fee could be payable by one or more parties (the "Payor" or "Payors") pursuant to the immediately preceding paragraph, such event will also constitute a "Trigger Event" under the Stock Option Agreements pursuant to which the Payors issued Options to the other party or parties, so as to entitle the other party or parties to require the Payors to repurchase such Option or the Option Shares (as defined herein) issued upon exercise thereof or to make a Trigger Payment (as defined herein). The termination fees payable by WPLH, IES and/or IPC under the foregoing provisions plus the aggregate amount which could be payable by WPLH, IES and/or IPC under the Stock Option Agreements may not exceed \$40,000,000 (for WPLH or IES) or \$20,000,000 (for IPC) in the aggregate. See "The Stock Option Agreements."

The Merger Agreement further provides that all termination fees constitute liquidated damages and not a penalty and, if one party should fail to pay any termination fee due, the defaulting party shall pay the cost and expenses in connection with any action taken to collect payment, together with interest on the amount of any unpaid termination fee.

#### Expenses

Except as set forth above, all costs and expenses incurred in connection with the Merger Agreement and the transactions contemplated thereby shall be paid by the party incurring such expense, except that those expenses incurred in connection with the printing and filing of this Joint Proxy Statement/Prospectus shall be shared 43% by WPLH, 43% by IES and 14% by IPC.

#### Amendment and Waiver

The Merger Agreement may be amended by the directors of the parties thereto, at any time before or after approval thereof by the shareowners of WPLH, IES and IPC and prior to the Effective Time, but after such approvals no such amendment shall alter or change the amount or kind of shares, rights or manner of conversion of such shares, alter or change any of the terms or conditions of the Merger Agreement if any of the alterations or changes, alone or in the aggregate, would materially adversely affect the rights of holders of WPLH, IES or IPC Common Stock, or alter or change any term of the WPLH, IES or IPC Charters as approved by the shareowners of WPLH, IES or IPC, except for

alterations or changes that could otherwise be adopted by the Interstate Energy Board without the further approval of such shareowners (such as to delete the name and address of a former registered agent or office, to change the registered agent or office or to make certain limited changes in the corporate name). The parties to the Merger Agreement may extend the time for the performance of any of the obligations or other acts of the other parties thereto, waive any inaccuracies in the representations and warranties contained therein or in any document delivered pursuant thereto, and waive compliance with any of the agreements or conditions contained in the Merger Agreement to the extent permitted by law.

#### **Standstill Provisions**

Pursuant to the Confidentiality Agreement, WPLH, IES and IPC have each agreed (other than as contemplated in the Merger Agreement or Stock Option Agreements), that they will not, for a period of two years from the date thereof, (i) acquire or agree to acquire any securities of either or both of the other parties or any warrant or option for such securities or any security convertible into such securities; (ii) make or in any way participate in any solicitation of proxies to vote, or seek to advise or influence any person with respect to the voting of, securities of either or both of the other parties; (iii) otherwise act to seek control or influence the management, Board of Directors or policies of either or both of the other parties; or (iv) make any public request to waive any provision of the Confidentiality Agreement to permit such party to take any action prohibited above.

### **THE STOCK OPTION AGREEMENTS**

The following is a brief summary of the terms of the Stock Option Agreements, copies of which are attached as Annexes B through G and which are incorporated herein by reference. Such summary is qualified in its entirety by reference to the Stock Option Agreements. The Stock Option Agreements are intended to increase the likelihood that the Mergers will be consummated in accordance with the terms of the Merger Agreement. Consequently, certain aspects of the Stock Option Agreements may have the effect of discouraging persons who might now or prior to the Effective Time be interested in acquiring all or a significant interest in, or otherwise effecting a Business Combination with, WPLH, IES or IPC from considering or proposing such a transaction, even if such persons were prepared to offer to pay consideration to shareowners of WPLH, IES or IPC, as the case may be, which had a higher value than the shares of Interstate Energy Common Stock to be received per share of IES or IPC Common Stock or to be retained by holders of WPLH Common Stock, as the case may be, pursuant to the Merger Agreement.

#### **General**

Concurrently with the Merger Agreement, WPLH, IES and IPC entered into the Stock Option Agreements. As holders of Options thereunder (the "Option Holders"), WPLH, IES and IPC have the right, under certain circumstances, to purchase, up to (i) with respect to the Options granted by WPLH (the "WPLH Options"), 6,123,944 shares of WPLH Common Stock; (ii) with respect to the Options granted by IES (the "IES Options"), up to 5,861,115 shares of IES Common Stock; and (iii) with respect to the Options granted by IPC (the "IPC Options"), up to 1,903,293 shares of IPC Common Stock (shares of common stock purchasable pursuant to the WPLH Options, the IES Options and the IPC Options are collectively referred to as the "Option Shares") at an exercise price of \$30.675 per share for the WPLH Common Stock, \$26.7125 per share for the IES Common Stock and \$28.9375 per share for the IPC Common Stock, such prices being equal to the average of the daily closing sale prices for such shares on the NYSE during the ten NYSE trading days prior to the fifth NYSE trading day preceding the date of the Merger Agreement.

The Options may be exercised by an Option Holder, in whole or in part, at any time or from time to time after the Merger Agreement becomes terminable by such Option Holder under circumstances which could entitle such Option Holder to termination fees from the issuer of the Options (the "Option Grantor") as a result of a Trigger Event (as defined in the Stock Option Agreements and described above under "The Merger Agreement — Termination Fees"), regardless of whether the

Merger Agreement is actually terminated or whether there occurs a closing of any Business Combination. If only one Option Holder becomes entitled to exercise its Option as it relates to a specific Option Grantor, the Option will be for 100% of the shares subject thereto. If more than one Option Holder becomes entitled to exercise its Option with respect to a specific Option Grantor, the percentage of the number of shares of the Option Grantor's common stock that the Option Holder may purchase upon exercise of the Option shall be equal to a fraction, the numerator of which will be the number of shares of Interstate Energy Common Stock (on a fully diluted basis) that would have been acquired or retained by the Option Holder's shareowners had the effective time of the Mergers occurred as of the date on which the exercise notice under the Stock Option Agreement is delivered or the date on which demand for a Trigger Payment is given, as the case may be, and the denominator of which will be the aggregate number of shares of Interstate Energy Common Stock that would have been issuable to or retained by (in either case on a fully diluted basis) the shareowners of both of the Option Holders entitled to exercise their respective Options had the effective time of the Mergers occurred as of the date on which the exercise notice is delivered or the date on which demand for a Trigger Payment is given, as the case may be. The exercise price under the Stock Option Agreements may be paid, at the Option Holder's election, either in cash or shares of the common stock of the Option Holder.

The Options will terminate upon the earlier of (i) the Effective Time, (ii) the termination of the Merger Agreement pursuant to its terms (other than a termination under circumstances which would constitute a Trigger Event), or (iii) 180 days following any termination of the Merger Agreement upon or during the continuance of a Trigger Event (or, if at the expiration of such 180-day period the Option cannot be exercised by reason of any applicable judgment, decree, order, law or regulation, ten business days after such impediment to exercise shall have been removed or shall have become final and not subject to appeal, but in no event under this clause (iii) later than May 10, 1998).

Notwithstanding the foregoing, no Option may be exercised (a) if the Option Holder is in material breach of any of its material representations or warranties, or in material breach of any of its covenants or agreements contained in the applicable Stock Option Agreement or in the Merger Agreement, or (b) if a Trigger Payment has been paid pursuant to the applicable Stock Option Agreement or a demand therefor has been made and not withdrawn.

#### **Certain Repurchases and Other Payments**

Under the terms of the Stock Option Agreements, at any time during which the Option is exercisable (the "Repurchase Period"), the Option Holder has the right to require the Option Grantor to repurchase from the Option Holder all or any portion of the Option or, at any time prior to May 10, 1997 (*provided* that such date shall be extended to May 10, 1998 under the circumstances where the date after which any party may terminate the Merger Agreement has been extended to May 10, 1998), all or any portion of the Option Shares purchased by the Option Holder pursuant to the exercise of the Option. The amount that the Option Grantor will pay to the Option Holder to repurchase the Option is the difference between the Market/Offer Price for shares of the Option Grantor's common stock as of the date the Option Holder gives notice of its intent to exercise its rights (the "Notice Date") and the exercise price for the Option, multiplied by the number of Option Shares purchasable pursuant to the Option, or the portion thereof to be so repurchased, but only if the Market/Offer Price is greater than such exercise price. The amount that the Option Grantor will pay to the Option Holder to repurchase the Option Shares is the exercise price paid by the Option Holder for the Option Shares plus the difference between the Market/Offer Price and the exercise price paid by the Option Holder for the Option Shares (but only if the Market/Offer Price is greater than such exercise price), multiplied by the number of Option Shares to be so repurchased. The Stock Option Agreements define "Market/Offer Price" as the higher of (A) the price per share (the "Offer Price") offered as of the Notice Date pursuant to any tender or exchange offer or other Business Combination offer which was made prior to the Notice Date and not terminated or withdrawn as of such date or (B) the Fair Market Value of the Option Grantor's common stock as of the Notice Date (which is defined in the Stock Option Agreements as the average of the daily closing sale price for such shares on the NYSE during the ten NYSE trading days prior to the fifth NYSE trading day preceding such date). The Offer Price



for the repurchase by the Option Grantor of Option Shares purchased by the Option Holder pursuant to the Option is the highest price per share offered pursuant to a tender or exchange offer or other Business Combination offer which was made during the Repurchase Period prior to the Notice Date. At any time prior to May 10, 1997 (which date may be extended to May 10, 1998 under the circumstances described above), the Option Holder may also require the Option Grantor to sell to the Option Holder any shares of the Option Holder's common stock delivered by the Option Holder to the issuer in payment for the exercise price of the Option, at the price attributed to such shares for such purchase plus interest at the rate of 8.75% *per annum* (from the date of the delivery of such shares through the date of such repurchase) less any dividends paid or declared and payable thereon. In addition, the Stock Option Agreements provide that in the event during the Repurchase Period any regulatory approval or order required for the issuance of the Option by the Option Grantor thereof or the acquisition of such Option by the Option Holder has not been obtained, the Option Holder will be entitled to demand an amount in cash (the "Trigger Payment") from the Option Grantor. The Trigger Payment will be equal to the product of the number of shares the Option Holder would have been entitled to receive upon exercise of the Option if the regulatory approvals or orders had been obtained and the difference between the Market/Offer Price determined as of the date notice of demand for the Trigger Payment is given and the exercise price of the Option, but only if the Market/Offer Price is higher than the exercise price. In the event the Trigger Payment is made, the Option Holder will have no right to exercise the Option.

#### Voting

Each party has agreed to vote, until November 10, 2000, any shares of the capital stock of the other party acquired pursuant to the Stock Option Agreements or otherwise beneficially owned by such party on each matter submitted to a vote of shareowners of such other party for and against such matter in the same proportion as the vote of all other shareowners of such other party is voted for and against such matters.

#### Restrictions on Transfer

The Stock Option Agreements provide that, until November 10, 2000, neither party may sell, assign, pledge or otherwise dispose of or transfer the shares it acquires pursuant to the Stock Option Agreements (collectively, the "Restricted Shares") except as described below. In addition to the repurchase rights described above under "— Certain Repurchases and Other Payments," subsequent to the termination of the Merger Agreement, the parties have the right to have such shares of the other party or parties registered under the Securities Act for sale in a public offering. The Stock Option Agreements also provide that, following the termination of the Merger Agreement, any party may sell any Restricted Shares of another party then held by it in response to a tender or exchange offer approved or recommended, or otherwise determined to be fair and in the best interests of the shareowners of the issuer of the Restricted Shares, by a majority of the Board of Directors of the issuer of the Restricted Shares.

#### AMENDMENTS TO WPLH RESTATED ARTICLES OF INCORPORATION

*The information contained in this Joint Proxy Statement/Prospectus with respect to the proposed amendments to the WPLH Charter is qualified in its entirety by reference to the text of the proposed amendments to the Interstate Energy Charter attached hereto as Annex O and incorporated herein by reference.*

Pursuant to the terms of the Merger Agreement, WPLH shareowners are being asked to consider and approve each of the WPLH Charter Amendments, which would amend the WPLH Charter to (i) change the name of WPLH to Interstate Energy Corporation and (ii) increase the number of shares of WPLH Common Stock authorized for issuance from 100,000,000 to 200,000,000. The WPLH Charter as so amended will be the Interstate Energy Charter at the Effective Time and until thereafter amended in accordance with the WBCL and the Interstate Energy Charter.

The WPLH Board unanimously recommends a vote FOR approval of the WPLH Charter Amendments. Approval of each of the WPLH Charter Amendments is a condition to consummation of the Mergers. If approved by WPLH shareowners, each of the WPLH Charter Amendments will not become effective until immediately prior to or concurrent with the Effective Time. If, after WPLH shareowner approval of each of the WPLH Charter Amendments, the Mergers are not consummated, WPLH will not file the WPLH Charter Amendments with the Wisconsin Secretary of State and the WPLH Charter Amendments will therefore not become effective.

#### **Name Change Amendment**

Pursuant to the Merger Agreement, WPLH agreed to change its name to Interstate Energy Corporation. Each of WPLH, IES and IPC believes that the new name reflects the nature of the merged company as a multi-state utility holding company. Changing WPLH's name does not substantively or otherwise alter any of the rights of WPLH shareowners.

The affirmative vote of a majority of the votes entitled to be cast by the holders of the shares of WPLH Common Stock represented at the WPLH Meeting and entitled to vote thereon is required for approval of the Name Change Amendment.

#### **Common Stock Amendment**

As of the WPLH Record Date, of the 100,000,000 shares of WPLH Common Stock presently authorized, 30,795,260 shares were issued and outstanding, and 21,138,992 shares of WPLH Common Stock were reserved for issuance for a specific purpose, as follows: 399,497 shares under the WPLH DRIP, 386,763 shares under the WP&L Savings Plan, 1,000,000 shares under the WPLH Long-Term Equity Incentive Plan and 19,352,732 shares under the Rights Agreement. An additional 6,123,944 shares (subject to adjustment) are reserved for issuance pursuant to the WPLH Options, but such Options to purchase shares granted to IES and IPC thereunder will terminate at the Effective Time. See "The Stock Option Agreements." If the Mergers are consummated, up to 42,798,875 additional shares of WPLH Common Stock will be issued to former holders of IES Common Stock and IPC Common Stock. Additional shares of WPLH Common Stock will be issuable to holders of employee stock options to purchase IES Common Stock that are outstanding at the Effective Time, and will be converted into options to acquire shares of WPLH Common Stock, upon exercise of such options.

The additional 100,000,000 authorized shares of Interstate Energy Common Stock may be issued for any proper corporate purpose approved by the Interstate Energy Board. Without the Common Stock Amendment, WPLH would not have a sufficient number of authorized shares to complete the Mergers. The availability of additional authorized shares will also enable the Interstate Energy Board to act with flexibility when and as the need arises to issue additional shares in the future without the delays necessitated by having to obtain a shareowner vote. Among the reasons for issuing additional shares would be to increase Interstate Energy's capital through sales of Interstate Energy Common Stock, to engage in other types of capital transactions, to undertake acquisitions, and to satisfy contractual commitments, including pursuant to employee stock options. The WPLH Board has not proposed the increase in the amount of authorized WPLH Common Stock with the intention of discouraging tender offers or takeover attempts of Interstate Energy. However, the availability of additional authorized shares for issuance could render more difficult or discourage a merger, tender offer, proxy contest or other attempt to obtain control of Interstate Energy, which may adversely affect the ability of Interstate Energy shareowners to obtain a premium for their shares of Interstate Energy Common Stock and, accordingly, have a negative effect on the price of Interstate Energy Common Stock.

WPLH management regularly reviews a range of possible financing transactions, including the issuance of WPLH Common Stock. Except for (i) shares to be issued in connection with the Mergers and (ii) shares issued in connection with the benefit plans mentioned above, WPLH has no present intention of issuing or selling WPLH Common Stock for any purpose, but may do so if market and other conditions should indicate that such a course of action were advisable. Under the Merger Agreement, WPLH has agreed (other than for issuances under the WPLH DRIP and the Rights

Agreement), from the date of the Merger Agreement through the Effective Time or earlier termination of the Merger Agreement, to issue, without the consent of IES and IPC, no more than 1,000,000 additional shares of WPLH Common Stock for general corporate purposes, including issuances in connection with acquisitions and financings and pursuant to employee benefit plans, stock option and other incentive compensation plans and director plans.

If the Common Stock Amendment is approved, while the Interstate Energy Board generally may issue such additional authorized shares of Interstate Energy Common Stock without further shareowner approval, such issuances will generally require the approval of the SEC under the 1935 Act as presently in effect. See "Regulatory Matters." In some instances, shareowner approval for the issuance of additional shares may be required by law or by the requirements of the NYSE, on which the Interstate Energy Common Stock will be listed, or the obtaining of such approvals may be otherwise necessary or desirable. Except in such cases, it is not anticipated that further shareowner authorization will be solicited. Holders of WPLH Common Stock are not entitled to preemptive rights to subscribe for or purchase any part of any new or additional issue of WPLH Common Stock or securities convertible into WPLH Common Stock.

The affirmative vote of a majority of the votes entitled to be cast by the holders of the shares of WPLH Common Stock represented at the WPLH Meeting and entitled to vote thereon is required for approval of the Common Stock Amendment.

#### AMENDMENT TO IPC RESTATED CERTIFICATE OF INCORPORATION

*The information contained in this Joint Proxy Statement/Prospectus with respect to the proposed amendment to the IPC Charter is qualified in its entirety by reference to the text of the proposed amendment to the IPC Charter attached hereto as Annex R and incorporated herein by reference.*

In furtherance of the Merger Agreement and the transactions contemplated thereby, IPC stockholders are being asked to consider and approve the IPC Charter Amendment, which would amend the IPC Charter to provide that each share of IPC Preferred Stock outstanding from time to time will be entitled to one vote, voting together as one class with the holders of IPC Common Stock except as otherwise required by law or as specifically provided in the IPC Charter, on all matters to come before a vote of the IPC stockholders.

The IPC Board unanimously recommends a vote FOR approval of the IPC Charter Amendment. Approval of the IPC Charter Amendment is a condition to consummation of the Mergers. If approved by the IPC stockholders, the IPC Charter Amendment will become effective as soon as practicable following the date of the IPC Meeting.

As discussed above, the Mergers are designed to be tax-free reorganizations under the Code. It is a condition to the Mergers that each of the parties receive from its respective counsel an opinion to the effect that the Mergers will be treated for federal income tax purposes as tax-free reorganizations under the Code.

For the IPC Direct Merger or the IPC Merger, as the case may be, to qualify as a tax-free reorganization under applicable Code provisions, IPC stockholders must exchange a "controlling" stock interest in IPC or New IPC, as the case may be, for WPLH (or Interstate Energy after the Mergers) voting stock. To satisfy this "control" requirement, the ultimate acquiror of IPC's stock (Interstate Energy) must acquire at least 80% of the total combined voting power of IPC or New IPC, as the case may be, plus at least 80% of the total number of shares of all other IPC or New IPC, as the case may be, stock classes. Because the Merger Agreement contemplates that holders of IPC Preferred Stock or New IPC Preferred Stock, as the case may be, will not participate in the IPC Merger or the IPC Direct Merger, as the case may be, (i.e., the IPC Preferred Stock or New IPC Preferred Stock, as the case may be, will remain outstanding), the "control" requirement will be met only if the IPC Preferred Stock or New IPC Preferred Stock, as the case may be, is voting stock before the Effective Time and the vote constitutes less than 20% of the total voting stock. Granting the IPC Preferred

Stock one vote per share will enable the ultimate acquiror of IPC's Common Stock (Interstate Energy) to acquire "control" because it will acquire at least 80% of the total combined voting power of IPC, there being no other classes of IPC stock outstanding.

As of July 10, 1996, IPC had outstanding 9,595,028 shares of IPC Common Stock and an aggregate of 761,381 shares of IPC Preferred Stock. Assuming approval of the IPC Charter amendment by the IPC stockholders at the IPC Meeting, the IPC Preferred Stock would represent, in the aggregate, approximately 7.35% of the total combined voting power of IPC, and the IPC Common Stock would represent approximately 92.65% of the total combined voting power of IPC. The exchange then of IPC Common Stock for Interstate Energy Common Stock in the IPC Merger would constitute an exchange of a "controlling" stock interest within the meaning of Section 368(a)(2)(E) of the Code, and the IPC Merger would be eligible for tax-free reorganization treatment under that provision.

