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ALLIANT ENERGY.

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Alliant Energy's 1998 financial information is in the pocket that can be found in the inside back cover.

Alliant Energy's stock price, represented by the LNT ticker symbol, rolls across the electronic ticker at the New York Stock Exchange.

Interstate Energy Corporation, doing business as Alliant Energy, is a major energy-services provider with growing national and international diversified operations. Headquartered in Madison, Wisconsin, Alliant Energy provides electric, natural-gas, water or steam energy to more than one million customers in Iowa, Wisconsin, Minnesota and Illinois. Alliant Energy Resources, Inc., the home of the company's diversified businesses, has operations and interests in a variety of energy and other businesses throughout the United States and in China and New Zealand.

The common stock of Interstate Energy Corporation is publicly traded on the New York Stock Exchange under the symbol LNT. At the company's May 19, 1999 annual meeting, shareowners will consider a proposal to change the company's legal name from Interstate Energy Corporation to Alliant Energy Corporation.

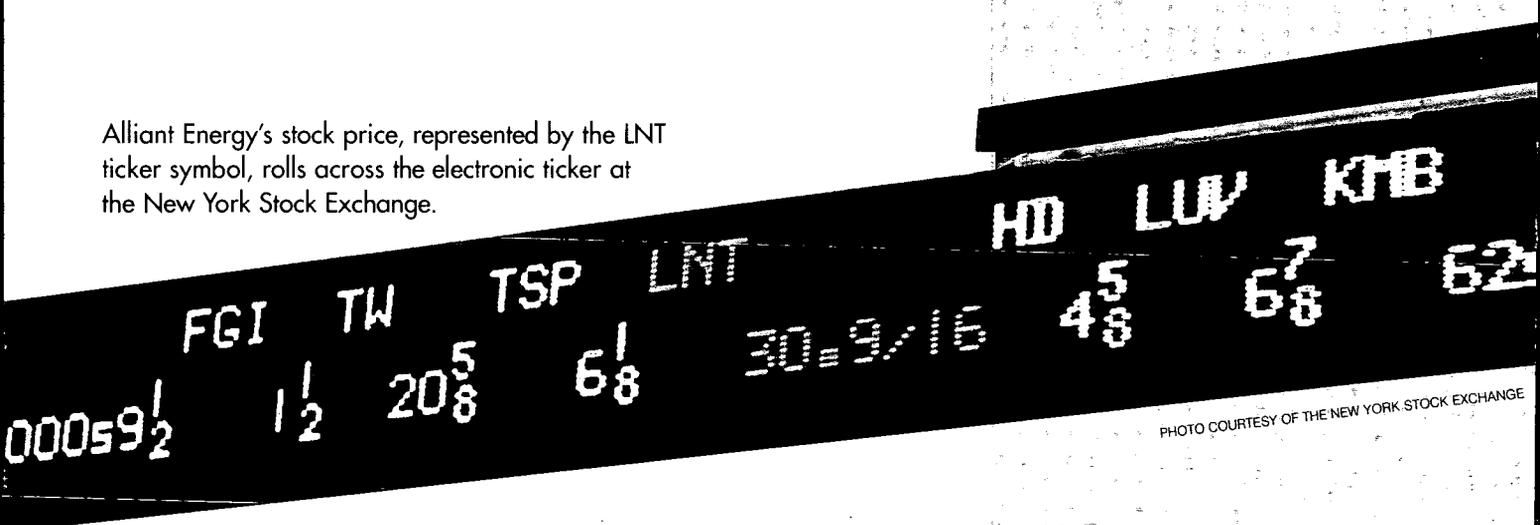
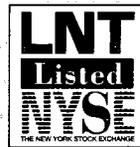