Approval of the IPC Charter Amendment would result in dilution of the voting power of the IPC Common Stock of approximately 7.35%.

No other aspects of IPC's Charter will be affected by the IPC Charter Amendment nor will the IPC Charter Amendment result in any other change in the relative rights, preferences and other terms of the IPC Preferred Stock.

The affirmative vote of a majority of the votes entitled to be cast by the holders of shares of IPC Common Stock is required for approval of the IPC Charter Amendment.

## DESCRIPTION OF INTERSTATE ENERGY CAPITAL STOCK

### General

Pursuant to the Merger Agreement, no later than the Effective Time, the WPLH Charter will be amended substantially in the manner set forth in Annex O, subject to shareowner approval of each of the WPLH Charter Amendments at the WPLH Meeting, and, as so amended, shall be the Interstate Energy Charter until thereafter amended in accordance with the WBCL and the Interstate Energy Charter. See "Amendments to WPLH Restated Articles of Incorporation." The authorized capital stock of Interstate Energy, as of the Effective Time, will consist of 200,000,000 shares of Interstate Energy Common Stock. The description of Interstate Energy capital stock set forth herein does not purport to be complete and is qualified in its entirety by reference to the Interstate Energy Charter and the Interstate Energy Bylaws, copies of which are filed as exhibits to the Joint Registration Statement and are incorporated hereby by reference, the proposed amendments to the WPLH Charter, attached hereto as Annex O, and applicable statutory or other law.

### Interstate Energy Common Stock

The holders of Interstate Energy Common Stock will be entitled to receive such dividends as the Interstate Energy Board may from time to time declare. Except as provided by the WBCL as described below, each holder of Interstate Energy Common Stock will be entitled to one vote per share on each matter submitted to a vote at a meeting of shareowners. The holders of Interstate Energy Common Stock will not be entitled to cumulate votes for the election of directors. In the event of any liquidation, dissolution or winding up of Interstate Energy, the holders of Interstate Energy Common Stock will be entitled to receive the remainder, if any, of the assets of Interstate Energy after the discharge of its liabilities. Holders of Interstate Energy Common Stock will not be entitled to preemptive rights to subscribe for or purchase any part of any new or additional issue of stock or securities convertible into stock. The Interstate Energy Common Stock does not contain any redemption provisions or conversion rights.

The shares of Interstate Energy Common Stock that will be issued pursuant to the Merger Agreement, when so issued, will be fully paid and nonassessable except as provided by Section 180.0622(2)(b) of the WBCL, which provides that shareowners will be personally liable up to the par value of the shares owned by them for all debts owing to employees of the Company for services performed for the Company not exceeding 6 months service in any one case. A Wisconsin trial court

has interpreted "par value" to mean the subscription price paid for the shares rather than the lower par value. While the Wisconsin Supreme Court by an evenly divided vote affirmed the trial court's decision, such affirmation technically provides no precedential effect because of the court's even division.

Interstate Energy's ability to pay dividends will depend primarily upon the ability of its subsidiaries to pay dividends or otherwise transfer funds to it. Various financing arrangements and regulatory requirements will impose certain restrictions on the ability of Interstate Energy's public utility subsidiaries to transfer funds to Interstate Energy in the form of cash dividends, loans or advances.

Under WP&L's current Wisconsin Commission retail rate order, the Wisconsin Commission would have to approve the payment of any dividends by WP&L to Interstate Energy that in the aggregate exceeded \$58.1 million per year for the period from January 1, 1995 to December 31, 1996, if such dividends would reduce WP&L's average common equity ratio below 51.93%. The Wisconsin Commission's dividend limitation is subject to review and modification as part of WP&L's rate cases. In connection with its First Mortgage Bond Indenture, WP&L is subject to restrictions on the amount of net accumulated reinvested earnings available for the payments of dividends. WP&L also has outstanding various series of WP&L Preferred Stock that have certain preferential rights relating to the payment of dividends. Historically, WPLH's ability to pay dividends has not been affected by compliance with the dividend restrictions described above.

Under Utilities' current IUB retail rate order, there is no restriction on the amount of dividends that Utilities is permitted to pay to IES. However, the IUB could in the future impose conditions in rate orders that would have the effect of limiting the payment of dividends by Utilities. Utilities also has outstanding various series of Utilities Preferred Stock that have certain preferential rights relating to the payment of dividends, which Utilities Preferred Stock will remain outstanding after the Effective Time if the parties to the Mergers determine that the Utilities Reincorporation Merger will not be effected. Historically, Utilities' ability to pay dividends on its common stock has not been affected by actions by the IUB or compliance with such preferential dividend rights.

Under IPC's current IUB, Minnesota Commission and ICC retail rate orders, there is no restriction on the amount of dividends that IPC is permitted to pay to its stockholders. However, the IUB, Minnesota Commission or ICC could in the future impose conditions in rate orders that would have the effect of limiting the payment of dividends by IPC. IPC also has outstanding various series of IPC Preferred Stock that have certain preferential rights relating to the payment of dividends, which IPC Preferred Stock (or New IPC Preferred Stock, in the event the IPC Reincorporation Merger is consummated) will remain outstanding after the Effective Time. In addition, under IPC's First Mortgage Bond Indenture, IPC's ability to pay dividends on the IPC Common Stock is restricted in the event that certain financial ratios are not maintained. Historically, IPC's ability to pay dividends has not been affected by actions by the IUB, Minnesota Commission or ICC, compliance with such preferential dividend rights or compliance with the dividend restrictions contained in IPC's First Mortgage Bond Indenture.

In addition, under the Wisconsin Holding Company Act, Interstate Energy's public utility affiliates will be prohibited from lending funds, either directly or indirectly, to Interstate Energy. Furthermore, the SEC, under the 1935 Act, and the Wisconsin Commission, under the Wisconsin Holding Company Act, will have the power to preclude the payment to Interstate Energy of dividends by public utility affiliates thereof. Under the 1935 Act, the SEC will also have the power to preclude the payment of dividends by Interstate Energy. See "Regulatory Matters."

It is a condition to consummation of the Mergers that the Interstate Energy Common Stock be approved for listing on the NYSE subject to official notification of the issuance.

#### **Certain Anti-Takeover Provisions**

The Interstate Energy Charter, the Rights Agreement and the WBCL contain provisions that may have the effect of discouraging persons from acquiring large blocks of Interstate Energy stock or

delaying or preventing a change in control of Interstate Energy. The Interstate Energy Charter will provide that the Board of Directors is to be divided into three classes, with staggered terms of three years each. See "The Merger Agreement — Interstate Energy Board of Directors."

Interstate Energy will be subject to the Rights Agreement pursuant to which each outstanding share of Interstate Energy Common Stock will have attached thereto one Common Stock Purchase Right ("Right") and each share subsequently issued by Interstate Energy prior to the expiration of the Rights Agreement, including the shares issued pursuant to the Merger Agreement, will have attached thereto one Right. Under certain circumstances described below, the Rights will entitle the holder thereof to purchase additional shares of Common Stock.

Currently, the Rights are not exercisable and trade with the WPLH Common Stock. In the event the Rights become exercisable, each Right (unless held by a person or group which beneficially owns more than 20% of the outstanding Interstate Energy Common Stock) will initially entitle the holder to purchase one-half share of Interstate Energy Common Stock at a price of \$60 per full share (equivalent to \$30 for each one-half share), subject to adjustment. The Rights will only become exercisable if a person or group has acquired, or announced an intention to acquire, 20% or more of the outstanding shares of Interstate Energy Common Stock. Under certain circumstances, including the existence of a 20% acquiring party, each holder of a Right, other than the acquiring party, will be entitled to purchase at the exercise price of Interstate Energy Common Stock having a market value of two times the exercise price. In the event of the acquisition of Interstate Energy by another corporation subsequent to a party acquiring 20% or more of the Interstate Energy Common Stock, each holder of a Right will be entitled to receive the acquiring corporation's common shares having a market value of two times the exercise price. The Rights may be redeemed at a price of \$.01 per Right prior to the existence of a 20% acquiring party. The Rights will expire on February 22, 1999. Under the Rights Agreement, the Interstate Energy Board will be able to reduce the thresholds applicable to the Rights from 20% to not less than 10%. The Rights do not have voting or dividend rights and, until they become exercisable, have no dilutive effect on the earnings of the Company.

Section 180.1150 of the WBCL provides that the voting power of shares of Wisconsin corporations such as Interstate Energy held by any person or persons acting as a group that hold in excess of 20% of the voting power for the election of directors is limited to 10% of the full voting power of those shares. This restriction does not apply to shares acquired directly from Interstate Energy or in certain specified transactions or shares for which full voting power has been restored pursuant to a vote of shareowners.

Sections 180.1140 to 180.1144 of the WBCL contain certain limitations and special voting provisions applicable to specified business combinations involving Wisconsin corporations such as Interstate Energy and a significant shareowner, unless the board of directors of the Wisconsin corporation approves the business combination or the shareowner's acquisition of shares before such shares are acquired. Similarly, Sections 180.1130 to 180.1133 of the WBCL contain special voting provisions applicable to certain business combinations, unless specified minimum price and procedural requirements are met. Following commencement of a takeover offer, Section 180.1134 of the WBCL imposes special voting requirements on certain share repurchases effected at a premium to the market and on certain asset sales by the corporation, unless, as it relates to the potential sale of assets, the corporation has at least three independent directors and a majority of the independent directors vote not to have the provision apply to the corporation.

Finally, Section 196.795(3) of the WBCL provides that no person may hold or acquire directly or indirectly more than 10% of the outstanding securities of a public utility holding company such as Interstate Energy without the approval of the Wisconsin Commission.

## DESCRIPTION OF NEW IPC PREFERRED STOCK

The terms of the shares of New IPC Preferred Stock, as set forth in the New IPC Charter, are substantially identical to the terms of the corresponding shares of IPC Preferred Stock, as set forth in the IPC Charter, as amended by the IPC Charter Amendment. The New IPC Charter is included as an exhibit to this Joint Registration Statement. The bylaws of New IPC, which are included as an exhibit to this Joint Registration Statement, will be substantially the same as the IPC Bylaws, except for changes required by the WBCL. At the IPC Reincorporation Effective Time, assuming that the IPC Reincorporation Merger is effected, IPC will merge with and into New IPC, with New IPC being the surviving corporation of the IPC Reincorporation Merger. The purpose of the IPC Reincorporation Merger is to provide one alternative to comply with the Wisconsin Holding Company Act. See "Regulatory Matters — State Approvals and Related Matters." Assuming that the IPC Reincorporation Merger is effected, each share of IPC Preferred Stock issued and outstanding immediately prior to the IPC Reincorporation Effective Time (other than IPC Dissenting Shares) will be converted into one share of New IPC Preferred Stock with terms (including dividend rights) and designations under the New IPC Charter substantially identical to those of the converted shares of IPC Preferred Stock under the IPC Charter, as amended by the IPC Charter Amendment. IPC Preferred Stock and a corresponding share of New IPC Preferred Stock also differ due to differences in the laws of Delaware and Wisconsin. See "Comparison of Shareowner Rights — Comparison of Wisconsin, Iowa and Delaware Law."

The following is a description of both (i) the IPC Common Stock, the IPC Preferred Stock and the preference stock, \$1.00 par value, of IPC ("IPC Preference Stock") as they exist under the IPC Charter prior to the IPC Reincorporation Merger and (ii) the New IPC Common Stock, the New IPC Preferred Stock and the preference stock, \$1.00 par value, of New IPC ("New IPC Preference Stock") as they will exist under the New IPC Charter following the IPC Reincorporation Effective Time assuming that the IPC Reincorporation Merger is effected. As used in the following description, unless otherwise stated, the term "IPC" refers to IPC with respect to any period prior to the IPC Reincorporation Effective Time and to New IPC with respect to any period after the IPC Reincorporation Effective Time. Except as otherwise indicated, the following summary describes certain provisions of the IPC Charter and the New IPC Charter, and is qualified in its entirety by reference to the IPC Charter and the New IPC Charter.

### General

The capital stock of IPC consists of three classes: IPC Common Stock, par value \$3.50 per share (30,000,000 shares authorized, of which 9,595,028 shares were outstanding on the IPC Record Date); IPC Preferred Stock, par value \$50 per share (2,000,000 shares authorized, of which the following series were outstanding as of the IPC Record Date: 4.36% Series — 60,455 shares; 4.68% Series — 55,926 shares; 7.76% Series — 100,000 shares; and 6.40% Series — 545,000 shares); and IPC Preference Stock, par value \$1.00 per share (2,000,000 shares authorized, of which none were issued and outstanding as of the IPC Record Date). The IPC Board is authorized to provide for the issuance from time to time of IPC Preferred Stock and IPC Preference Stock in series and, as to each series, to fix the designation, dividend rates and time of payment, redemption price, and liquidation price or preference as to assets in voluntary liquidation. Cumulative dividends, redemption provisions and sinking fund requirements, to the extent that some or all of these features are or may be present when IPC Preferred Stock or IPC Preference Stock is issued, could have an adverse effect on the availability of earnings for distribution to the holders of the IPC Common Stock or for other corporate purposes.

### Dividend Rights

Before any dividends may be paid on the IPC Common Stock, the holders of each series of IPC Preferred Stock and IPC Preference Stock are entitled to receive all accumulated and unpaid dividends for past dividend periods at the respective rates provided for the shares of the respective series and classes.

### Dividend Restrictions

In an Indenture, dated as of January 1, 1948, between IPC and the Chase National Bank of the City of New York (now known as the Chase Manhattan Bank (N.A.)) and Carl E. Buckley, as Trustees (the Chase Manhattan Bank (N.A.) and C. J. Heinzelmann, Successor Trustees), as amended and supplemented, IPC has covenanted that while any of the bonds issued thereunder (the "IPC Bonds") are outstanding, it will not pay any cash dividends on or make any other distribution with respect to the IPC stock unless the earned surplus of IPC, less the aggregate amount of all such payments and other distributions made during the period from December 31, 1946, to the date of the proposed payment of such dividend or the making of such distribution that have not been charged to such earned surplus, shall be at least equal to the amount of the proposed dividend or distribution.

IPC has covenanted that, so long as any IPC Bonds of the series issued subsequent to May 1, 1963 which were outstanding on October 15, 1975, remain outstanding, it will not pay any cash dividends on or make any other distribution with respect to the IPC Common Stock unless the earned surplus of IPC, less the sum of (a) the aggregate amount of all such payments and other distributions made during the period from December 31, 1946, to the date of the proposed payment of such dividend or the making of such distributions that have not been charged to such earned surplus and (b) the excess, if any, of 15% of electric operating revenues and 12.5% of the gas and steam operating revenues of IPC, less expenditures made during such period by IPC by charges against earnings or earned surplus during the period, shall be at least equal to the amount of the proposed dividend or distribution.

### Voting Rights

*Existing Voting Rights Under the IPC Charter.* Currently, the holders of shares of each series of IPC Preferred Stock and IPC Preference Stock generally are not entitled to vote. However, if and whenever full cumulative dividends on the IPC Preferred Stock have not been paid for four quarterly dividend periods, holders of IPC Preferred Stock are entitled to elect a majority of the Board of Directors as then constituted with holders of IPC Common Stock being entitled to elect the remaining directors. The right of the holders of IPC Preferred Stock to elect directors in such cases shall cease when full cumulative dividends on all series of IPC Preferred Stock have been paid, or declared and set aside for payment. In addition, if and whenever full cumulative dividends on the IPC Preference Stock have not been paid for six quarterly dividend periods (whether or not consecutive), the size of the IPC Board shall be increased by two directors and the holders of IPC Preference Stock, as a class, will be entitled to elect the additional two directors and, in such cases, holders of IPC Common Stock are entitled to elect the remaining directors, subject to the voting rights of the holders of IPC Preferred Stock at that time, if any. The right of the holders of the IPC Preference Stock to elect the two additional directors in such cases shall cease when full cumulative dividends have been paid, or declared and set aside for payment.

The affirmative vote or consent of the holders of various specified percentages of IPC Preferred Stock is required to: merge, consolidate or sell substantially all of the assets of IPC unless such transaction is approved by the SEC or other regulatory authority of the federal government or unless such transaction is undertaken with a subsidiary of IPC; increase the total authorized amount of IPC Preferred Stock or authorize any other preferred stock on a parity therewith with respect to dividends or liquidation rights; issue any additional shares of IPC Preferred Stock on a parity with the outstanding IPC Preferred Stock with respect to payment of dividends or liquidation rights unless (i) IPC's consolidated gross income for 12 consecutive calendar months within a period of 15 calendar months immediately preceding such issuance is equal to at least 150% of IPC's aggregate consolidated interest charges and the annual dividend charges of all IPC Preferred Stock that will be outstanding immediately after such issuance and (ii) the stated capital of IPC less the liquidation preferences of the IPC Preferred Stock and IPC Preference Stock is at least equal to the aggregate par value of the IPC Common Stock; issue or assume any unsecured debt for any purpose other than to refund existing unsecured debt, redeem any indebtedness pursuant to authorization by state or federal regulatory authority, or redeem any outstanding shares of IPC Preferred Stock if after such transaction IPC's



aggregate unsecured debt exceeds 20% of IPC's then outstanding secured debt and total equity; authorize any class of stock with rights greater than the IPC Preferred Stock; or change adversely the express terms and provisions of the IPC Preferred Stock.

In the event that the IPC Charter Amendment is approved at the IPC Meeting, holders of IPC Preferred Stock will thereafter have one vote per share, voting together as a class with the holders of IPC Common Stock (except as otherwise provided by law or specifically set forth in IPC's Charter as summarized above), on all matters to come before a vote of stockholders of IPC. See "Amendment to IPC Restated Certificate of Incorporation."

The affirmative vote or consent of the holders of various specified percentages of IPC Preference Stock is required to: authorize or increase the authorized amount of any class of stock with rights greater than the IPC Preference Stock other than IPC Preferred Stock; change adversely the express terms of the IPC Preference Stock; increase the authorized amount of IPC Preference Stock; authorize or increase the authorized amount of any class of stock with rights on a parity to the IPC Preference Stock; merge, consolidate or sell substantially all the assets of IPC unless such transaction is approved by the SEC or any regulatory authority of the federal government.

*Voting Rights Under the New IPC Charter.* In the event the IPC Reincorporation Merger is effected, the holders of New IPC Preferred Stock will have the right to cast one vote per share, voting with the holders of New IPC Common Stock, on all matters submitted to a vote of New IPC's shareowners including the election of directors. In addition, where the holders of IPC Preferred Stock and IPC Preference Stock had a right to vote under the IPC Charter, the holders of New IPC Preferred Stock and New IPC Preference Stock will have the right to vote as separate classes on such matters.

#### **Redemption Provisions**

IPC, at its option, generally may redeem the whole or any part of the IPC Preferred Stock or IPC Preference Stock of any series or of all series upon at least 30 days written notice. However, IPC may not redeem any shares of the 6.40% IPC Preferred Stock before May 1, 2003 if the redemption is being made to refund such IPC Preferred Stock with funds with an effective cost of less than 6.40% per annum.

IPC has issued and outstanding three series of IPC Preferred Stock with optional sinking fund provisions and one series of IPC Preferred Stock with mandatory sinking fund provisions.

Under the provisions of the IPC Charter, beginning in 2003 IPC is required to redeem annually \$1.4 million of IPC's 6.40% Preferred Stock, par value \$50 per share (27,250 shares).

#### **Change in Control**

The IPC Charter and the DGCL contain provisions that could discourage or make more difficult a change in control of IPC, including provisions requiring a higher vote for certain business transactions. Assuming that the IPC Reincorporation Merger is effected, following the IPC Reincorporation Effective Time, the rights of holders of New IPC Preferred Stock, including rights relating to a potential change in control of New IPC, will be governed by the WBCL. For a discussion of the differences between such provisions under the DGCL and the WBCL, see "Comparison of Shareowner Rights — Comparison of Wisconsin, Iowa and Delaware Law." Following consummation of the Mergers, Interstate Energy will be an Interested Stockholder of IPC or New IPC, as the case may be, as such term is defined in the IPC Charter or the New IPC Charter, as applicable. As a result, a supermajority vote of the holders of outstanding shares of IPC Preferred Stock or New IPC Preferred Stock, as the case may be, would be required to effect certain transactions constituting a change in control in accordance with the terms of the IPC Charter or the New IPC Charter, as applicable.

#### **Liquidation Rights**

In the event of liquidation, holders of all series of IPC Preferred Stock are entitled to \$50 per share, in the event of involuntary liquidation, or the then applicable redemption prices in the case of voluntary liquidation, plus in either case, an amount equal to all accumulated and unpaid dividends.

Following distributions to holders of IPC Preferred Stock, holders of IPC Preference Stock are entitled to the amount of consideration originally received by IPC for such shares, in the event of involuntary liquidation, or the applicable amount determined to be payable in the event of voluntary liquidation. Following the distributions to the holders of IPC Preferred Stock and IPC Preference Stock, the holders of IPC Common Stock are entitled to the remaining assets. If upon any such liquidation the assets distributable among the holders of IPC Preferred Stock, of all series, or IPC Preference Stock, of all series, are insufficient to pay in full the amounts to which such holders are entitled, the amount distributable to the holders of IPC Preferred stock, of all series, or IPC Preference Stock, of all series, as the case may be, will be apportioned among them ratably in proportion to the amounts to which they are respectively then entitled.

#### **Preemption and Subscription Rights**

No holder of IPC Common Stock, IPC Preferred Stock or IPC Preference Stock has the preemptive right to purchase or subscribe for any additional capital stock of IPC.

### **COMPARISON OF SHAREOWNER RIGHTS**

If the Mergers are consummated, the persons who were holders of WPLH Common Stock immediately prior to the Mergers will remain common shareowners of Interstate Energy immediately after consummation of the Mergers and their rights will be governed by the Interstate Energy Charter, the Interstate Energy Bylaws and the WBCL. The WPLH Charter, as amended by the WPLH Charter Amendments, which are being submitted for shareowner approval at the WPLH Meeting, will be the Interstate Energy Charter at the Effective Time. See "Amendments to WPLH Restated Articles of Incorporation." The Interstate Energy Bylaws will be the WPLH Bylaws as in effect at the Effective Time.

The holders of IES and IPC Common Stock, upon consummation of the Mergers, will become holders of Interstate Energy Common Stock and their rights will be governed by the Interstate Energy Charter, the Interstate Energy Bylaws and the WBCL. The Interstate Energy Charter and the Interstate Energy Bylaws are different in certain respects from the IES Charter and the IPC Charter and the IES Bylaws and IPC Bylaws. In addition, certain differences exist between the WBCL, IBCA and DGCL with respect to shareowners' rights. While it is impracticable to compare all these differences, material significant differences between the Interstate Energy Charter and the Interstate Energy Bylaws, on the one hand, and the IES Charter and IPC Charter and the IES Bylaws and IPC Bylaws, on the other hand, are summarized below under "— Comparison of Interstate Energy Charter and Bylaws to IES and IPC Charter and Bylaws," and material similarities and differences between the WBCL, the IBCA and the DGCL with respect to shareowners' rights are summarized below under "— Comparison of Wisconsin, Iowa and Delaware Law."

The following discussion is not intended to be complete and is qualified in its entirety by reference to the Interstate Energy Charter and the Interstate Energy Bylaws which are filed as exhibits to the Joint Registration Statement and incorporated by reference herein, the WBCL, IBCA and DGCL and the IES Charter, the IPC Charter, the IES Bylaws and the IPC Bylaws.

#### **Comparison of Interstate Energy Charter and Bylaws to IES and IPC Charter and Bylaws**

*Board of Directors.* The IES Charter provides that the IES Board shall be comprised of not less than five members, as fixed in the IES Bylaws. The IES Bylaws provide that the IES Board will consist of nine directors effective on the date of the IES Meeting. The IES Board currently consists of nine directors. The IPC Charter provides that the number of directors on the IPC Board shall be fixed by the IPC Bylaws. The IPC Bylaws provide that the IPC Board will consist of seven directors. The IPC Board currently consists of seven directors. The Interstate Energy Charter will provide that the number of directors will be fixed by the Interstate Energy Bylaws, but shall not be less than seven. The Interstate Energy Bylaws will be amended to provide that at the Effective Time the number of

directors on the Interstate Energy Board will be set at fifteen, with six directors designated by WPLH, six directors designated by IES and three directors designated by IPC. The Interstate Energy Board, like the WPLH Board and the IPC Board, will be classified into three classes.

*Certain Share Acquisitions and Business Combinations.* The IPC Charter contains provisions that have the effect of discouraging persons from acquiring large blocks of IPC stock or delaying or preventing a change in control of IPC. Under certain circumstances, these provisions could have the effect of, among other things (i) prohibiting a 5% stockholder from engaging in a business combination with IPC unless certain requirements are satisfied, (ii) prohibiting the payment of a market premium (*i.e.*, greenmail) to a 5% stockholder, and (iii) prohibiting a potential tender offeror from engaging in an unequal two-tier tender offer. The DGCL, in addition, contains certain provisions that have the effect of discouraging persons from acquiring large blocks of IPC stock or delaying or preventing a change in control of IPC. Under certain circumstances, these provisions could have the effect of, among other things, prohibiting a 10% stockholder from engaging in a business combination with IPC for three years following the date such 10% interest was acquired. See “ — Comparison of Wisconsin, Iowa and Delaware Law” below for a more complete discussion of such provisions, including the circumstances under which such provisions are triggered.

The IES Charter contains certain provisions that have the effect of discouraging persons from acquiring large blocks of IES stock or delaying or preventing a change in control of IES. Under certain circumstances, these provisions could have the effect of, among other things, (i) prohibiting a 5% shareholder from engaging in a business combination with IES unless certain requirements are satisfied, (ii) prohibiting the payment of a market premium (*i.e.*, greenmail) to a 5% shareholder and (iii) prohibiting a potential tender offeror from engaging in an unequal two-tier tender offer. The IBCA is silent with regard to certain share acquisitions and business combinations.

Certain provisions of the WBCL have the effect of discouraging persons from acquiring large blocks of WPLH stock or delaying or preventing a change in control of WPLH. Under certain circumstances, these provisions could have the effect of, among other things, (i) reducing the voting power of shares acquired by a 20% shareowner, (ii) prohibiting a 10% shareowner from engaging in a business combination with WPLH for three years following the date of acquisition of such 10% interest, (iii) prohibiting a potential tender offeror from engaging in an unequal two-tier tender offer and (iv) prohibiting the payment of a market premium (*i.e.*, greenmail) to a 5% shareowner who has held such shares for less than two years. See “ — Comparison of Wisconsin, Iowa and Delaware Law” below for a more complete discussion of such provisions, including the circumstances under which such provisions are triggered.

*Removal of Directors.* The IES Charter and IES Bylaws provide that directors may be removed only for cause. The IPC Charter provides that directors may be removed only for cause, except that in certain situations involving the non-payment of dividends on the IPC Preferred Stock, a majority of the directors may be replaced by nominees of the preferred stockholders. The Interstate Energy Charter and Interstate Energy Bylaws are silent as to the removal of directors. The WBCL provides that directors may be removed with or without cause but only at a special meeting called for the purpose of removing the director provided that the notice of such meeting states the purpose of the meeting is to remove the director. For a discussion of who can call a special meeting, see “ — Special Meetings of Shareowners; Shareowner Action By Written Consent” below.

*Vacancies on the Board of Directors.* The IES Bylaws provide that vacancies caused by an increase in the size of the board; or by any other cause may be filled by the remaining directors. Directors filling such vacancies shall serve for the unexpired term of the vacant directorship or the full term of the new directorship.

The IPC Charter and IPC Bylaws provide that vacancies on the IPC Board and newly created directorships resulting from an increase in the authorized number of directors may be filled by a majority vote of the directors then in office, even though they may be less than a quorum, provided that, if at the time of filling any vacancy or newly created directorship, the directors then in office

constitute less than a majority of the whole board, any stockholder or stockholder group holding at least ten percent of the total number of shares entitled to vote for directors may petition the Delaware Court of Chancery to order an election to fill such vacancies or newly created directorships or to replace the directors chosen by the directors then in office. Such directors shall serve until the next election of the class for which they were selected.

The Interstate Energy Charter provides that any vacancies may be filled by the remaining directors. If the remaining directors are less than a quorum, vacancies may be filled by the affirmative vote of a majority of all directors remaining in office. Directors selected by majority vote of the directors then in office shall serve until the next annual meeting of the shareowners.

*Amendments to Articles of Incorporation.* The IES Charter is silent as to amendment procedures, except that an 80% vote of the outstanding voting stock is required to amend the provisions governing business combinations or amendments of the article provisions regarding business combinations (except in situations where the proposed article amendments are unanimously recommended by the Company's Unaffiliated Directors). The IBCA requires that, unless a greater proportion is required by the articles, amendments to the articles of incorporation must be approved by the affirmative vote of the holders of a majority of the voting power of the shares entitled to vote. In certain circumstances, a vote by class or series is required.

The IPC Charter provides that amendments thereto shall be made in the manner prescribed by statute. The DGCL provides that amendments to the IPC Charter must be approved by a majority of the outstanding stock entitled to vote and by a majority of the outstanding stock entitled to vote as a class.

The Interstate Energy Charter is silent with regard to amendments thereto. The WBCL generally provides that amendments to the articles of incorporation must be approved by a majority of the votes cast, unless a greater or lesser proportion is required by the articles or bylaws.

*Amendment to Bylaws.* The IES Charter provides that the IES Board has the authority to make and alter the IES Bylaws, subject to the power of the shareholders to change or repeal the IES Bylaws contained in the IBCA. The IPC Charter provides that the IPC Board may make and amend the IPC Bylaws without any action on the part of the stockholders, subject to the rights of the stockholders to amend bylaws made by directors. The IPC Bylaws provide that the IPC Bylaws may be amended and new bylaws made at any annual, regular or special meeting of stockholders by the affirmative vote of a majority in interest of the stock issued, outstanding and entitled to vote. The Interstate Energy Bylaws provide that the Interstate Energy Bylaws may be amended by the Interstate Energy Board at any regular or special meeting of the Interstate Energy Board or by the shareowners by the affirmative vote of a majority of the outstanding voting stock possessed by all owners at any annual or special meeting of shareowners (provided that the notice calling any special meeting must state the proposal to amend the Bylaws).

*Voting/Cumulative Voting.* The IES Charter provides that each share of IES Common Stock is entitled to one vote on each matter submitted to a vote of shareholders. The IES Charter does not provide for cumulative voting in connection with the election of directors. Pursuant to the IES Charter, shares of IES Preferred Stock may have such voting rights as are designated by the IES Board at the time of issuance. The IPC Charter provides that each share of IPC Common Stock is entitled to one vote on each matter submitted to a vote of stockholders. The IPC Charter further provides that holders of IPC Preferred Stock and IPC Preference Stock have no votes except when certain arrearages have occurred with respect to the IPC Preferred Stock and IPC Preference Stock or when certain specified transactions adversely affect the rights of holders of either class of such shares. In such case, the holders of such shares are entitled to one vote, voting as separate classes, on each matter submitted to such class for a vote. The IPC Charter provides that there is no cumulative voting for any class of stock. The IPC Charter is proposed to be amended to provide certain voting rights to holders of IPC Preferred Stock. See "Amendment to IPC Restated Certificate of Incorporation." The Interstate Energy Charter and Interstate Energy Bylaws are silent with regard to the voting power of

holders of Interstate Energy Common Stock. The WBCL provides that each outstanding share is entitled to one vote on each matter voted on at a shareowner meeting. The WBCL further provides that shareowners do not have a right to cumulative voting unless the articles of incorporation otherwise provide, which the Interstate Energy Charter does not so provide.

*Special Meetings of Shareowners; Shareowner Action By Written Consent.* The IES Bylaws provide that special meetings of IES shareholders may be called by the Chairman of the Board, the President, the IES Board or the holders of not less than 10% of all the shares entitled to vote at the meeting. The IPC Bylaws provide that special meetings of IPC stockholders may be called by the IPC Board, the Chairman of the Board, the President, a Vice-President or the holders of at least twenty-five percent of the shares issued and outstanding and entitled to vote. The Interstate Energy Bylaws provide that special meetings of the shareowners may be called by the Chairperson of the Board, the Chief Executive Officer or the Interstate Energy Board. Pursuant to the WBCL, special meetings of shareowners may also be called by the holders of at least 10% of the votes entitled to be cast on any issue.

The IES Bylaws are silent as to whether shareholders may take action by written consent without a meeting. The IBCA authorizes shareholders to take action without a meeting by written consents signed by the holders of not less than 90% of the votes entitled to be cast. The IPC Charter is also silent as to whether stockholders may take action by written consent in lieu of a meeting. The DGCL allows stockholders to take action in lieu of a meeting by written consent signed by the holders of outstanding stock having not less than the number of votes that would be necessary to authorize such action at a meeting. The Interstate Energy Bylaws are also silent regarding whether shareowners may take action by written consent without a meeting. The WBCL permits shareowners to take action without a meeting by unanimous written consent.

*Indemnification/Limitation of Liability.* The IES Charter provides that IES shall indemnify any director, officer, employee or agent to the fullest extent permitted under the IBCA. The IES Charter further authorizes IES to purchase and maintain insurance for any such person or any person serving at the request of IES as a director, officer, employee or agent of another enterprise against any liability incurred as a result of the person serving in such official capacity. The IES Charter also limits the personal liability of directors for monetary damages for breach of their fiduciary duties, except for liability relating to (i) any breach of the director's duty of loyalty to the corporation or its shareholders, (ii) acts or omissions not in good faith or which involve intentional misconduct or knowing violation of the law, (iii) any transaction from which the director derived an improper personal benefit, or (iv) unlawful distributions.

The IPC Bylaws provide that IPC shall indemnify any person who is a party or threatened to be made a party to any legal proceeding by reason of the fact that such person is or was a director, officer, employee or attorney of IPC, or is or was serving at the request of IPC as a director, officer, employee or attorney of another enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person. This right of indemnity includes the advancement of expenses upon receipt of an undertaking to repay upon specified conditions. The right to indemnification does not extend to matters in which the person seeking indemnification is found liable to the corporation by a court of competent jurisdiction, by a majority of the directors who are not seeking indemnification or by independent counsel appointed by the IPC Board unless and only to the extent that a court determines such person is fairly and reasonably entitled to indemnification despite a final determination of liability. The IPC Charter limits the personal liability of directors for any acts or omissions in the performance of their duties as directors to the full extent permitted under the DGCL.

The Interstate Energy Bylaws provide that Interstate Energy shall indemnify a director or officer or any person serving at the request of Interstate Energy as a director, officer, agent or employee of another enterprise against all reasonable expenses (including attorneys' fees) incurred in connection with any threatened or pending legal proceeding to which the director or officer was a party because

such person was a director or officer to the extent such person was successful on the merits or otherwise in the defense of the threatened or pending proceeding. The Interstate Energy Bylaws further provide that Interstate Energy shall indemnify directors and officers against liability incurred in threatened or pending legal proceedings to which the director or officer was a party because such party was a director or officer unless the liability was incurred because the director or officer (i) willfully failed to deal fairly with the corporation or its shareowners in connection with a matter in which the director or officer had a material conflict of interest, (ii) violated criminal law unless the director or officer had reasonable cause to believe his or her conduct was lawful or had no reasonable cause to believe such conduct was unlawful, (iii) engaged in a transaction from which he or she received an improper personal benefit, or (iv) engaged in willful misconduct. This right of indemnity includes the advancement of expenses upon receipt of an undertaking to repay upon specified conditions. The right to indemnification (except in the event of a successful defense, in which case such indemnification is automatic) will be determined at the indemnified party's election by (i) majority vote of a quorum of disinterested directors, (ii) independent legal counsel, (iii) a panel of three arbitrators, (iv) majority vote of the shareowners, (v) a court, or (vi) such other method provided for in any additional right to indemnification.

#### Comparison of Wisconsin, Iowa and Delaware Law

As described below, the DGCL, IBCA and WBCL generally provide shareowners with similar rights and protections. A comparison of the DGCL as it applies to IPC, the IBCA as it applies to IES and the WBCL as it applies to WPLH is set forth below:

*Classified Board of Directors; Removal of Directors; Vacancies.* The DGCL, IBCA and WBCL each allow the board of directors to be divided into classes. Under the DGCL, directors serving on a classified board of directors may be removed only for cause unless the certificate of incorporation provides otherwise. Under both the IBCA and WBCL, absent a provision to the contrary contained in the corporation's articles of incorporation or bylaws, a director can be removed with or without cause by the affirmative vote of the holders of the proportion of the voting power of the shares of the classes or series such director represents sufficient to elect such director.

The DGCL provides that vacancies on the board of directors will be filled as the certificate of incorporation or the bylaws provide, and that in the absence of any such certificate of incorporation or bylaw provision, vacancies will be filled by the board of directors. The IBCA and WBCL both provide that unless the articles of incorporation otherwise provide, vacancies may be filled by the shareowners or by the affirmative vote of a majority of the directors, even if the directors remaining in the office constitute less than a quorum. The IBCA and WBCL also both provide that if the vacant office was held by a director elected by a voting group of shareowners, only the shareowners of that voting group may vote to fill the vacancy if filled by shareowners, and only the remaining directors elected by that voting group may vote to fill the vacancy if filled by the directors.

*Interested Director Transactions.* The DGCL, IBCA and WBCL each provide that contracts or transactions in which one or more of the corporation's directors have an interest ("Interested Contracts or Transactions") are not void or voidable solely because of such interest or because such director was present at the directors' or shareowners' meeting where such contracts or transactions were approved, provided certain conditions are met. Interested Contracts or Transactions may be approved by a majority vote of the disinterested directors or by vote of disinterested shareowners if the material facts of the contracts or transactions and the director's interest in such contracts or transactions are fully disclosed and a vote is taken in good faith. Furthermore, Interested Contracts or Transactions may be approved if such contracts or transactions are shown to be fair and reasonable to the corporation at the time they are authorized, approved or ratified by the board of directors or shareowners and separate disinterested shareowner or disinterested director approval is not required.

*Indemnification of Directors and Officers.* The WBCL provides for mandatory indemnification of a director or officer against certain liabilities and expenses if the director or officer was a party to a proceeding because of his or her status as such: (a) to the extent such director or officer is successful on

the merits or otherwise in the defense of the proceeding; and (b) in proceedings in which the director or officer is not successful in the defense thereof, unless it is determined that the liability was incurred because the director or officer breached or failed to perform a duty that he or she owes to the corporation and the breach or failure to perform constitutes: (i) a willful failure to deal fairly with the corporation or its shareowners in connection with a matter in which the director or officer has a material conflict of interest; (ii) a violation of criminal law, unless the director or officer had reasonable cause to believe that his or her conduct was lawful or no reasonable cause to believe that his or her conduct was unlawful; (iii) a transaction from which the director or officer derived an improper personal profit; or (iv) willful misconduct. Indemnification under the WBCL is not required if the director or officer has previously received indemnification from any person, including the corporation, in connection with the same proceeding. The WBCL provides that a corporation's articles of incorporation may limit its obligation to indemnify directors and officers. The WBCL specifically states that it is the public policy of Wisconsin to require or permit indemnification in connection with a proceeding involving securities regulation, as described therein, to the extent otherwise required or permitted under the WBCL.

The IBCA provides that a corporation shall indemnify a director or officer, made party to a proceeding because of his or her status as such, who was wholly successful on the merits or otherwise in the defense of such proceeding. Under the IBCA, the corporation may indemnify a director or officer against liability incurred in a proceeding provided the director or officer: (a) acted in good faith; (b) reasonably believed that his or her conduct was in the corporation's best interests (in the case of conduct in such person's official capacity) or not opposed to the corporation's best interests (in all other cases); (c) in the case of any criminal proceeding, he or she had no reasonable cause to believe that the conduct was unlawful; (d) was not adjudged liable to the corporation; and (e) did not receive an improper personal benefit. The IBCA provides that a corporation's articles of incorporation may limit its obligation to indemnify directors and officers.