PHOTO COURTESY OF THE NEW YORK STOCK EXCHANGE



ALLIANT ENERGY

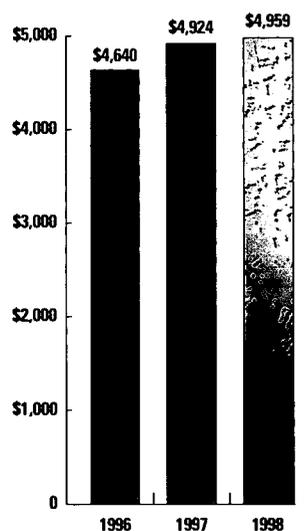
FINANCIAL HIGHLIGHTS

	1998	1997*	Change
<i>(Dollars are in millions except for per-share data)</i>			
Operating Results:			
Operating revenues	\$2,131	\$2,301	(7%)
Operating income	\$283	\$336	(16%)
Net income before merger-related charges	\$131	\$146	(10%)
Net income	\$97	\$145	(33%)
Return on average common equity			
before merger-related charges	8.01%	9.52%	(16%)
Return on average common equity	5.98%	9.46%	(37%)
Utility electric sales from ultimate customers			
(thousands of MWH)	24,487	24,015	2%
Total utility electric sales (thousands of MWH)	31,834	30,944	3%
Utility gas sold and transported (thousands of dekatherms)	104,034	117,972	(12%)
Construction and acquisition expenditures	\$372	\$328	13%
Total assets at year-end	\$4,959	\$4,924	1%
Per-Share Data:			
Earnings per average common share before			
merger-related charges (basic and diluted)	\$1.71	\$1.92	(11%)
Earnings per average common share (basic and diluted)	\$1.26	\$1.90	(34%)
Book value at year-end	\$20.69	\$21.24	(3%)

* Results have been restated to reflect a change in accounting method for Interstate Energy Corporation's oil and gas properties in the third quarter of 1998 from the full cost method to the successful efforts method. The above financial information reflects the consummation of the merger involving WPL Holdings, Inc., IES Industries Inc. and Interstate Power Co. on April 21, 1998, as a pooling of interests. The financial data should be read in conjunction with the audited financial statements and related notes of Interstate Energy Corporation, which are included elsewhere in this Annual Report to shareowners. The data are not necessarily indicative of future operating results or financial position.

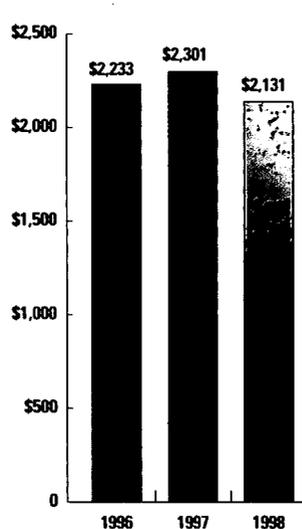
Total assets

(in millions)



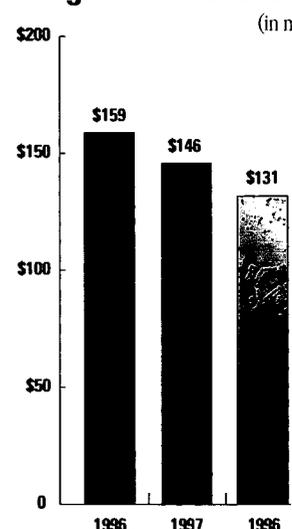
Operating revenues

(in millions)



Net income before merger-related charges

(in millions)



TO OUR SHAREOWNERS:

Not unlike the first year of marriage or of a child's life, the first year of a new corporation typically brings both its share of joy and growing pains. For Alliant Energy, 1998 has proven to be no exception.

Merger positions your company for growth

April 21 was clearly the pinnacle day in 1998 and in the history of your company. On that day, after 29 long months of regulatory scrutiny, our three-way merger was approved and a new energy-services provider now doing business as Alliant Energy was finally created. With a solid foundation built on more than 100 years of service to customers across America's heartland, Alliant Energy is becoming more efficient and better positioned to grow than any of its predecessor companies were on a stand-alone basis.

Traditionally, of course, regulated monopoly utilities lacked the business incentives to focus on efficiency or growth. With captive customers, many utilities historically were successful merely by signing customers up rather than winning them over.