The DGCL provides that a director or officer shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred to the extent such director or officer has been successful on the merits or otherwise in any action brought against such director or officer because of his or her status as such. With respect to a third-party action, the DGCL provides that a corporation may indemnify a director or officer against liability if such director or officer (a) acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation and (b) with respect to any criminal action, had no reasonable cause to believe his or her conduct was unlawful. With respect to claims brought against a director or officer by or in the right of the corporation, such director or officer may be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him or her except that no indemnification shall be made in respect to any claim as to which such director or officer was adjudged to be liable to the corporation unless and only to the extent that the Delaware Chancery Court determines otherwise.

*Limited Liability of Directors.* The DGCL, IBCA and WBCL each provides for the limitation or elimination of the personal liability of a company's directors to the company or its shareowners for monetary damages for a breach of a director's fiduciary duty. This immunity is automatic under Wisconsin law, but must be provided for in the certificate or articles of incorporation under Delaware and Iowa law. In any case, directors cannot be immunized in certain instances including: (i) breach of the duty of loyalty; (ii) acts or omissions not in good faith that involve intentional misconduct or a knowing violation of law; (iii) unlawful distributions; and (iv) transactions in which the director received an improper personal benefit. Other limitations specific to each state also exist.

*Amendment of Articles.* The DGCL, IBCA and WBCL each provide that the board of directors may propose amendments to a corporation's certificate or articles of incorporation, respectively. Under the DGCL, proposed amendments must be approved by the affirmative vote of the holders of a majority of the voting power of the shares entitled to vote. Under the IBCA and WBCL, unless the articles of incorporation, bylaws adopted under authority granted in the articles, the board (if the board is proposing the amendment), or the IBCA or WBCL, as applicable, requires a greater vote or

vote by voting groups, a proposed amendment is adopted if approved by a majority of the votes cast by every voting group entitled to vote on the amendment. In addition, each of the DGCL, IBCA and WBCL require that certain amendments must be approved by a separate vote of a class or series of stock if, among other things, the amendment would adversely affect the rights or preferences of such shares.

*Amendment of Bylaws.* Under the DGCL, the power to adopt, amend or repeal the bylaws is vested in the stockholders entitled to vote, unless the certificate of incorporation confers the power to adopt, amend or repeal the bylaws upon the directors. Under the IBCA and WBCL, unless reserved by the certificate of incorporation to the shareowners, the power to adopt, amend or repeal the bylaws is generally vested in the directors, subject to the power of the shareowners to adopt, amend, or repeal bylaws adopted, amended or repealed by the directors.

*Vote Required for Certain Mergers, Consolidations or Dissolutions.* The DGCL, IBCA and WBCL each require shareowner approval (except as indicated below and for certain mergers between a parent company and its 90% owned subsidiary) by the shareowners of each corporation that is party to a plan of merger and the selling corporation for the sale by the corporation of substantially all its assets if not in the usual or regular course of business. (The DGCL does not refer to the usual or regular course of business). The IBCA and WBCL further provide for a shareowner vote of the corporation whose shares will be acquired in a statutory share exchange. Each of the DGCL, IBCA and WBCL require a shareowner vote to approve the dissolution of a corporation.

The DGCL provides that the vote required to approve a plan of merger, sale of substantially all the assets or dissolution is a majority of the outstanding stock of the corporation entitled to vote thereon. Under the IBCA and the WBCL, unless a higher voting requirement is imposed by the articles of incorporation or, in the case of the WBCL by the bylaws adopted under authority granted by the articles of incorporation, or, in the case of the IBCA by the board of directors requiring a higher vote as a condition to its submission of the plan to shareowners, the vote required to approve a plan of merger, statutory share exchange, sale of substantially all assets not in the ordinary course of business or dissolution is a majority of the voting power of all shares entitled to vote of each corporation whose shareowners have a right to vote; approval of a plan of merger or statutory share exchange (and in the case of the WBCL, a sale of substantially all assets or dissolution) also may require the affirmative vote of one or more classes or series of stock.

Neither the IBCA nor the WBCL requires the vote of the shareowners of a surviving corporation in a merger if (i) the corporation's articles of incorporation will not be amended in the transaction (except for amendments permitted to be made by the board without a shareowner vote under the WBCL), (ii) shareowners of the corporation immediately before the effective date of the transaction will hold the same number of shares with identical rights immediately after the effective date, (iii) the number of shares entitled to vote immediately after the merger (plus shares issuable upon certain conversions or pursuant to certain rights) does not exceed by more than 20% the number of shares entitled to vote immediately before the transaction, and (iv) the number of participating shares of the corporation (outstanding shares of the corporation that entitle their holders to participate, without limitation, in distributions by the corporation) immediately after the merger, plus the number of participating shares of the corporation issuable on the conversion of, or on the exercise of rights to purchase, securities issued in the transaction, will not exceed by more than 20% the number of participating shares of the corporation immediately before the transaction. The DGCL similarly does not require a stockholder vote of the stockholders of a surviving corporation to a merger if (i) the agreement of merger does not amend in any respect the surviving corporation's certificate, (ii) each share of stock outstanding immediately prior to the merger is identical to outstanding or treasury shares following the merger, and (iii) no shares of stock (and no securities convertible into shares of stock) are to be issued pursuant to the merger or the number of shares issued (or the securities convertible into shares of stock) does not exceed 20% of the number of shares outstanding immediately prior to the merger.



*Class Vote for Certain Reorganizations.* The IBCA and the WBCL both provide, with certain exceptions, that a class or series of shares of a corporation is entitled to vote on a plan of merger or statutory share exchange as a class or series if any provision of the plan would, if contained in a proposed amendment to the articles of incorporation, entitle the class or series of shares to vote as a class or series and, in the case of an exchange, if the class or series is included in the plan of exchange. The DGCL does not contain similar provisions. In addition to the voting requirements discussed above, anti-takeover legislation adopted in Wisconsin and Delaware imposes additional restrictions on mergers and other business combinations between certain shareowners and the corporation. See "— Anti-Takeover Statutes."

*Shareowner Action by Consent.* The DGCL, IBCA and WBCL each permit shareowners to take action without a meeting by written consent. However, the DGCL and IBCA both allow corporations to opt out of such written consent provisions by so stating in their certificate or articles of incorporation, respectively. To approve an action in lieu of meeting by written consent, the DGCL requires each written consent to be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to approve such action at a meeting where all shares entitled to vote thereon were present and voted. The IBCA requires written consents to be signed by the holders of 90% of the votes entitled to be cast for shareowner action to be approved. The WBCL requires unanimous consent unless the articles of incorporation provide for action by less than unanimous consent.

*Statutory Shareowner Liability.* The WBCL provides that shareowners of Wisconsin corporations are personally liable up to an amount equal to the par value of shares owned by them (and to the consideration for which shares without par value were issued) for debts owing to employees of the corporation for services performed for such corporation, but not exceeding six months' service in any one case. The liability imposed by the predecessor to this statute was interpreted in a trial court decision to extend to the original issue price for shares, rather than the stated par value. Although affirmed by the Wisconsin Supreme Court, the case offers no precedential value due to the fact that the decision was affirmed by an equally divided court. The DGCL and the IBCA do not contain comparable provisions.

*Distributions.* The IBCA and the WBCL both provide that the board of directors may authorize and the corporation may make, subject to any restriction by the articles of incorporation, distributions to its shareowners unless after such distribution the corporation would not be able to pay its debts as they become due or its total assets after the distribution would be less than the sum of its total liabilities, plus the amount that would be needed, if the corporation were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of shareowners whose preferential rights are superior to those receiving the distribution.

The DGCL provides that, subject to any restrictions contained in a corporation's certificate of incorporation, the directors may declare and pay dividends either (i) out of the corporation's surplus, or (ii) if there shall be no surplus, out of the corporation's net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year, unless the corporation's capital is diminished by depreciation to an amount less than the aggregate capital represented by the corporation's issued and outstanding stock having a distribution preference.

*Special Meetings of Shareowners.* Under the DGCL, IBCA and WBCL, a special meeting of shareowners may be called by the board of directors or by any person authorized by the certificate or articles of incorporation or bylaws to call a special meeting. The IBCA and WBCL further provide for the calling of a special meeting pursuant to a written demand of the holders of not less than 10% of the votes entitled to be cast at such a meeting.

*Dissenters' Rights.* The DGCL, IBCA and WBCL each entitle shareowners of a corporation to dissent from and obtain fair value for their shares in the event of certain corporate actions. Subject to certain exceptions, limitations and conditions, shareowners of corporations incorporated in these states may dissent from a plan of merger. The IBCA and WBCL also both provide that shareowners may dissent from a statutory share exchange or a sale of all or substantially all of the assets of the

corporation. The IBCA also provides that dissenters' rights are available to shareholders in the event of any amendment to the articles of incorporation that materially and adversely affects the rights or preferences of the dissenting shareholders' shares in certain specified ways. The DGCL, IBCA and WBCL provide that a corporation may create additional dissenters' rights in its certificate or articles of incorporation. The IBCA and WBCL also allow corporations to create additional dissenters' rights in their bylaws or by board resolution.

The DGCL and WBCL both provide that dissenters' rights are not available to holders of shares listed on a national securities exchange or quoted on the Nasdaq National Market. In addition, the DGCL provides that dissenters' rights are not available to holders of shares that are held of record by more than 2,000 holders. The DGCL provides that such shares do not carry dissenters' rights unless the holders thereof are required to accept in consideration of their shares anything other than listed securities or cash in lieu of fractional shares. The WBCL provides that such shares do not carry dissenters' rights unless the articles of incorporation provide otherwise or except in a Business Combination (as defined under the WBCL and described below under "Anti-Takeover Statutes").

*Director and Officer Discretion.* The WBCL provides that, in discharging his or her duties to the corporation and in determining what he or she believes to be in the best interests of the corporation, a director or officer may, in addition to considering the effects of any action on shareowners, consider (i) the effects of the action on employees, suppliers and customers of the corporation, (ii) the effects of the action on the communities in which the corporation operates and (iii) any other factors that the director or officer considers pertinent. The IBCA contains comparable provisions. The IBCA provides that, in discharging the duties of the position of director, a director may, in considering the best interests of the corporation, consider the interests of the corporation's employees, customers, suppliers, and creditors, the economy of the state and nation, community and societal considerations, and the long-term as well as short-term interests of the corporation and its shareholders including the possibility that these interests may be best served by the continued independence of the corporation. Delaware judicial doctrine allows directors to consider similar factors.

#### **Anti-Takeover Statutes**

Wisconsin law regulates a broad range of "business combinations" between a Wisconsin corporation and an "interested stockholder." Wisconsin law defines a "business combination" to include a merger or a share exchange, sale of assets, issuance of stock or rights to purchase stock and certain related party transactions. An "interested stockholder" is defined as a person who beneficially owns, directly or indirectly, 10% of the outstanding voting stock of a corporation or who is an affiliate or associate of the corporation and beneficially owned 10% of the voting stock within the last three years. With certain exceptions, Wisconsin law prohibits a corporation from engaging in a business combination with an interested stockholder for a period of three years following the date on which the person became an interested stockholder, unless the board of directors approved the business combination or the acquisition of the stock prior to the interested stockholder's stock acquisition date. A corporation may engage in a business combination with an interested stockholder after the third anniversary of the acquisition date provided any of the following is satisfied: (i) the board of directors approved the purchase of stock by the interested stockholder prior to the interested stockholder's stock acquisition date, (ii) the business combination is approved by a majority of the outstanding voting stock not owned by the interested stockholder, (iii) the consideration to be received by shareowners meets certain requirements of the statute with respect to form and amount or (iv) the business combination is of a type specifically excluded from the coverage of the statute.

Section 180.1150 of the WBCL provides that in particular circumstances the voting of shares of a Wisconsin "issuing public corporation" (a Wisconsin corporation which has at least 100 Wisconsin resident shareowners, 500 or more shareowners of record and total assets exceeding \$1 million) held by any person in excess of 20% of the voting power is limited to 10% of the full voting power of such excess shares. Full voting power may be restored under Section 180.1150 if a majority of the voting power of shares represented at a meeting, including those held by the party seeking restoration, are voted in favor of such restoration.

In addition, the WBCL sets forth certain fair price provisions which govern mergers and share exchanges with, or sales of substantially all of a Wisconsin issuing public corporation's assets to, a 10% shareowner, mandating that any such transaction meet one of two requirements. First, the transaction must be approved by 80% of all shareowners and two-thirds of "disinterested" shareowners, which generally exclude the 10% shareowner. Second, the corporation must pay a statutory fair price, which is intended to insure that shareowners in the second step merger, share exchange or asset sale receive at least what shareowners received in the first step.

Further, the WBCL requires shareowner approval for certain transactions in the context of a tender offer or similar action for an amount in excess of 5% of a Wisconsin corporation's stock. Shareowner approval is required for the acquisition of more than 5% of the corporation's stock at a price above market value, unless the corporation makes an equal offer to acquire all shares. Shareowner approval is also required for the sale or option of assets which amount to at least 10% of the market value of the corporation, but this requirement does not apply if the corporation meets certain minimum outside director standards.

Section 203 of the DGCL (the "Delaware Business Combination Statute") applies to certain business combinations involving a corporation and certain of its stockholders. The Delaware Business Combination Statute prevents a corporation from engaging in any "business combination" (defined to include a variety of transactions, including the sale of assets, mergers and most related party transactions) with an "interested stockholder" (defined generally as a person owning 15% or more of the corporation's outstanding voting stock) for three years following the date such stockholder became an interested stockholder, unless (i) before such person became an interested stockholder, the board of directors of the corporation approved the business combination or the transaction in which the interested stockholder became an interested stockholder, or (ii) upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced (excluding stock held by directors who are also officers of the corporation and by certain employee stock ownership plans), or (iii) following the transaction in which such person became an interested stockholder, the business combination is approved by the board of directors of the corporation and authorized at a meeting of stockholders by the affirmative vote of the holders of two-thirds of the outstanding voting stock of the corporation not owned by the interested stockholder.

## UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

The following unaudited pro forma financial information combines the historical consolidated balance sheets and statements of income of WPLH, IES and IPC, including their respective Subsidiaries, after giving effect to the Mergers. The historical data for WPLH have been adjusted to reflect the restatement of such data to account for certain discontinued operations discussed in the notes hereto. The unaudited pro forma combined balance sheet at March 31, 1996 gives effect to the Mergers as if they had occurred at March 31, 1996. The unaudited pro forma combined statements of income for each of the three years in the period ended December 31, 1995, the three-month periods ended March 31, 1996 and 1995, and the twelve-month period ended March 31, 1996 give effect to the Mergers as if they had occurred at January 1, 1993. These statements are prepared on the basis of accounting for the Mergers as pooling of interests and are based on the assumptions set forth in the notes thereto. In addition, the pro forma financial information does not give effect to the expected synergies or the costs to be incurred to achieve such synergies. The pro forma financial information, however, does reflect the transaction costs to effect the Mergers.

The following pro forma financial information has been prepared from, and should be read in conjunction with, the historical consolidated financial statements and related notes thereto of WPLH, IES and IPC, incorporated by reference herein. The following information is not necessarily indicative of the financial position or operating results that would have occurred had the Mergers been consummated on the date, or at the beginning of the periods, for which the Mergers are being given effect nor is it necessarily indicative of future operating results or financial position. In addition, due to the effect of weather on sales and other factors which are characteristic of public utility operations, financial results for the three-month periods ended March 31, 1996 and 1995 are not necessarily indicative of trends for any twelve-month period.

**INTERSTATE ENERGY CORPORATION**  
**UNAUDITED PRO FORMA COMBINED BALANCE SHEET**  
**MARCH 31, 1996**  
(In thousands)

**ASSETS**

	WPLH (As Reported)	IES (As Reported)	IPC (As Reported)	Pro Forma Adjustments	Pro Forma Combined
<b>UTILITY PLANT</b>					
Electric .....	\$1,674,322	\$1,909,500	\$ 836,863	—	\$4,420,685
Gas .....	218,973	166,248	63,344	—	448,565
Other .....	163,576	106,504	—	—	270,080
Total .....	2,056,871	2,182,252	900,207	—	5,139,330
Accumulated provision for depreciation .....	908,603	973,304	409,051	—	2,290,958
Construction work in progress .....	42,848	65,862	3,945	—	112,655
Nuclear fuel — net .....	14,976	34,915	—	—	49,891
Net utility plant .....	1,206,092	1,309,725	495,101	—	3,010,918
<b>OTHER PROPERTY, PLANT AND EQUIPMENT — NET AND INVESTMENTS</b> .....	148,100	250,703	1,231	—	400,034
<b>CURRENT ASSETS</b>					
Cash and cash equivalents .....	7,935	10,435	1,218	—	19,588
Accounts receivable — net .....	81,797	54,838	29,559	—	166,194
Fossil fuel inventories, at average cost .....	12,285	12,313	11,938	—	36,536
Materials and supplies, at average cost .....	20,904	25,164	5,762	—	51,830
Prepayments and other .....	24,163	40,224	14,165	—	78,552
Total current assets .....	147,084	142,974	62,642	—	352,700
<b>EXTERNAL DECOMMISSIONING FUND</b> .....	82,523	49,543	—	—	132,066
<b>DEFERRED CHARGES AND OTHER</b> .....	254,875	233,999	71,133	—	560,007
<b>TOTAL ASSETS</b> .....	<u>\$1,838,674</u>	<u>\$1,986,944</u>	<u>\$ 630,107</u>	<u>\$ —</u>	<u>\$4,455,725</u>

See accompanying Notes to Unaudited Pro Forma Combined Financial Statements

**INTERSTATE ENERGY CORPORATION**  
**UNAUDITED PRO FORMA COMBINED BALANCE SHEET (Continued)**  
**MARCH 31, 1996**  
(In thousands)

	<u>WPLH</u> (As Reported)	<u>IES</u> (As Reported)	<u>IPC</u> (As Reported)	<u>Pro Forma</u> <u>Adjustments</u>	<u>Pro Forma</u> <u>Combined</u>
<b>LIABILITIES AND EQUITY</b>					
<b>CAPITALIZATION</b>					
Common Stock Equity:					
Common stock (Note 1) .....	\$ 308	\$ 396,230	\$ 33,475	\$(429,299)	\$ 714
Other stockholders' equity (Note 1) .....	613,320	219,590	168,238	421,039	1,422,187
Total common stock equity .....	613,628	615,820	201,713	(8,260)	1,422,901
Preferred stock not mandatorily redeemable .....	59,963	18,320	10,819	—	89,102
Preferred stock mandatory sinking fund .....	—	—	24,062	—	24,062
Long-term debt — net .....	428,347	600,677	188,899	—	1,217,923
Total capitalization .....	1,101,938	1,234,817	425,493	(8,260)	2,753,988
<b>CURRENT LIABILITIES</b>					
Current maturities, sinking funds, and capital lease obligations .....	1,406	30,234	—	—	31,640
Commercial paper, notes payable and other .....	57,896	92,000	23,150	—	173,046
Variable rate demand bonds .....	56,975	—	—	—	56,975
Accounts payable and accruals .....	93,463	68,656	14,145	—	176,264
Taxes accrued .....	24,103	69,294	20,801	—	114,198
Other accrued liabilities .....	41,455	69,370	14,714	14,000	139,539
Total current liabilities .....	275,298	329,554	72,810	14,000	691,662
<b>OTHER LIABILITIES</b>					
Deferred income taxes .....	245,153	256,066	96,663	(5,740)	592,142
Deferred investment tax credits .....	38,364	36,454	17,784	—	92,602
Accrued environmental remediation costs .....	76,763	43,680	6,834	—	127,277
Capital lease obligations .....	—	20,135	—	—	20,135
Other liabilities and deferred credits .....	101,158	66,238	10,523	—	177,919
Total other liabilities .....	461,438	422,573	131,804	(5,740)	1,010,075
<b>TOTAL CAPITALIZATION AND LIABILITIES</b> .....	<u>\$1,838,674</u>	<u>\$1,986,944</u>	<u>\$ 630,107</u>	<u>\$ —</u>	<u>\$4,455,725</u>

See accompanying Notes to Unaudited Pro Forma Combined Financial Statements

**INTERSTATE ENERGY CORPORATION**  
**UNAUDITED PRO FORMA COMBINED STATEMENTS OF INCOME**  
**THREE MONTHS ENDED MARCH 31, 1996**  
(In thousands, except per share amounts)

	WPLH (As Reported)	IES (As Reported)	IPC (As Reported)	Pro Forma Adjustments	Pro Forma Combined
<b>Operating Revenues</b>					
Electric .....	\$148,500	\$125,368	\$65,915	\$ —	\$339,783
Gas .....	71,741	90,024	21,134	—	182,899
Other .....	40,636	27,805	—	—	68,441
<b>Total operating revenues .....</b>	<b>260,877</b>	<b>243,197</b>	<b>87,049</b>	<b>—</b>	<b>591,123</b>
<b>Operating Expenses</b>					
Electric production fuels .....	28,604	20,292	14,774	—	63,670
Purchased power .....	15,344	14,469	14,193	—	44,006
Cost of gas sold .....	45,364	67,437	11,473	—	124,274
Other operation .....	76,565	52,525	11,712	—	140,802
Maintenance .....	8,551	10,833	3,693	—	23,077
Depreciation and amortization .....	23,116	27,384	7,577	—	58,077
Taxes other than income taxes .....	9,171	13,262	4,550	—	26,983
<b>Total operating expenses .....</b>	<b>206,715</b>	<b>206,202</b>	<b>67,972</b>	<b>—</b>	<b>480,889</b>
<b>Operating Income .....</b>	<b>54,162</b>	<b>36,995</b>	<b>19,077</b>	<b>—</b>	<b>110,234</b>
<b>Other Income (expense)</b>					
Allowance for equity funds used during construction .....	529	—	—	—	529
Other income and deductions — net .....	3,950	1,677	812	—	6,439
<b>Total other income (expense) .....</b>	<b>4,479</b>	<b>1,677</b>	<b>812</b>	<b>—</b>	<b>6,968</b>
<b>Interest Charges .....</b>	<b>8,674</b>	<b>12,216</b>	<b>4,077</b>	<b>—</b>	<b>24,967</b>
<b>Income from continuing operations before income taxes and preferred dividends .....</b>	<b>49,967</b>	<b>26,456</b>	<b>15,812</b>	<b>—</b>	<b>92,235</b>
<b>Income Taxes .....</b>	<b>17,459</b>	<b>12,132</b>	<b>6,271</b>	<b>—</b>	<b>35,862</b>
<b>Preferred dividends of subsidiaries (Note 2) .....</b>	<b>828</b>	<b>229</b>	<b>615</b>	<b>—</b>	<b>1,672</b>
<b>Income from Continuing Operations (Notes 3 and 6) .....</b>	<b>\$ 31,680</b>	<b>\$ 14,095</b>	<b>\$ 8,926</b>	<b>\$ —</b>	<b>\$ 54,701</b>
<b>Average Common Shares Outstanding (Note 1) .....</b>	<b>30,774</b>	<b>29,645</b>	<b>9,564</b>	<b>1,348</b>	<b>71,331</b>
<b>Earnings per share of Common Stock from continuing operations .....</b>	<b>\$1.03</b>	<b>\$0.48</b>	<b>\$0.93</b>	<b>\$—</b>	<b>\$0.77</b>

See accompanying Notes to Unaudited Pro Forma Combined Financial Statements

**INTERSTATE ENERGY CORPORATION**  
**UNAUDITED PRO FORMA COMBINED STATEMENTS OF INCOME**  
**THREE MONTHS ENDED MARCH 31, 1995**  
(In thousands, except per share amounts)

	WPLH (As Reported)	IES (As Reported)	IPC (As Reported)	Pro Forma Adjustments	Pro Forma Combined
Operating Revenues					
Electric	\$131,151	\$116,577	\$63,803	\$ —	\$311,531
Gas	55,207	64,982	18,962	—	139,151
Other	29,516	24,833	—	—	54,349
Total operating revenues	<u>215,874</u>	<u>206,392</u>	<u>82,765</u>	<u>—</u>	<u>505,031</u>
Operating Expenses					
Electric production fuels	29,713	19,443	16,840	—	65,996
Purchased power	7,148	16,314	12,102	—	35,564
Cost of gas sold	33,882	49,289	9,957	—	93,128
Other operation	59,991	48,090	12,031	—	120,112
Maintenance	9,832	12,163	3,440	—	25,435
Depreciation and amortization	21,284	25,538	7,226	—	54,048
Taxes other than income taxes	9,323	13,440	4,505	—	27,268
Total operating expenses	<u>171,173</u>	<u>184,277</u>	<u>66,101</u>	<u>—</u>	<u>421,551</u>
Operating Income	44,701	22,115	16,664	—	83,480
Other Income (expense)					
Allowance for equity funds used during construction	271	282	—	—	553
Other income and deductions — net	35	360	270	—	665
Total other income (expense)	<u>306</u>	<u>642</u>	<u>270</u>	<u>—</u>	<u>1,218</u>
Interest Charges	10,157	11,136	4,217	—	25,510
Income from continuing operations before income taxes and preferred dividends	34,850	11,621	12,717	—	59,188
Income Taxes	13,963	4,652	4,960	—	23,575
Preferred dividends of subsidiaries (Note 2)	828	229	614	—	1,671
Income from Continuing Operations (Notes 3 and 6)	<u>\$ 20,059</u>	<u>\$ 6,740</u>	<u>\$ 7,143</u>	<u>\$ —</u>	<u>\$ 33,942</u>
Average Common Shares Outstanding (Note 1)	30,774	28,889	9,564	1,341	70,568
Earnings per share of Common Stock from continuing operations	<u>\$0.65</u>	<u>\$0.23</u>	<u>\$0.75</u>	<u>\$—</u>	<u>\$0.48</u>

See accompanying Notes to Unaudited Pro Forma Combined Financial Statements



**INTERSTATE ENERGY CORPORATION**  
**UNAUDITED PRO FORMA COMBINED STATEMENTS OF INCOME**  
**TWELVE MONTHS ENDED MARCH 31, 1996**  
(In thousands, except per share amounts)

	WPLH (As Reported)	IES (As Reported)	IPC (As Reported)	Pro Forma Adjustments	Pro Forma Combined
Operating Revenues					
Electric .....	\$563,672	\$569,262	\$276,986	\$ —	\$1,409,920
Gas .....	155,703	215,381	45,840	—	416,924
Other .....	132,883	103,173	—	—	236,056
Total operating revenues .....	<u>852,258</u>	<u>887,816</u>	<u>322,826</u>	—	<u>2,062,900</u>
Operating Expenses					
Electric production fuels .....	115,380	97,105	60,099	—	272,584
Purchased power .....	52,210	65,029	59,656	—	176,895
Cost of gas sold .....	95,483	159,864	27,404	—	282,751
Other operation .....	267,371	205,822	45,398	—	518,591
Maintenance .....	40,762	44,763	15,134	—	100,659
Depreciation and amortization .....	88,151	99,803	29,911	—	217,865
Taxes other than income taxes .....	34,036	48,836	16,034	—	98,906
Total operating expenses .....	<u>693,393</u>	<u>721,222</u>	<u>253,636</u>	—	<u>1,668,251</u>
Operating Income .....	<u>158,865</u>	<u>166,594</u>	<u>69,190</u>	—	<u>394,649</u>
Other Income (expense)					
Allowance for equity funds used during construction .....	1,684	104	—	—	1,788
Other income and deductions — net	7,018	4,489	(2,330)	—	9,177
Total other income (expense) .....	<u>8,702</u>	<u>4,593</u>	<u>(2,330)</u>	—	<u>10,965</u>
Interest Charges .....	<u>41,414</u>	<u>48,772</u>	<u>16,655</u>	—	<u>106,841</u>
Income from continuing operations before income taxes and preferred dividends .....	126,153	122,415	50,205	—	298,773
Income Taxes .....	39,604	49,970	20,764	—	110,338
Preferred dividends of subsidiaries (Note 2) .....	<u>3,310</u>	<u>914</u>	<u>2,459</u>	—	<u>6,683</u>
Income from Continuing Operations (Notes 3 and 6) .....	<u>\$ 83,239</u>	<u>\$ 71,531</u>	<u>\$ 26,982</u>	<u>\$ —</u>	<u>\$ 181,752</u>
Average Common Shares Outstanding (Note 1) .....	30,774	29,391	9,564	1,346	71,075
Earnings per share of Common Stock from continuing operations .....	<u>\$2.70</u>	<u>\$2.43</u>	<u>\$2.82</u>	<u>\$—</u>	<u>\$2.56</u>

See accompanying Notes to Unaudited Pro Forma Combined Financial Statements

**INTERSTATE ENERGY CORPORATION**  
**UNAUDITED PRO FORMA COMBINED STATEMENTS OF INCOME**  
**YEAR ENDED DECEMBER 31, 1995**  
(In thousands, except per share amounts)

	WPLH (As Reported)	IES (As Reported)	IPC (As Reported)	Pro Forma Adjustments	Pro Forma Combined
<b>Operating Revenues</b>					
Electric .....	\$546,324	\$560,471	\$274,873	\$ —	\$1,381,668
Gas .....	139,165	190,339	43,669	—	373,173
Other .....	121,766	100,200	—	—	221,966
Total operating revenues .....	<u>807,255</u>	<u>851,010</u>	<u>318,542</u>	—	<u>1,976,807</u>
<b>Operating Expenses</b>					
Electric production fuels .....	116,488	96,256	62,164	—	274,908
Purchased power .....	44,015	66,874	57,566	—	168,455
Cost of gas sold .....	84,002	141,716	25,888	—	251,606
Other operation .....	250,796	201,390	45,717	—	497,903
Maintenance .....	42,043	46,093	14,881	—	103,017
Depreciation and amortization .....	86,319	97,958	29,560	—	213,837
Taxes other than income taxes .....	34,188	49,011	15,990	—	99,189
Total operating expenses .....	<u>657,851</u>	<u>699,298</u>	<u>251,766</u>	—	<u>1,608,915</u>
Operating Income .....	149,404	151,712	66,776	—	367,892
<b>Other Income (Expense)</b>					
Allowance for equity funds used during construction .....	1,425	386	—	—	1,811
Other income and deductions — net Total other income (expense) .....	3,103	3,170	(2,872)	—	3,401
Interest Charges .....	4,528	3,556	(2,872)	—	5,212
Income from continuing operations before income taxes and preferred dividends .....	42,896	47,689	16,795	—	107,380
Income Taxes .....	111,036	107,579	47,109	—	265,724
Preferred dividends of subsidiaries (Note 2) .....	36,108	42,489	19,453	—	98,050
Income from Continuing Operations (Notes 3 and 6) .....	3,310	914	2,458	—	6,682
Average Common Shares Outstanding (Note 1) .....	<u>\$ 71,618</u>	<u>\$ 64,176</u>	<u>\$ 25,198</u>	<u>\$ —</u>	<u>\$ 160,992</u>
Earnings per share of Common Stock from continuing operations .....	30,774	29,202	9,564	1,344	70,884
	<u>\$2.33</u>	<u>\$2.20</u>	<u>\$2.63</u>	<u>\$ —</u>	<u>\$2.27</u>

See accompanying Notes to Unaudited Pro Forma Combined Financial Statements

**INTERSTATE ENERGY CORPORATION**  
**UNAUDITED PRO FORMA COMBINED STATEMENTS OF INCOME**  
**YEAR ENDED DECEMBER 31, 1994**  
(In thousands, except per share amounts)

	<u>WPLH</u> (As Reported)	<u>IES</u> (As Reported)	<u>IPC</u> (As Reported)	<u>Pro Forma</u> <u>Adjustments</u>	<u>Pro Forma</u> <u>Combined</u>
Operating Revenues					
Electric .....	\$531,747	\$537,327	\$261,730	\$—	\$1,330,804
Gas .....	151,931	165,569	45,920	—	363,420
Other .....	112,039	82,968	—	—	195,007
Total operating revenues .....	<u>795,717</u>	<u>785,864</u>	<u>307,650</u>	—	<u>1,889,231</u>
Operating Expenses					
Electric production fuels .....	123,469	85,952	61,384	—	270,805
Purchased power .....	37,913	68,794	58,339	—	165,046
Cost of gas sold .....	100,942	120,795	30,905	—	252,642
Other operation .....	246,212	176,863	51,917	—	474,992
Maintenance .....	41,227	52,841	17,160	—	111,228
Depreciation and amortization .....	80,351	86,378	28,212	—	194,941
Taxes other than income taxes .....	33,788	46,308	16,298	—	96,394
Total operating expenses .....	<u>663,902</u>	<u>637,931</u>	<u>264,215</u>	—	<u>1,566,048</u>
Operating Income .....	131,815	147,933	43,435	—	323,183
Other Income (Expense)					
Allowance for equity funds used during construction .....	3,009	2,299	166	—	5,474
Other income and deductions — net	7,610	3,472	3,100	—	14,182
Total other income (expense) .....	10,619	5,771	3,266	—	19,656
Interest Charges .....	36,657	44,399	16,845	—	97,901
Income from continuing operations before income taxes and preferred dividends .....	105,777	109,305	29,856	—	244,938
Income Taxes .....	36,043	41,573	9,189	—	86,805
Preferred dividends of subsidiaries (Note 2) .....	3,310	914	2,454	—	6,678
Income from Continuing Operations (Notes 3 and 6) .....	<u>\$ 66,424</u>	<u>\$ 66,818</u>	<u>\$ 18,213</u>	<u>\$—</u>	<u>\$ 151,455</u>
Average Common Shares Outstanding (Note 1) .....	30,671	28,560	9,479	1,329	70,039
Earnings per share of Common Stock from continuing operations .....	<u>\$2.17</u>	<u>\$2.34</u>	<u>\$1.92</u>	<u>\$—</u>	<u>\$2.16</u>

See accompanying Notes to Unaudited Pro Forma Combined Financial Statements

**INTERSTATE ENERGY CORPORATION**  
**UNAUDITED PRO FORMA COMBINED STATEMENTS OF INCOME**  
**YEAR ENDED DECEMBER 31, 1993**  
(In thousands, except per share amounts)

	WPLH (As Reported)	IES (As Reported)	IPC (As Reported)	Pro Forma Adjustments	Pro Forma Combined
<b>Operating Revenues</b>					
Electric .....	\$503,187	\$550,521	\$255,759	\$ —	\$1,309,467
Gas .....	137,270	181,923	53,709	—	372,902
Other .....	98,147	68,822	—	—	166,969
Total operating revenues .....	<u>738,604</u>	<u>801,266</u>	<u>309,468</u>	—	<u>1,849,338</u>
<b>Operating Expenses</b>					
Electric production fuels .....	123,919	87,702	64,059	—	275,680
Purchased power .....	28,574	93,449	53,936	—	175,959
Cost of gas sold .....	90,505	135,830	38,309	—	264,644
Other operation .....	221,840	162,642	48,567	—	433,049
Maintenance .....	44,763	48,913	16,771	—	110,447
Depreciation and amortization .....	68,680	77,012	26,955	—	172,647
Taxes other than income taxes .....	32,379	44,449	17,080	—	93,908
Total operating expenses .....	<u>610,660</u>	<u>649,997</u>	<u>265,677</u>	—	<u>1,526,334</u>
Operating Income .....	127,944	151,269	43,791	—	323,004
<b>Other Income (Expense)</b>					
Allowance for equity funds used during construction .....	2,978	824	68	—	3,870
Other income and deductions net ..	(633)	(2,908)	1,209	—	(2,332)
Total other income (expense) .....	<u>2,345</u>	<u>(2,084)</u>	<u>1,277</u>	—	<u>1,538</u>
Interest Charges .....	<u>37,020</u>	<u>43,292</u>	<u>16,617</u>	—	<u>96,929</u>
<b>Income from continuing operations before income taxes and preferred dividends .....</b>	93,269	105,893	28,451	—	227,613
<b>Income Taxes .....</b>	25,656	37,041	9,464	—	72,161
<b>Preferred dividends of subsidiaries (Note 2) .....</b>	<u>3,928</u>	<u>914</u>	<u>2,861</u>	—	<u>7,703</u>
<b>Income from Continuing Operations (Notes 3 and 6) .....</b>	<u>\$ 63,685</u>	<u>\$ 67,938</u>	<u>\$ 16,126</u>	<u>\$ —</u>	<u>\$ 147,749</u>
<b>Average Common Shares Outstanding (Note 1) .....</b>	29,681	27,764	9,316	1,303	68,064
<b>Earnings per share of Common Stock from continuing operations .....</b>	<u>\$2.15</u>	<u>\$2.45</u>	<u>\$1.73</u>	<u>\$ —</u>	<u>\$2.17</u>

See accompanying Notes to Unaudited Pro Forma Combined Financial Statements

**INTERSTATE ENERGY CORPORATION**  
**NOTES TO UNAUDITED PRO FORMA**  
**COMBINED FINANCIAL STATEMENTS**

1. The pro forma combined financial statements reflect the conversion of each share of IES Common Stock (no par value) outstanding into 1.01 shares of WPLH Common Stock (\$.01 par value) and the conversion of each share of IPC Common Stock (\$3.50 par value) into 1.11 of a share of WPLH Common Stock (\$.01 par value), and the continuation of each share of WPLH Common Stock (\$.01 par value) outstanding as one share of Interstate Energy Common Stock, as provided in the Merger Agreement. The pro forma adjustment to common stock equity restates the common stock account to equal par value for all shares to be issued (\$.01 par value per share of Interstate Energy Common Stock) and reclassifies the excess to other stockholders' equity. The pro forma combined statements of income are presented as if the companies were combined on January 1, 1993. The pro forma combined balance sheet gives effect to the Mergers as if they occurred at March 31, 1996.

The number of shares of common stock used for calculating per share amounts is based on the exchange ratios shown below.

**Average Number of Shares Outstanding for the twelve months ended**

	Exchange Ratio	As reported 3/31/96	Pro forma 3/31/96	As reported 12/31/95	Pro forma 12/31/95	As Reported 12/31/94	Pro forma 12/31/94
(in thousands)							
IES .....	1.01	29,391	29,685	29,202	29,494	28,560	28,846
IPC .....	1.11	9,564	10,616	9,564	10,616	9,479	10,522
WPLH...	N/A	30,774	30,774	30,774	30,774	30,671	30,671

	Exchange Ratio	As reported 12/31/93	Pro forma 12/31/93
(in thousands)			
IES .....	1.01	27,764	28,042
IPC .....	1.11	9,316	10,341
WPLH .....	N/A	29,681	29,681

**Average Number of Shares Outstanding for the three months ended**

	Exchange Ratio	As reported 3/31/96	Pro forma 3/31/96	As reported 3/31/95	Pro forma 3/31/95
(in thousands)					
IES .....	1.01	29,645	29,941	28,889	29,178
IPC .....	1.11	9,564	10,616	9,564	10,616
WPLH .....	N/A	30,774	30,774	30,774	30,774

2. The IPC Preferred Stock has been reclassified in the pro forma statements as preferred stock of subsidiary companies and deducted in the determination of income from continuing operations which reflects the holding company structure of the entity formed through the Mergers.
3. Nonrecurring items affecting WPLH's 1994 performance included the impact of early retirement and severance programs and the reversal of a coal contract penalty assessed by the Wisconsin Commission which was charged to income in 1989. The net after-tax impact of these items on income from continuing operations for the year ended December 31, 1994 was a decrease of \$8.3 million related to the early retirement and severance programs offset by an increase of \$4.9 million related to the coal contract penalty reversal.

**INTERSTATE ENERGY CORPORATION**  
**NOTES TO UNAUDITED PRO FORMA**  
**COMBINED FINANCIAL STATEMENTS (Continued)**

IPC's income from continuing operations includes expenses associated with the environmental investigation and remediation costs of former manufactured gas plants. Operating expenses for the twelve months ended March 31, 1996 and for the years ended December 31, 1995, 1994 and 1993 include \$0.2 million, \$0.3 million, \$0.8 million and \$3.5 million, respectively, for these costs. Other operating expenses for the twelve months ended March 31, 1996 and for the year ended December 31, 1995 also include \$0.8 million and \$0.7 million, respectively, of legal fees related to coal tar remediation, compared with \$1.0 million and \$0.3 million for the years ended December 31, 1994 and 1993, respectively. For the twelve months ended March 31, 1996 and for the years ended December 31, 1995, 1994 and 1993, \$0.4 million, \$0.6 million, \$0.7 million and \$0.6 million, respectively, of the foregoing expenses were recovered in rates.