As you probably know, however, customers have been demanding for some time that the monopoly era come to an end. Policymakers at both the federal and state levels are beginning to answer these calls, resulting in a fundamental transformation of the energy-services industry. And, while many of our competitors continue to resist the



Lee Liu
Chairman
of the Board



Wayne Stoppelmoor
Vice Chairman
of the Board



Erroll B. Davis Jr.
President and Chief
Executive Officer

inevitability of customer choice, Alliant Energy knows that competition can work to the advantage of its customers and shareowners. As deregulation sorts the industry into winners and losers, Alliant Energy will be implementing a business strategy focused on succeeding in a new marketplace. Winning requires flexibility. It requires fast decisions. It requires customer-focused thinking. And above all, it requires that we grow, and grow profitably.

1998 in review

As we continue to blend three different operating businesses and cultures into one, we are admittedly still experiencing some of the growing pains inherent in the first year of any new organization. Our 1998 earnings per share of \$1.26, for example, reflect some \$54 million (45 cents per share) in one-time expenses for employee retirements and separations, services of the company's advisors, and other costs to complete the merger. Excluding

these one-time expenses, 1998 earnings per share were \$1.71, as compared with \$1.92 in 1997.

While we were pleased by an increase in electricity sales volume, 1998 earnings were adversely impacted by delayed rate recognition for costs associated with purchasing and obtaining additional electricity needed to serve Alliant Energy customers in Wisconsin during high-demand periods. Earnings also were reduced by milder-than-normal winter weather, which reduced customer demand for natural gas both early and late in the year.

The company also resolved a trademark-infringement lawsuit in 1998 filed against us by Alliant Communications Inc., a Nebraska-based telecommunications provider. Alliant Communications had claimed that our use of the Alliant name would result in customer and shareowner confusion. As part of the settlement that was reached last fall, we agreed to do business under

the name *Alliant Energy*, rather than *Alliant*, as was initially announced.

We would also be remiss if we did not highlight the considerable financial and human capital commitment Alliant Energy has been devoting to the Year 2000 computer problem – a technology glitch that has the potential to seriously disrupt the flow of information (and energy) throughout the world. Not only have we already tested and upgraded most of our own equipment, we also have raised awareness of the Year 2000 issue with hundreds of other firms and organizations with which we do business. While we expect to receive long-term benefits from our work, our Year 2000 efforts have created substantial one-time costs without any incremental revenues to date.

Ready to compete successfully

The formation of Alliant Energy has placed your company among the 30 largest in the energy-services industry. Ultimately, of course, bigger will only be better if our newfound size produces the products and services customers will demand once they have the right to make their own energy choices. As shown on the map at right, 16 states – representing nearly half of the U.S. population – already have decided to allow for customer choice. Regardless of when all customers have the right to choose, Alliant Energy is planning to be ready with the array of products and services that customers will demand.

As you review our blueprint for success on the following pages, you will find that our business strategy can ultimately be captured in three simple words: **defend and grow**. We **defend** by aggressively finding new ways to please customers of our existing electricity, natural-gas and other core businesses. In doing so, Alliant Energy becomes an even clearer choice for customers once they have the right to shop around. We will **grow** by leveraging our energy expertise to enter new and growing markets.

In closing, we are also pleased to report that your Board of Directors has taken steps to make sure that management's interests have been aligned even more closely with yours as shareowners. In January 1999, the Board of Directors approved new guidelines requiring certain officers to own a quantity of company shares that is directly proportional to salary.

On behalf of the Board of Directors and our more than 6,000 employees, we want to thank you for your patience and support. Without the commitment so many of you have made to this company over the years, we would not be ready for the countless opportunities – and great rewards – that lie ahead.