Nonrecurring items affecting IES's income from continuing operations for the year ended December 31, 1993 include various gains and losses related to sales of assets and property valuation adjustments associated with its nonregulated businesses. The net after-tax impact of these items on income from continuing operations for the year ended December 31, 1993 was a decrease of \$2.0 million.

4. The allocation between WPLH, IES and IPC and their customers of the estimated costs savings of approximately \$749 million over ten years resulting from the Mergers, net of the costs incurred to achieve such savings, will be subject to regulatory review and approval. Costs arising from the proposed Mergers are currently estimated to be approximately \$78.4 million (including transaction costs of \$11.5 million related to fees for financial advisors and \$2.5 million related to fees for attorneys, accountants, consultants, filings and printing). None of these estimated cost savings, or the costs to achieve such savings, have been reflected in the pro forma combined financial statements. The transaction costs have been reflected in the pro forma balance sheet at March 31, 1996 such that shareowner equity has been reduced by \$8.26 million, accrued liabilities have been increased by \$14.0 million, and deferred taxes were decreased by \$5.74 million.
5. Intercompany transactions (including purchased and exchange power transactions) between WPLH, IES and IPC during the periods presented were included in the determination of regulated rates and were not material. Accordingly, no pro forma adjustments were made to eliminate such transactions.
6. The financial statements of WPLH reflect the discontinuance of operations of its utility energy and marketing consulting business in 1995. The discontinuance of this business resulted in a pre-tax loss of \$7.7 million (\$11.0 million net of the applicable income tax expenses) in 1995. Operating revenues, operating expenses, other income and expense and income taxes for the discontinued operations for the time periods presented have been excluded from income from continuing operations. Interest expense has been adjusted for the amounts associated with direct obligations of the discontinued operations.

**INTERSTATE ENERGY CORPORATION**  
**NOTES TO UNAUDITED PRO FORMA**  
**COMBINED FINANCIAL STATEMENTS (Continued)**

Operating revenues, related losses, and income tax benefits associated with the discontinued operations for the indicated time periods were as follows:

	Twelve Months Ended March 31, 1996	Year Ended December 31,		
		1995	1994	1993
		(Dollars in thousands)		
Operating revenues .....	\$15,969	\$24,979	\$34,798	\$33,340
Loss from discontinued operations before tax benefit .....	\$ 2,990	\$ 3,663	\$ 1,806	\$ 1,761
Income tax benefit .....	1,184	1,451	632	599
Loss from discontinued operations .....	\$ 1,806	\$ 2,212	\$ 1,174	\$ 1,162

7. Accounting principles have been consistently applied in the financial statement presentations for WPLH, IES and IPC with one exception. IPC does not include unbilled electric and gas revenues in its calculation of total revenues. The utility subsidiaries of WPLH and IES accrue unbilled revenues. The impact of this difference in accounting principles among the companies does not have a material impact on the unaudited pro forma combined financial statements as presented and, accordingly, no adjustments have been made to conform accounting principles.

## SELECTED INFORMATION CONCERNING WPLH, IES AND IPC

### Business of WPLH

WPLH, incorporated under the laws of the State of Wisconsin in 1981, is the holding company for WP&L and its utility-related subsidiaries and for HDC, the parent corporation for WPLH's non-utility businesses. WP&L is a public utility engaged principally in generating, purchasing, distributing and selling electric energy in portions of southern and central Wisconsin. WP&L also purchases, distributes, transports and sells natural gas in parts of such areas and supplies water in two communities. A wholly-owned subsidiary of WP&L supplies electric, gas and water service principally in Winnebago County, Illinois. WP&L provides retail electric service to approximately 377,000 customers in 663 cities, villages and towns, and wholesale service to 27 municipal utilities, one privately-owned utility, three rural electric cooperatives and the Wisconsin Public Power, Inc. system, which provides retail service to nine communities. WP&L owns 20,969 miles of electric transmission and distribution lines and 362 substations located adjacent to the communities served. WP&L provides retail natural gas service to approximately 146,000 customers in 239 cities, villages and towns.

HDC and its principal subsidiaries are engaged in business development in three major areas: (i) environmental engineering and consulting, (ii) affordable housing and (iii) energy services.

The principal executive office of WPLH is located at 222 West Washington Avenue, Madison, Wisconsin 53703, telephone number (608) 252-3311.

### Business of IES

IES, incorporated under the laws of the State of Iowa in 1986, is a holding company for Utilities and Diversified, the parent company for most of IES's non-utility businesses. Utilities is a public utility primarily engaged in providing electric energy, natural gas and, to a limited extent, steam used for heating and industrial purposes in Iowa. Utilities serves more than 333,000 electric customers and 174,000 natural gas customers in more than 550 communities across Iowa and provides wholesale electrical service to 30 Iowa municipal utilities.

Diversified is a holding company that is engaged in various non-utility operations, including energy production and marketing, railroad and other transportation services, and local real estate development through its wholly-owned subsidiaries. IES Energy Inc. develops stand-by production facilities for large users of electricity, markets natural gas and steam to end users, and purchases, explores for, develops and produces crude oil and natural gas. IES Transportation Inc. provides short-line rail freight service between Cedar Rapids and Iowa City, Iowa, provides barge terminal and hauling service on the Mississippi River, and provides transloading and storage services. IES Investments, Inc. pursues real estate and economic development activities in Utilities' service territory, owns resort properties, and holds certain other passive equity investments.

The principal executive office of IES and Utilities is located at IES Tower, 200 First Street S.E., Cedar Rapids, Iowa 52401, telephone number (319) 398-4411.

### Business of IPC

IPC is an operating public utility incorporated in 1925 under the laws of the State of Delaware. IPC services 162,000 retail electric customers in portions of 25 counties in northern and northeastern Iowa, portions of 22 counties in southern Minnesota and portions of four counties in northwestern Illinois. IPC also serves 48,600 natural gas customers in 39 communities, including Albert Lea, Minnesota; Clinton, Mason City and Clear Lake, Iowa; and Fulton and Savanna, Illinois. In addition, IPC engages in the transportation of natural gas within Iowa, Minnesota and in interstate commerce.

The principal executive office of IPC is located at 1000 Main Street, Dubuque, Iowa 52001, telephone number (319) 582-5421.



### **Certain Business Relationships Between WPLH, IES and IPC**

In the normal course of business, WP&L, Utilities and IPC buy and sell electric power from and to each other in arm's-length transactions pursuant to filed rate schedules. In addition, from time to time, a subsidiary of Diversified has provided WP&L with barge service across the Mississippi River to facilitate the delivery of coal to WP&L's generating facilities. IPC also has contracted with a subsidiary of HDC for certain energy brokerage services.

### **INTERSTATE ENERGY FOLLOWING THE MERGERS**

No later than the Effective Time, subject to approval of the Name Change Amendment at the WPLH Meeting, WPLH will change its name to "Interstate Energy Corporation." Interstate Energy will be the parent of IPC or New IPC, as the case may be, and the operating subsidiaries of both WPLH and IES. The headquarters of Interstate Energy will be in Madison, Wisconsin. The utility subsidiaries of Interstate Energy will serve more than 870,000 electric customers and 360,000 natural gas customers, and its service territory will include portions of Wisconsin, Iowa, Illinois and Minnesota. The business of Interstate Energy will consist of owning utilities and various non-utility subsidiaries. WPLH, IES and IPC recognize that the divestiture of their existing gas operations and certain non-utility operations is a possibility under the new registered holding company structure, but are seeking approval from the SEC to maintain such businesses. See "Regulatory Matters."

#### **Management of Interstate Energy**

Pursuant to the Merger Agreement, at the Effective Time, the Interstate Energy Board will consist of fifteen members, six members of which will be designated by WPLH, including Mr. Davis, six members of which will be designated by IES, including Mr. Liu, and three members of which will be designated by IPC, including Mr. Stoppelmoor. It is anticipated that simultaneously with the Mergers, all but six of the WPLH directors then in office will resign and the remaining WPLH directors will increase the size of the Interstate Energy Board to fifteen and appoint the six persons designated by the IES Board and the three persons designated by the IPC Board to fill the nine resulting vacancies. WPLH and IES will each designate two directors and IPC will designate one director for each of Classes I and II of the Interstate Energy Board. Class III directors will consist of Messrs. Liu, Davis and Stoppelmoor, as well as one additional designee of each of WPLH and IES. To date, WPLH, IES and IPC have not determined which individuals, in addition to Messrs. Liu, Davis and Stoppelmoor, will be designated to serve as directors of Interstate Energy as of the Effective Time. Each designee shall serve for a term equal to the remaining balance of the three-year term of the class of directors in which such designee shall serve. At each annual shareowners' meeting after the Effective Time, the number of directors equal to the number of the class whose term expires at the time of the meeting shall be elected for a term of three years. See "The Merger Agreement — Interstate Energy Board of Directors."

At the Effective Time, Mr. Liu will be Chairman of Interstate Energy, Mr. Davis will be President and Chief Executive Officer of Interstate Energy, Mr. Stoppelmoor will be Vice Chairman of Interstate Energy and Mr. Chase will be President of IPC or New IPC, as the case may be. Each of Mr. Liu, Mr. Davis, Mr. Stoppelmoor and Mr. Chase will have an employment agreement with Interstate Energy or its subsidiaries following the Mergers. See "The Mergers — Employment Agreements." At the Effective Time, Mr. Ahearn will be President and Chief Operating Officer of the holding company for the non-utility business of Interstate Energy.

#### **Operations**

After the Mergers, WP&L, Utilities or New Utilities, as the case may be, and IPC or New IPC, as the case may be, will operate as the principal subsidiaries of Interstate Energy. The headquarters of the three utilities will remain in their current locations.

Except for the transfer of WP&L's water utility business in Wisconsin to New Utilities and New IPC in the event that the IPC Reincorporation Merger and the Utilities Reincorporation Merger are effected, the utility operations of WP&L, Utilities and IPC will continue and will be unaffected by

consummation of the Mergers. The Wisconsin water utility business of WP&L will be transferred to New Utilities and New IPC immediately after consummation of the Mergers in the event that the IPC Reincorporation Merger and the Utilities Reincorporation Merger are effected. Upon receipt of the necessary approvals from the FERC and applicable state regulators and on or following the Effective Time, WP&L, Utilities or New Utilities, as the case may be, and IPC or New IPC, as the case may be, expect to enter into a power purchase agreement and agreements providing for the integrated operation (including joint dispatch) of their systems and expect to become parties to a coordination agreement, whereby costs of generating capacity and transmission will be shared. The integration of the WP&L, Utilities or New Utilities, as the case may be, and IPC or New IPC, as the case may be, generating capacity should increase the ability of these companies to meet demands for electricity within the territories each serves. It is also anticipated that a single administrative and support system will be established following the Mergers.

The non-utility operations of WPLH are presently conducted through HDC, and most of the non-utility operations of IES are presently conducted through Diversified. Following the Mergers, it is anticipated that HDC and Diversified will be combined into one entity to manage the diversified operations of Interstate Energy.

#### Dividends

It is anticipated that Interstate Energy will retain WPLH's then current common share dividend. Based on the dividend paid for the first quarter of 1996, WPLH's annualized dividend rate is currently \$1.97 per share. IES currently pays \$2.10 per share annually and IPC's annual dividend rate is currently \$2.08 per share. However, no assurance can be given that such dividend rate will be in effect or will remain unchanged, and Interstate Energy reserves the right to increase or decrease its dividend as may be required by law or contract or as may be determined by the Interstate Energy Board, in its discretion, to be advisable. Declaration and timing of dividends on Interstate Energy Common Stock will be a business decision to be made by the Interstate Energy Board from time to time based upon the results of operations and financial condition of Interstate Energy and its subsidiaries and such other business considerations as the Interstate Energy Board considers relevant in accordance with applicable laws. For a description of certain restrictions on Interstate Energy's ability to pay dividends on the Interstate Energy Common Stock, see "Description of Interstate Energy Capital Stock."

#### EXPERTS

The consolidated financial statements and schedules of WPLH at December 31, 1995 and 1994 and for each of the three years in the period ending December 31, 1995 incorporated by reference in this Joint Proxy Statement/Prospectus have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of said firm as experts in accounting and auditing in giving said reports.

The consolidated financial statements and schedule of IES at December 31, 1995 and 1994 and for each of the three years in the period ending December 31, 1995 incorporated by reference in this Joint Proxy Statement/Prospectus have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are included herein in reliance upon the authority of said firm as experts in accounting and auditing in giving said reports.

The financial statements and the related financial statement schedule of IPC at December 31, 1995 and 1994 and for each of the three years in the period ended December 31, 1995 incorporated in this Joint Proxy Statement/Prospectus by reference from IPC's Annual Report on Form 10-K for the year ended December 31, 1995 have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports, which are incorporated herein by reference, and have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

### LEGAL MATTERS

Foley & Lardner, Milwaukee, Wisconsin, will pass upon the legality of the shares of Interstate Energy Common Stock and the shares of New IPC Preferred Stock, if any, to be issued in connection with the Mergers.

### SHAREOWNER PROPOSALS

In order to be eligible to be considered for inclusion in WPLH's proxy materials relating to the WPLH annual shareowner meeting in 1997, any shareowner proposal intended to be presented at that meeting must be received at the principal office of WPLH on or before November 20, 1996.

In order to be eligible to be considered for inclusion in IES's proxy materials relating to the IES annual shareowner meeting in 1997, any shareowner proposal intended to be presented at that meeting must be received at the principal office of IES on or before on or before November 20, 1996.

In order to be eligible to be considered for inclusion in IPC's proxy materials relating to the IPC annual shareowner meeting in 1997, any shareowner proposal intended to be presented at that meeting must be received at the principal office of IPC on or before on or before November 20, 1996.

## ELECTION OF WPLH DIRECTORS

Three directors are to be elected at the WPLH Meeting. Rockne G. Flowers, Katharine C. Lyall and Henry C. Prange are nominees to hold office for a term expiring at the 1999 Annual Meeting of Shareowners of WPLH or until their successors have been duly elected and qualified.

The proxies solicited may be voted for a substitute nominee or nominees in the event that any of the nominees shall be unable to serve, or for good reason will not serve, a contingency not now anticipated.

Brief biographies of the director nominees and continuing directors follow. These biographies include their age (as of December 31, 1995), an account of their business experience, and the names of publicly-held and certain other corporations of which they are also directors. Except as otherwise indicated, each nominee and continuing director has been engaged in his or her present occupation for at least the past five years.

### Nominees

The WPLH Board recommends the following nominees for election as directors and urges each shareowner to vote "FOR" all nominees. Shares of WPLH Common Stock represented by executed but unmarked proxies will be voted "FOR" all nominees.

#### Rockne G. Flowers



Principal Occupation: President and Director of Nelson Industries, Inc. (a muffler, filter, industrial silencer, and active sound and vibration control technology and manufacturing firm), Stoughton, Wisconsin.

Age: 64

Served as director since 1981

Annual Meeting at which nominated term of office will expire: 1999

*Other Information:* Mr. Flowers has served as a director of WP&L since 1994. He previously served as a director of WP&L from 1979 to 1990. Mr. Flowers is also a director of RMT, Inc., a subsidiary of HDC; Digisonix, Inc.; American Family Mutual Insurance Company; Janesville Sand and Gravel Company; M&I Madison Bank; Meriter Health Services, Inc.; Meriter Hospital; and the Wisconsin History Foundation. He is also a member of the University of Wisconsin-Madison School of Business Board of Visitors.

#### Katharine C. Lyall



Principal Occupation: President, University of Wisconsin System, Madison, Wisconsin.

Age: 54

Served as director from 1986 to 1990 and since 1994

Annual Meeting at which nominated term of office will expire: 1999

*Other Information:* Ms. Lyall has served as President of the University of Wisconsin System since April 1992. Prior to becoming President, she served as Executive Vice President of the University of Wisconsin System. Ms. Lyall has served as a director of WP&L since 1986. She also serves on the Board of Directors of the Kemper National Insurance Companies and the Carnegie Foundation for the Advancement of Teaching. She is a member of a variety of professional and community organizations, including the American Economic Association; the Association of American Universities (currently serving on the executive committee); the Wisconsin Academy of Sciences, Arts and Letters; the American Red Cross (Dane County); Competitive Wisconsin, Inc.; and Forward Wisconsin. In addition to her administrative position, she is a professor of economics at the University of Wisconsin-Madison.

**Henry C. Prange**



Principal Occupation: Retired Chairman of the Board, H. C. Prange Company (retail stores), Green Bay, Wisconsin.

Age: 68

Served as director since 1986

Annual Meeting at which nominated term of office will expire: 1999

*Other Information:* Mr. Prange has served as a director of WP&L since 1965.

**Continuing Directors**

**L. David Carley**



Principal Occupation: Consultant to institutions and associations in higher education and health delivery; financial advisor to small businesses.

Age: 67

Served as director from 1986 to 1990 and since 1994

Annual Meeting at which current term of office will expire: 1998

*Other Information:* Mr. Carley has served as a director of WP&L from 1975 to 1977, and again since 1983. He is also a trustee of the Kennedy Presidential Library, and is the Chairman of the Board of Alliance Therapies Inc., a health rehabilitation firm.

**Erroll B. Davis, Jr.**



Principal Occupation: President and Chief Executive Officer of WPLH; President and Chief Executive Officer of WP&L; Chairman of the Board of HDC.

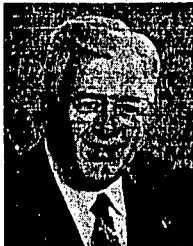
Age: 51

Served as director since 1982

Annual Meeting at which current term of office will expire: 1997

*Other Information:* Mr. Davis was elected President of WPLH in January 1990, and was elected President and Chief Executive Officer of WPLH effective July 1, 1990. He has served as a director of WP&L since 1984. Mr. Davis joined WP&L in August 1978 and was elected President in July 1987. He was elected to his current position with WP&L in August 1988. Mr. Davis was elected Chairman of the Board of HDC effective July 1, 1990. He is a director of the Edison Electric Institute, the Association of Edison Illuminating Companies, Amoco Oil Company, Competitive Wisconsin, Inc., Electric Power Research Institute, PPG Industries, Inc., Sentry Insurance Company (a mutual company), and the Wisconsin Utilities Association. Mr. Davis is also a director and immediate past chair of the Wisconsin Association of Manufacturers and Commerce and a director and vice chair of Forward Wisconsin.

**Donald R. Haldeman**



Principal Occupation: Executive Vice President and Chief Executive Officer, Rural Insurance Companies (a mutual group), Madison, Wisconsin.

Age: 59

Served as director from 1986 to 1990 and since 1994

Annual Meeting at which current term of office will expire: 1998

*Other Information:* Mr. Haldeman has served as a director of WP&L since 1985. Mr. Haldeman is also a director of Competitive Wisconsin, Inc., and a member of the Board of Directors of the Natural Resources Foundation of Wisconsin, Inc.

**Arnold M. Nemirow**



Principal Occupation: President and Chief Executive Officer, Bowater, Inc. (a pulp and paper manufacturer), Greenville, South Carolina.

Age: 52

Served as director since 1991

Annual Meeting at which current term of office will expire: 1998

*Other Information:* Mr. Nemirow served as President, Chief Executive Officer and Director of Wausau Paper Mills Company, a pulp and paper manufacturer, from 1990 until joining Bowater, Inc., in September 1994. Mr. Nemirow has served as a director of WP&L since 1994. He is a member of the New York Bar.

**Milton E. Neshek**



Principal Occupation: President, Chief Executive Officer and Director of the law firm of Godfrey, Neshek, Worth, and Leibsle, S.C., Elkhorn, Wisconsin, and General Counsel, Assistant Secretary and Manager, New Market Development, Kikkoman Foods, Inc. (a food products manufacturer), Walworth, Wisconsin.

Age: 65

Served as director since 1986

Annual Meeting at which current term of office will expire: 1997

*Other Information:* Mr. Neshek has served as a director of WP&L since 1984. Mr. Neshek is a director of HPI and Capital Square Financial Corporation, a subsidiary of HDC. He is also a director of Kikkoman Foods, Inc.; Midwest U.S.-Japan Association; Regional Transportation Authority (for southeast Wisconsin); and Wisconsin-Chiba, Inc. Mr. Neshek was the Chairman of the Governor's Commission on University of Wisconsin System Compensation from 1991 through 1995 and is a former member of the University of Wisconsin Accountability Task Force. He is a fellow in the American College of Probate Counsel. Mr. Neshek is active in the Walworth County Bar Association and the State Bar of Wisconsin and is a member of the Wisconsin Sesquicentennial Commission.

**Judith D. Pyle**



Principal Occupation: Vice Chair and Senior Vice President of Corporate Marketing of Rayovac Corporation (a battery and lighting products manufacturer), Madison, Wisconsin.

Age: 52

Served as a director since 1992.

Annual Meeting at which current term of office will expire: 1998

*Other Information:* Ms. Pyle has served as a director of WP&L since 1994. Ms. Pyle is also a director of Rayovac Corporation, Firststar Corporation, and Oshkosh B'Gosh. She is also a member of the Board of Visitors at the University of Wisconsin School of Business and the School of Family Resources and Consumer Sciences. Further, Ms. Pyle is a member of Boards of Directors of the United Way Foundation, Greater Madison Chamber of Commerce, Madison Art Center, and Wisconsin Taxpayers Alliance, and is a trustee of the White House Endowment Fund.

**Carol T. Toussaint**



Principal Occupation: Consultant

Age: 66

Served as director from 1986 to 1990 and since 1994.

Annual Meeting at which current term of office will expire: 1997

*Other Information:* Mrs. Toussaint has served as a director of WP&L since 1976. She is a Senior Associate of Hayes Briscoe, a national fund development firm. She also works as an independent consultant to nonprofit organizations and operates a lecture program business. She is a member of the President's Advisory Council on the Arts of the Kennedy Center for the Performing Arts, and serves on the Board of Governors of the Madison Community Foundation and as Vice Chair of the Madison Rotary Foundation. Mrs. Toussaint also serves as a director of the Evjue Foundation, the Madison Civic Center Foundation and the Wisconsin History Foundation. At the University of Wisconsin-Madison, she serves as a director of the Research Park, the School of Business Dean's Advisory Board and the Foundation's Council on Women's Giving, and as a director of the Alumni Association and convener of its Cabinet 99 Women's Initiative.

#### **APPOINTMENT OF INDEPENDENT AUDITORS**

The Audit Committee of the Board of Directors of WPLH recommends the reappointment of Arthur Andersen LLP, independent public accountants, as auditors to examine the consolidated financial statements of WPLH for 1996. Arthur Andersen LLP served as auditors for WPLH in 1995.

A representative of Arthur Andersen LLP will be present at the meeting and available to make a statement or to respond to questions, as appropriate.

The WPLH Board recommends a vote "FOR" the reappointment of Arthur Andersen LLP. Shares of WPLH Common Stock represented by executed but unmarked proxies will be voted "FOR" such reappointment.

#### **MEETINGS AND COMMITTEES OF THE WPLH BOARD**

The WPLH Board has standing Audit, Compensation and Personnel, and Nominating Committees. A description of the duties of each committee and meetings held during 1995 follows.

#### **Audit Committee**

As of January 1, 1995, the committee consisted of L. Aspin, L. D. Carley, R. G. Flowers, D. R. Haldeman, H. F. Scheig, and K. C. Lyall (Chair). Mr. Scheig retired as a director effective May 17, 1995. Mr. Aspin passed away on May 21, 1995. The committee held two meetings in 1995. The committee recommends to the shareowners the independent auditors to be elected; reviews the reports and comments of the independent auditors; reviews the activities and reports of WPLH's internal audit staff; and, in response to the reports and comments of both the independent auditors and internal auditors, recommends to the WPLH Board any action which the Audit Committee considers appropriate.

#### **Compensation and Personnel Committee**

As of January 1, 1995, the committee consisted of A. M. Nemirow, M. E. Neshek (Chair), H. C. Prange, J. D. Pyle, and C. T. Toussaint. On May 17, 1995, Mr. Nemirow became Chair of the Committee. The committee held six meetings in 1995. The committee sets executive compensation policy; reviews the performance of and approves salaries for officers and certain other management personnel; reviews and recommends to the WPLH Board new or changed employee benefit plans; reviews major provisions of negotiated employment contracts, if any; and reviews human resource development programs.

#### **Nominating Committee**

As of January 1, 1995, the committee consisted of L. Aspin, R. G. Flowers, K. C. Lyall, A. M. Nemirow (Chair), H. C. Prange, and J. D. Pyle. As of May 17, 1995, Mr. L. D. Carley was added to the Nominating Committee and was elected as Chair. Mr. Aspin passed away on May 21, 1995. The committee held two meetings in 1995. The committee's responsibilities include making recommendations to the WPLH Board for nominees for election to the WPLH Board. In making recommendations of nominees for election to the WPLH Board, the Nominating Committee will consider nominees recommended by shareowners. Any shareowner wishing to make a recommendation should write the Chief Executive Officer of WPLH, who will forward all recommendations to the Nominating Committee.

The WPLH Board held eleven meetings during 1995. No director attended less than 76% of the aggregate number of meetings of the WPLH Board and board committees on which they served.

#### **Compensation of Directors**

No fees are paid to directors who are officers of WPLH and/or any of its subsidiaries (presently Mr. Davis). Nonmanagement directors, each of whom serve on the Boards of WPLH, WP&L, and HDC, receive an annual retainer of \$32,800 for service on all three boards. Travel expenses are paid for each meeting day attended. All nonmanagement directors also receive a 25% matching contribution in WPLH Common Stock for limited optional cash purchases, up to \$10,000, of WPLH Common Stock through the WPLH DRIP. Matching contributions of \$2,500 each for calendar year 1995 were made for the following directors: L. Aspin, L. D. Carley, R. G. Flowers, D. R. Haldeman, K. C. Lyall, A. M. Nemirow, M. E. Neshek, H. C. Prange, J. D. Pyle, H. F. Scheig, and C. T. Toussaint.

*Director's Charitable Award Program* — WPLH maintains a Director's Charitable Award Program for the nonmanagement members of the WPLH Board beginning after three years of service. The purpose of the program is to recognize the interest of WPLH and its directors in supporting worthy institutions, and enhance WPLH's director benefit program so that WPLH is able to continue to attract and retain directors of the highest caliber. Under the program, when a director dies, WPLH will donate a total of \$500,000 to one qualified charitable organization, or divide that amount among a maximum of four qualified charitable organizations, selected by the individual director. The individual director derives no financial benefit from the program. All deductions for charitable contributions are taken by WPLH, and the donations are funded by WPLH through life insurance policies on the



directors. Over the life of the program, all costs of donations and premiums on the life insurance policies, including a return of WPLH's cost of funds, will be recovered through life insurance proceeds on the directors. The program, over its life, will not result in any material cost to WPLH.

*Director's Life Insurance Program* — WPLH maintains a split-dollar Director's Life Insurance Program for nonemployee directors, beginning after three years of service, which provides a maximum death benefit of \$500,000 to each eligible director. Under the split-dollar arrangement, directors are provided a death benefit only and do not have any interest in the cash value of the policies. The Life Insurance Program is structured to pay a portion of the total death benefit to WPLH to reimburse WPLH for all costs of the program, including a return on its funds. The Life Insurance Program, over its life, will not result in any material cost to WPLH.

#### OWNERSHIP OF VOTING SECURITIES

Listed in the following table are the shares of WPLH Common Stock owned by the executive officers listed in the Summary Compensation Table and all directors of WPLH, as well as the number of shares owned by directors and officers as a group as of June 1, 1996. The table also sets forth each person known by WPLH to beneficially own as of June 1, 1996 five percent or more of the outstanding shares of WPLH Common Stock.

<u>Name of Beneficial Owner</u>	<u>Shares Beneficially Owned</u>	<u>Percent of Class</u>
<b>Executive (1)</b>		
Lance W. Ahearn .....	22,997(2)	*
A. J. (Nino) Amato .....	2,389(3)	*
William D. Harvey .....	7,393(3)	*
Eliot G. Protsch .....	8,344(3)	*
<b>Director Nominees</b>		
Rockne G. Flowers .....	7,863	*
Katharine C. Lyall .....	4,859	*
Henry C. Prange .....	9,792(3)	*
<b>Continuing Directors</b>		
L. David Carley .....	3,623	*
Erroll B. Davis, Jr. ....	10,486(3)(4)	*
Donald R. Haldeman .....	3,510	*
Arnold M. Nemirow .....	6,814	*
Milton E. Neshek .....	10,656	*
Judith D. Pyle .....	4,592	*
Carol T. Toussaint .....	8,947	*
<b>All Executives and Directors as a Group</b>		
27 people, including those listed above .....	129,364	*
<b>Other Beneficial Owners (5)</b>		
IES .....	6,123,944	16.6%
IPC .....	6,123,944	16.6%

\* Less than one percent of the total outstanding shares of WPLH Common Stock.

- (1) Stock ownership of Mr. Davis is shown with continuing directors.
- (2) Prior to April 1, 1996, Mr. Ahearn owned 5 shares of HDC common stock subject to the terms of a Restricted Stock Agreement with HDC and WPLH. Pursuant to such agreement, Mr. Ahearn exchanged one-third of his shares of HDC common stock for WPLH Common Stock on April 1, 1996. Based on the terms of the agreement and the most recent available appraisal of HDC, pursuant to which the exchange ratio is calculated, Mr. Ahearn received 21,672 shares of WPLH Common Stock in exchange for one-third of his HDC shares. Mr. Ahearn's beneficial ownership

reflected in the table above includes the shares of WPLH Common Stock he received pursuant to such an exchange. It is currently anticipated that HDC will also repurchase an additional 1.80 HDC shares from Mr. Ahearn at the most recent per share appraised value.

- (3) Included in the beneficially owned shares shown are the following indirect ownership interests with shared voting and investment powers: Mr. Amato — 880; Mr. Harvey — 1,558; Mr. Protsch — 394; Mr. Davis — 4,602; and Mr. Prange — 248.
- (4) Mr. Davis has been awarded 1.67 shares of HDC common stock subject to a Restricted Stock Agreement with HDC and WPLH.
- (5) By reason of the Stock Option Agreements, each of IES and IPC may be deemed to have sole voting and dispositive power with respect to the shares listed above which are subject to their respective Options from WPLH and, accordingly, each of IES and IPC may be deemed to beneficially own all of such shares (assuming exercise of its Option and the nontriggering of the other party's right to exercise its Option for WPLH Common Stock). However, each of IES and IPC expressly disclaim any beneficial ownership of such shares because the Options are exercisable only in certain circumstances. See "The Stock Option Agreements."

### COMPENSATION OF EXECUTIVE OFFICERS

The following Summary Compensation Table sets forth the total compensation paid by WPLH and its subsidiaries for all services rendered during 1995, 1994, and 1993 to the Chief Executive Officer and the four other most highly compensated executive officers of WPLH or its subsidiaries who perform policy making functions for WPLH.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation Awards		
		Salary (1)	Bonus	Other Annual Compensation (2)	Restricted Stock Awards (3)	Securities Underlying Options/ SARs (4)	All Other Compensation (5)
Erroll B. Davis, Jr. President and CEO	1995	\$426,038	\$125,496	\$18,963	\$ 0	13,100	\$61,513
	1994	426,038	128,232	14,958	272,000	0	57,723
	1993	427,616	115,796	10,262	0	0	55,674
William D. Harvey Senior Vice President- WP&L	1995	203,846	47,340	5,746	0	4,700	23,534
	1994	193,654	56,080	5,203	0	0	22,632
	1993	168,962	42,104	4,152	0	0	24,003
Eliot G. Protsch Senior Vice President- WP&L	1995	200,000	47,520	4,169	0	4,700	20,178
	1994	190,000	56,080	3,930	0	0	18,346
	1993	154,549	42,104	3,194	0	0	15,371
Lance W. Ahearn President and CEO-HDC	1995	195,000	34,125	3,814	0	0	29,663
	1994	186,533	33,576	0	0	0	30,811
	1993	170,500	84,609	0	0	0	3,570
Anthony J. Amato Senior Vice President- WP&L	1995	156,804	40,046	5,144	0	3,650	18,059
	1994	152,885	43,138	5,328	0	0	17,021
	1993	140,769	33,240	4,181	0	0	17,842

- (1) Includes vacation days sold back to WPLH.
- (2) For all except Mr. Davis, amounts for 1995 consist of income tax gross-ups for reverse split-dollar life insurance. For Mr. Davis, amount for 1995 consists of income tax gross-ups for (a) reverse split-dollar life insurance - \$14,352, and (b) financial counseling benefit - \$4,611.

- (3) The restricted stock award to Mr. Davis consists of 1.67 shares of HDC common stock which had an estimated net book value of \$269,132 at December 31, 1995. Dividends are not paid on Mr. Davis' restricted stock. These shares vest at a rate of 0.4175 shares per year beginning on December 21, 1994, and will be fully vested on March 31, 1997, subject to earlier vesting in certain cases. These shares are subject to transfer restrictions in accordance with a Restricted Stock Agreement between WPLH, HDC and Mr. Davis. WPLH loaned to Mr. Davis \$125,053 which equals the income taxes withheld in connection with shares vested as of December 31, 1995. Mr. Davis is charged interest on the loan at the prime rate.
- (4) Stock option grants made in 1995 were in combination with contingent dividend awards as described in the table entitled "Long-Term Incentive Awards in 1995."
- (5) All Other Compensation for 1995 consists of: matching contributions to 401(k) plan, Mr. Davis — \$12,781, Mr. Harvey — \$6,202, Mr. Protsch — \$6,000, Mr. Ahearn — \$4,620 and Mr. Amato \$4,704; financial counseling benefit, Mr. Davis — \$5,000; split dollar life insurance premiums, Mr. Davis — \$28,171, Mr. Harvey — \$11,102, Mr. Protsch — \$9,669, Mr. Ahearn — \$18,002, and Mr. Amato — \$6,908; reverse split dollar life insurance, Mr. Davis — \$15,561, Mr. Harvey — \$6,230, Mr. Protsch — \$4,509, Mr. Ahearn — \$7,041, and Mr. Amato — \$6,447. The split dollar and reverse split dollar insurance premiums are calculated using the "foregone interest" method.

### Stock Options

WPLH has in effect the WPLH Long-Term Equity Incentive Plan pursuant to which, among other awards, options to purchase WPLH Common Stock may be granted to key employees (including executive officers) of WPLH and its subsidiaries. The following table sets forth certain information concerning stock options granted during 1995 to the executive officers named in the Summary Compensation Table.

### OPTION/SAR GRANTS IN 1995

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Appreciation for Option Term (2)	
	Number of Securities Underlying Options/SARs Granted (1)	% of Total Options/SARs Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Share)	Expiration Date	5%(\$)	10%(\$)
Erroll B. Davis, Jr. ....	13,100	31%	27.50	1/3/05	226,630	574,304
William D. Harvey .....	4,700	11%	27.50	1/3/05	81,310	206,048
Eliot G. Protsch .....	4,700	11%	27.50	1/3/05	81,310	206,048
Lance W. Ahearn .....	NA	NA	NA	NA	NA	NA
Anthony J. Amato .....	3,650	9%	27.50	1/3/05	63,145	160,016

- (1) Consists of non-qualified stock options to purchase shares of WPLH Common Stock granted pursuant to WPLH's Long-Term Equity Incentive Plan. Options were granted on January 3, 1995, and will fully vest on January 3, 1998. These options were granted with an equal number of contingent dividend awards as described in the table entitled "Long-Term Incentive Awards in 1995" and have per share exercise prices equal to the fair market value of a share of WPLH Common Stock on the date of grant. Upon a "change in control" of WPLH as defined in the Long-Term Equity Incentive Plan or upon retirement, disability or death of the option holder, these options shall become immediately exercisable. Upon exercise of an option, the optionee purchases all or a portion of the shares covered by the option by paying the exercise price multiplied by the number of shares as to which the option is exercised, either in cash or by surrendering shares of WPLH Common Stock already owned by the optionee.
- (2) The hypothetical potential appreciation shown for the named executives is required by the SEC rules. The amounts shown do not represent either the historical or expected future performance

of WPLH Common Stock. For example, in order for the named executives to realize the potential values set forth in the 5% and 10% columns in the table above, the price per share of WPLH's Common Stock would be \$44.80 and \$71.34, respectively, as of the expiration date of the options.

The following table provides information for the executive officers named in the Summary Compensation Table regarding the number and value of unexercised options. No options were exercised by such officers during 1995.

**OPTION/SAR EXERCISES IN 1995 AND  
OPTION/SAR VALUES AT DECEMBER 31, 1995**

Name	Number of Securities Underlying Unexercised Options/SARs at Year End		Value of Unexercised In-the-Money Options/SARs at Year End (1)	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Erroll B. Davis, Jr. ....	0	13,100	0	\$40,938
William D. Harvey ....	0	4,700	0	14,688
Eliot G. Protsch ....	0	4,700	0	14,688
Lance W. Ahearn ....	NA	NA	NA	NA
Anthony J. Amato ....	0	3,650	0	11,406

(1) Based on the closing per share price on December 29, 1995 of WPLH Common Stock of \$30%.

**Long-Term Incentive Awards**

The following table provides information concerning long-term incentive awards made in 1995 to the executive officers named in the Summary of Compensation Table.

**LONG-TERM INCENTIVE AWARDS IN 1995**

Name	Number of Shares, Units or Other Rights (#)(1)	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts Under Non-Stock Price-Based Plans (2)		
			Threshold (\$)	Target (\$)	Maximum (\$)
Erroll B. Davis, Jr.	13,100	1/3/98	61,622	77,028	134,799
William D. Harvey	4,700	1/3/98	22,109	27,636	48,363
Eliot G. Protsch	4,700	1/3/98	22,109	27,636	48,363
Lance W. Ahearn	NA	NA	NA	NA	NA
Anthony J. Amato	3,650	1/3/98	17,170	21,462	37,559

(1) Consists of Performance Units awarded under WPLH's Long-Term Equity Incentive Plan in combination with stock options (as described in the table entitled "Option/SAR Grants in 1995"). These Performance Units are entirely in the form of contingent dividends and will be paid if total shareowner return over a three-year period ending January 3, 1998 equals or exceeds the median return earned by the companies in a peer group of utility holding companies, except that there will be no payment if WPLH's total return is negative over the course of such period. If payable, each participant shall receive an amount equal to the accumulated dividends paid on one share of WPLH Common Stock during the period of January 3, 1995 through January 2, 1998 multiplied by the number of performance units awarded to the participant, and modified by a performance multiplier which ranges from 0 to 1.75 based on WPLH total return relative to the peer group.

(2) Assumes, for purposes of illustration only, a two cent per share increase in the annual dividend on shares of WPLH Common Stock for 1996 and 1997.

### **Certain Transactions and Agreements with Executives**

WPLH has entered into employment and severance agreements with certain of its executive officers and certain executive officers of its subsidiaries, including Messrs. Davis, Harvey, Protsch, Ahearn and Amato. For a description of these agreements, see "The Mergers — Interests of Certain Persons in the Mergers — Severance Agreements."

WPLH and HDC also entered into a Restricted Stock Agreement with Mr. Davis in relation to the award to Mr. Davis in 1994 of 1.67 shares of HDC common stock as shown in the Summary Compensation Table. (See footnote 3 to the Summary Compensation Table for additional information on the award of HDC stock to Mr. Davis.) The agreement restricts the transfer of the HDC stock awarded to Mr. Davis and gives HDC the right of first refusal on any proposed transfer of the stock, at prices per share as determined in accordance with the agreement. The agreement also provides for the sale of the stock by Mr. Davis to HDC in the event of a sale of HDC, and, beginning on March 31, 1997, provides for the conversion of the HDC stock into WPLH Common Stock over a period of five years at a ratio as determined in accordance with the agreement.

WPLH and HDC also have in place a Restricted Stock Agreement with Mr. Ahearn in connection with an award to Mr. Ahearn of five shares of HDC common stock in 1991. The final portion of Mr. Ahearn's restricted stock vested in 1994. The provisions of the agreement with Mr. Ahearn are similar to the provisions of the agreement with Mr. Davis. HDC has loaned to Mr. Ahearn an amount of \$485,401 which equals the income taxes withheld in connection with HDC shares awarded to him. Mr. Ahearn is charged interest on the loan at the prime rate. It is currently anticipated that HDC will repurchase 1.80 shares of HDC common stock from Mr. Ahearn at the most recent per share value, as determined by an independent appraiser selected by the Compensation and Personnel Committee of the WPLH Board and Mr. Ahearn.

### **Retirement and Employee Benefit Plans**

Salaried employees (including officers) of WPLH and WP&L are eligible to participate in a Retirement Plan maintained by WP&L. Mr. Ahearn is not eligible to participate in the plan. All of the other executive officers named in the Summary Compensation Table participated in the plan during 1995. Contributions to the plan are determined actuarially, computed on a straight-life annuity basis, and cannot be readily calculated as applied to any individual participant or small group of participants. For purposes of the plan, compensation means payment for services rendered, including vacation and sick pay, and is substantially equivalent to the salary amounts reported in the foregoing Summary Compensation Table. Retirement Plan benefits depend upon length of plan service (up to a maximum of 30 years), age at retirement, and amount of compensation (determined in accordance with the plan) and are reduced by up to 50 percent of Social Security benefits. Credited years of service under the plan for covered persons named in the foregoing Summary Compensation Table are as follows: Mr. Davis, 16 years; Mr. Protsch, 16 years; Mr. Amato, 9 years; and Mr. Harvey, 8 years. Assuming retirement at age 65, a Retirement Plan participant (in conjunction with the Unfunded Supplemental Retirement Plan described below) would be eligible at retirement for a maximum annual retirement benefit as follows:

## Retirement Plan Table

Average Annual Compensation	Annual Benefit After Specified Years in Plan*					
	5	10	15	20	25	30
\$125,000	\$10,210	\$20,421	\$ 30,631	\$ 40,841	\$ 51,052	\$ 61,262
150,000	12,502	25,004	37,506	50,008	62,510	75,012
200,000	17,085	34,171	51,256	68,341	85,427	102,512
250,000	21,669	43,337	65,006	86,675	108,343	130,012
300,000	26,252	52,504	78,756	105,008	131,260	157,512
350,000	30,835	61,671	92,506	123,341	154,177	185,012
400,000	35,419	70,837	106,256	141,675	177,093	212,512
450,000	40,002	80,004	120,006	160,008	200,010	240,012
475,000	42,294	84,587	126,881	169,175	211,468	253,762
500,000	44,585	89,171	133,756	178,341	222,927	267,512
525,000	46,877	93,754	140,631	187,508	234,385	281,262

\* Average annual compensation is based upon the average of the highest 36 consecutive months of compensation. The Retirement Plan benefits shown above are net of estimated Social Security benefits and do not reflect any deductions for other amounts. The annual retirement benefits payable are subject to certain maximum limitations (in general, \$120,000 for 1995 and \$120,000 for 1996) under the Internal Revenue Code. Under the Retirement Plan and a supplemental survivors income plan, if a Retirement Plan participant dies prior to retirement, the designated survivor of the participant is entitled to a monthly income benefit equal to approximately 50 percent (100 percent in the case of certain executive officers and key management employees) of the monthly retirement benefit which would have been payable to the participant under the Retirement Plan if the participant had remained employed by WPLH until eligible for normal retirement.

*Unfunded Supplemental Retirement Plan* — WP&L maintains an Unfunded Supplemental Retirement Plan which provides funds for payment of retirement benefits above the limitations on payments from qualified pension plans in those cases where an employee's retirement benefits exceed the qualified plan limits. Additionally, the plan provides for payments of supplemental retirement benefits to employees holding the position of Vice President or higher, who have been granted additional months of service by the WPLH Board for purposes of computing retirement benefits. The benefits payable under this plan are included in the amounts disclosed in the Retirement Plan Table set forth above.

*Unfunded Executive Tenure Compensation Plan* — WP&L maintains an Unfunded Executive Tenure Compensation Plan to provide incentive for key executives to remain in the service of WP&L by providing additional compensation which is payable only if the executive remains with WP&L until retirement (or other termination if approved by the WPLH Board). Participants in the plan must be designated by the Chief Executive Officer of WP&L and approved by the WP&L Board. Mr. Davis was the only active participant in the plan as of December 31, 1995. The plan provides for monthly payments to a participant after retirement (at or after age 65, or with approval of the WP&L Board, prior to age 65) for 120 months. The payments will be equal to 25 percent of the participant's highest average salary for any consecutive 36-month period. If a participant dies prior to retirement or before 120 payments have been made, the participant's beneficiary will receive monthly payments equal to 50 percent of such amount for 120 months in the case of death before retirement, or if the participant dies after retirement, 50 percent of such amount for the balance of the 120 months. Annual benefits of \$104,500 would be payable to Mr. Davis upon retirement, assuming he continues in WP&L's service until retirement at the same salary as was in effect on December 31, 1995.

## Report of the Compensation and Personnel Committee on Executive Compensation

*To Our Shareowners:* The Compensation and Personnel Committee (the "WPLH Committee") of the WPLH Board is comprised of five independent, nonemployee directors who have no "interlocking" relationships, as defined by the SEC. The WPLH Committee assesses the effectiveness and competitiveness of, approves the design of, and administers executive compensation programs within a consistent total compensation framework for WPLH. The WPLH Committee also reviews and approves all salary arrangements and other remuneration for executives, evaluates executive performance, and considers related matters. To support the WPLH Committee in carrying out its mission, Hewitt Associates, an independent consultant, is engaged to provide assistance in the development of comprehensive executive compensation policies.

The WPLH Committee is committed to implementing a total compensation program for executives which furthers WPLH's mission. The WPLH Committee, therefore, adheres to the following compensation policies which are intended to facilitate the achievement of WPLH's business strategies.

- Total compensation should enhance WPLH's ability to attract, retain, and encourage the development of exceptionally knowledgeable and experienced executives, upon whom, in large part, the successful operation and management of WPLH depends.
- Base salary levels should be targeted at the median level paid to executives of companies in their respective industry(ies).
- Incentive compensation programs should strengthen the relationship between pay and performance by emphasizing variable, at-risk compensation that is consistent with meeting predetermined WPLH, subsidiary, and individual performance goals.

*Components of Compensation.* The WPLH Committee relates total compensation levels for WPLH's senior executives to the compensation paid to executives of similar companies in their respective industry(ies). As WPLH is a diversified utility holding company with both regulated and nonregulated operations, comparison groups are customized to the respective industries in which an executive is involved. Utility executives' pay is compared to that of executives at utilities with similar operations in both the Midwest and national markets, as well as to utilities with similar revenue levels, market capitalizations, employment levels, and total shareowner returns. Compensation paid to holding company executives, including Mr. Davis, is compared to the compensation paid by the same utility comparison group. However, in order to recognize holding company employees for increasing nonregulated business responsibilities, benchmark data also are drawn from similarly sized diversified industrial companies furnished by public survey data. For executives with sole responsibilities in the nonregulated businesses, comparison group data reflect the relevant mix of the nonregulated business operations.

The WPLH Committee has reviewed overall compensation levels and compared them to the benchmarks established. It has been determined that total executive compensation, including that for Mr. Davis, is in line with the median of the comparison groups of companies.

The current elements of WPLH's executive compensation program are base salary, short-term (annual) incentives and long-term (equity) incentives. These elements are addressed separately below. In determining each component of compensation, the WPLH Committee considers all elements of an executive's total compensation package, including benefit and perquisite programs.

*Base Salaries.* The WPLH Committee annually reviews each executive's base salary. Base salaries are targeted at the median of the executive's respective industry market rate when comparing both utility and non-utility (general industry) data. Base salaries are adjusted annually by the WPLH Committee to recognize changes in market rate, varying levels of responsibility, prior experience, breadth of knowledge as well as internal equity issues. Increases to base salaries are driven primarily

by market rate adjustments. Individual performance factors are not considered by the WPLH Committee in setting base salaries. In 1995, executives did not receive an across-the-board salary adjustment. Certain executives received base salary increases in recognition of changes in current market rates. Mr. Davis did not receive a base salary increase in 1995 as his salary level corresponded to the median of the targeted market range. Greater emphasis was placed on the opportunity for executives to increase their earnings through annual incentive plans by exceeding specific strategic goals. Base pay adjustments are tied to median market rate changes and will minimize across-the-board increases. During 1995, all executive salaries were reviewed for median market rate comparability utilizing utility and general industry data contained in compensation surveys published by Edison Electric Institute, American Gas Association and several compensation consulting firms. Any recommended changes will be effective for 1996. Market rates will be reviewed annually.

*Short-Term Incentives.* The goal of short-term (annual) incentive programs is to promote the WPLH Committee's pay-for-performance philosophy by providing executives with direct financial incentives in the form of annual cash or stock based bonuses to achieve corporate, subsidiary, and individual performance goals. Annual bonus opportunities allow the WPLH Committee to communicate specific goals that are of primary importance during the coming year and motivate executives to achieve these goals. The WPLH Committee on an annual basis reviews and approves the program's performance goals and the relative weight assigned to each goal as well as targeted and maximum award levels. A description of the short-term incentive programs available to executive officers follows.

*WP&L Management Incentive Plan* — The WP&L Management Incentive Plan (the "WP&L MIP") covers utility executives and in 1995 was based on achieving annual targets in several areas of overall corporate performance that include profitability, operations and maintenance expense control, reduction in lost time accidents, and achievement of electric service reliability standards. Target and maximum bonus awards were set at the median of the utility market levels. Targets were considered by the WPLH Committee to be achievable, but require above-average performance from each of the executives. For 1995, the threshold levels for all WP&L MIP performance categories were exceeded. Actual payment of bonuses, as a percentage of annual salary, is determined by the level of performance achieved in each category. Weighting factors are applied to the percentage achievement under each category to determine overall performance. If the threshold performance level is not reached, there is no bonus payment associated with that particular category. Once the designated maximum performance is reached, there is no additional payment. The actual percentage of salary paid as a bonus, within the allowable range, is equal to the weighted average percent achievement for all the performance categories. For example, if the overall weighted performance achievement is 70%, the executive will receive 70% of his or her maximum allowable bonus award. The WP&L MIP awarded 64 percent of its allowable maximum for 1995. Potential WP&L MIP awards for executives range from 0 to 40 percent of annual salary. The WP&L MIP does not allow for discretion in bonus determinations. Awards for 1995 under the WP&L MIP made to top executives (other than to Mr. Davis and Mr. Ahearn) are shown in the Summary Compensation Table.

*HDC Management Incentive Plan* — Mr. Ahearn and selected other executives of HDC are covered by the HDC Management Incentive Plan (the "HDC MIP") which is based on achievement of specified combinations of net income and after-tax return on capital invested in HDC and on achieving a number of other specific HDC performance objectives which included the development of business strategies for certain new ventures and restructuring and growth targets for existing operating units. The incentive compensation plan for Mr. Ahearn consists of a potential award maximum of 80 percent of his base salary; 75 percent associated with performance in the net income and after-tax return category and 25 percent for the achievement of specific personal performance goals. The actual payment of bonuses as a percentage of annual salary is determined as described for the WP&L MIP. In 1995, the threshold level of net profit and after-tax return was not achieved so that there was no payout for this component. Mr. Ahearn did exceed the minimum performance for his personal goals



which resulted in a payout for this component. The HDC MIP awarded 22 percent of its allowable maximum in 1995 solely based on performance in relation to the preestablished objectives. Mr. Ahearn's award for 1995 under the HDC MIP is set forth in the Summary Compensation Table.

*WPLH Management Incentive Plan* - Mr. Davis is covered by WPLH's Management Incentive Plan (the "WPLH MIP"). Awards under the WPLH MIP are based on WP&L, HDC and individual performance achievement in relation to predetermined goals. For each plan year, the WPLH Committee will determine the performance apportionment for Mr. Davis. In 1995 that apportionment was 50% for WP&L performance, 25% for HDC performance and 25% for individual performance. WP&L performance is measured based on the overall percentage achievement factor of the corporate goals established for the WP&L MIP. HDC performance is measured based on the overall percentage achievement of the 1995 return on capital and net income matrix from the HDC plan. Individual performance is measured based on the achievement of certain specific goals, which included strategy development and implementation, established for Mr. Davis by the WPLH Committee. The 1995 WPLH MIP award range for Mr. Davis was from 0% to 70% of annual salary. The actual payment of bonuses as a percentage of annual salary is determined as described for the WP&L MIP. In 1995, the WPLH MIP provided a payment to Mr. Davis as a result of the achievement of goals under the WP&L MIP as described above and for achievement of the personal goals established by the WPLH Committee. There was no payout under the HDC performance component. For 1995 performance, Mr. Davis' annual bonus payment represented 29% of his base salary, as reflected in the Summary Compensation Table. Under the WPLH MIP, Mr. Davis was awarded \$125,496 solely in connection with 1995 performance as discussed above. In the judgment of the WPLH Committee, Mr. Davis' award range is in line with the median of the same combined utility and general industry comparison group used for base salary comparisons.

*Long-Term Incentives.* The WPLH Committee strongly believes compensation for senior executives should include long-term, at-risk pay to strengthen the alignment of shareowner and management interests at both the WP&L and HDC levels. In this regard, the Long-Term Equity Incentive Plan allows for grants of stock options, restricted stock, and performance units/shares with respect to WPLH Common Stock. The WPLH Committee believes the Long-Term Equity Incentive Plan balances WPLH's existing compensation programs by emphasizing compensation based on the long-term successful performance of WPLH from the perspective of the shareowners. Stock options provide a reward that is directly tied to the benefit shareowners receive from increases in the price of WPLH Common Stock. The payout from the performance units is based on WPLH's continued payment of dividends, a significant component of investment returns for utilities, and the relative total return to shareowners compared to other comparable investments. Thus the two components of the Long-Term Equity Incentive Plan, *i.e.*, stock options and performance units, provide incentives for management to produce superior shareowner returns on both an absolute and relative basis. During 1995 the WPLH Committee made a grant of stock options and performance units to Messrs Davis, Amato, Protsch and Harvey. All option grants were made at the fair market value of WPLH Common Stock on the date the grants were approved (January 3, 1995). The options vest after three years and have a ten-year term from the date of the grant. Executives were also granted performance units which will accumulate all of the dividends paid on one share of WPLH Common Stock over a three-year period. One performance unit was granted for each option received by the executive. Accrued dividends are not reinvested in WPLH Common Stock, nor is any interest paid on accrued dividends. Performance Units will be paid out in cash or in shares of WPLH Common Stock. The payment will be modified by a performance multiplier which ranges from 0 to 1.75 based on the three year average of WPLH total shareowner return relative to a utility holding company peer group. If WPLH's total shareowner return for the three year period is negative, the performance unit payout will be zero. In determining actual award levels, the WPLH Committee was primarily concerned with providing a competitive total compensation level to officers. As such, award levels (including the awards made to Mr. Davis) were based on a competitive analysis of similarly-sized utility companies that took into consideration the market level of long-term incentives, as well as the competitiveness of the total compensation package. Award ranges, as well as individual award levels, were then established based on responsibility level

and market competitiveness. No corporate or individual performance measures were reviewed in connection with the awards of options and performance units. Award levels were targeted to the median of the range of such awards paid by comparable companies. In addition, the WPLH Committee did not consider the amounts of options or performance units already outstanding or previously granted since no options or performance units have been granted by WPLH in the past.

*Policy With Respect to the \$1 Million Deduction Limit.* Section 162(m) of the Code generally limits the corporate deduction for compensation paid to executive officers named in the proxy statement to \$1 million unless such compensation is based upon performance objectives meeting certain regulatory criteria or is otherwise excluded from the limitation. The WPLH Committee has carefully considered the impact of this tax code provision. Based on the WPLH Committee's commitment to link compensation with performance as described in this report, the WPLH Committee currently intends to qualify compensation paid to WPLH's executive officers for deductibility by WPLH under Section 162(m).

*Conclusion.* The WPLH Committee believes the existing executive compensation policies and programs provide the appropriate level of competitive compensation for WPLH executives. In addition, the WPLH Committee believes that the long and short term performance incentives effectively align the interests of executives and shareowners toward a successful future for WPLH.

COMPENSATION AND PERSONNEL  
COMMITTEE

Arnold M. Nemirow (Chair)

Milton E. Neshek

Henry C. Prange

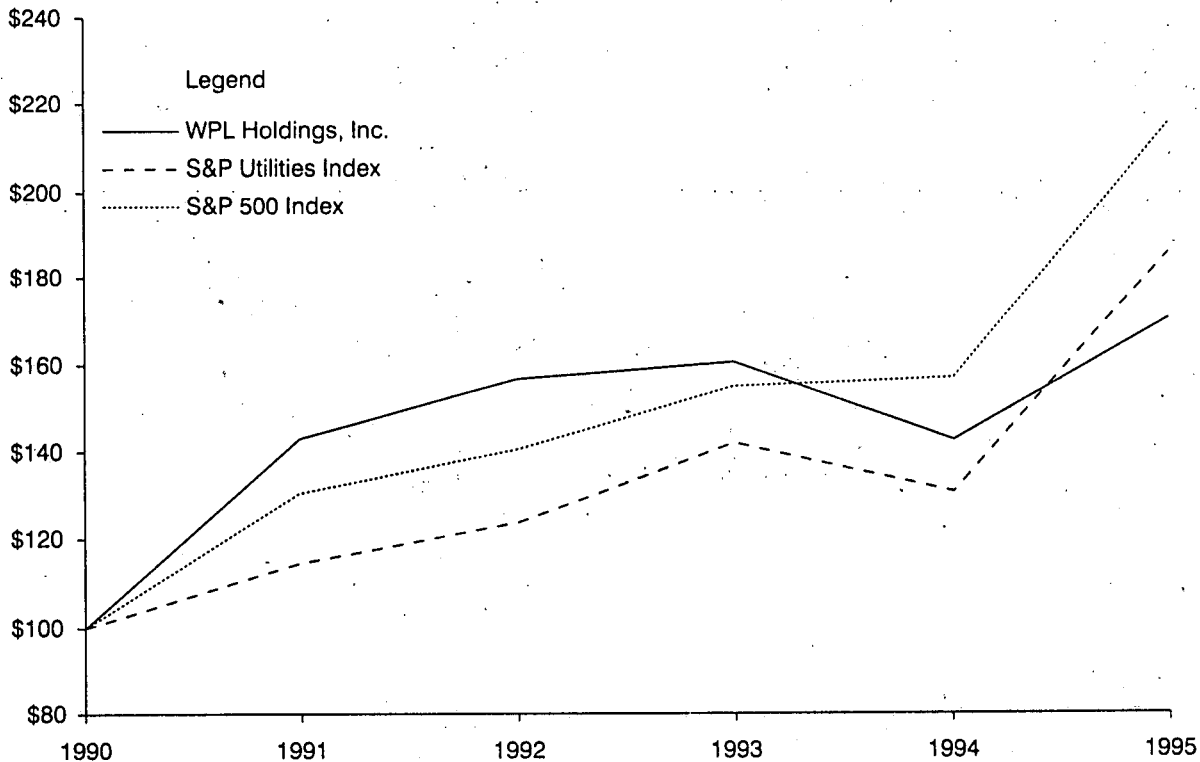
Judith D. Pyle

Carol T. Toussaint

## COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN

Rules of the SEC require that WPLH show a graphical comparison of the total return on the WPLH Common Stock for the last five fiscal years with the total returns of a broad market index and a more narrowly focused industry or group index. (Total return is defined as the return on common stock including dividends and stock price appreciation, assuming reinvestment of dividends.) WPLH has selected the Standard & Poors ("S&P") 500 index for the broad market index, and the S&P Utility Index as the industry index. These indices were selected because of their broad availability and recognition. The following chart compares the total return of an investment of \$100 in WPLH Common Stock on December 31, 1990, with like returns for the S&P 500 and S&P Utilities indices.

**Cumulative Total Shareholder Return  
WPL Holdings, Inc.; S&P 500 Index; and S&P Utilities Index**



	1990	1991	1992	1993	1994	1995
WPL Holdings, Inc.	\$100.00	\$143.10	\$156.54	\$160.41	\$142.51	\$170.34
S&P Utilities Index	\$100.00	\$114.62	\$123.89	\$141.79	\$130.52	\$185.38
S&P 500 Index	\$100.00	\$130.57	\$140.60	\$154.64	\$156.64	\$215.49

### COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934

WPLH's directors, its executive officers, and certain other officers are required to report their ownership of WPLH Common Stock and WP&L Preferred Stock and any changes in that ownership to the SEC and the NYSE. All required filings in 1995 were properly made in a timely fashion. In making the above statements, WPLH has relied on the representations of the persons involved and on copies of their reports filed with the SEC.

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