Sincerely,



Lee Liu

Chairman of the Board



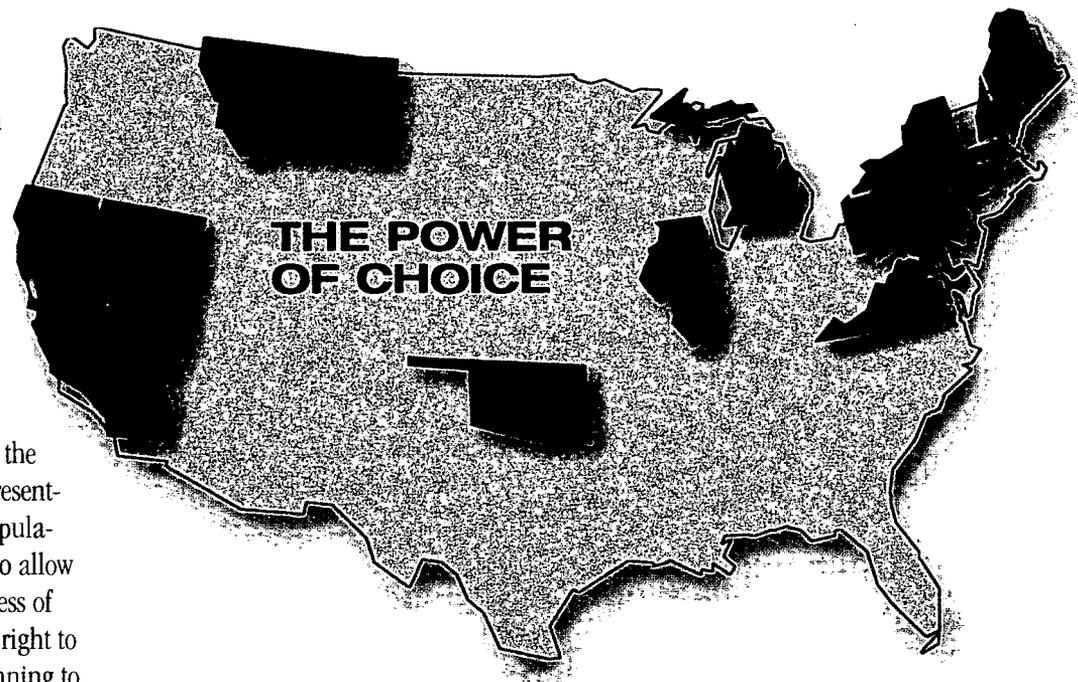
Wayne Stoppelmoor

Vice Chairman of the Board



Erroll B. Davis Jr.

President and Chief Executive Officer



The power of customer choice is rapidly spreading across the nation. Already, 16 states (highlighted), representing 47 percent of the U.S. population, have decided to let customers choose their own energy supplier.

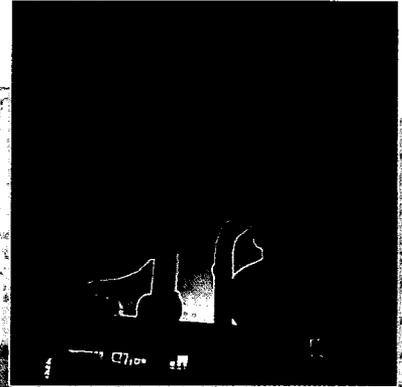
ALLIANT ENERGY AT A GLANCE

From its origins as a Midwestern electric and natural-gas utility, Alliant Energy provides customers at home and around the world with an ever-growing array of comfort, security and productivity solutions.

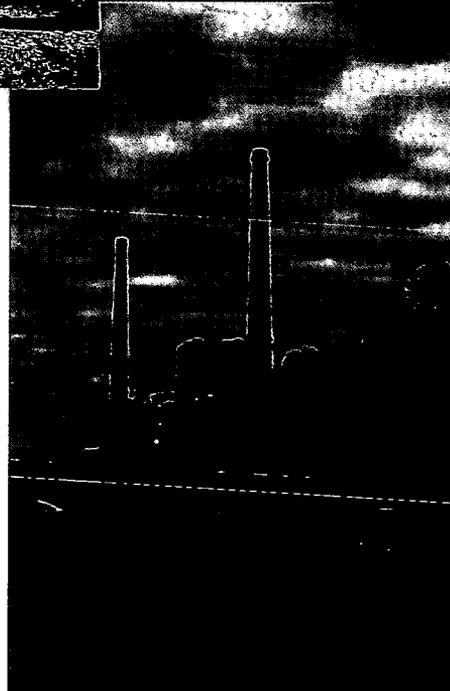
Backed by \$5 billion in assets, a diverse and talented workforce, and a focus on meeting customer needs, Alliant Energy is poised to compete in the competitive energy-services marketplace of tomorrow.

Here is a sampling of Alliant Energy's business operations throughout the United States and abroad.

The Denver, Colorado-based Whiting Petroleum Corp. acquires and develops proven, producing domestic fields with oil and natural-gas reserves.

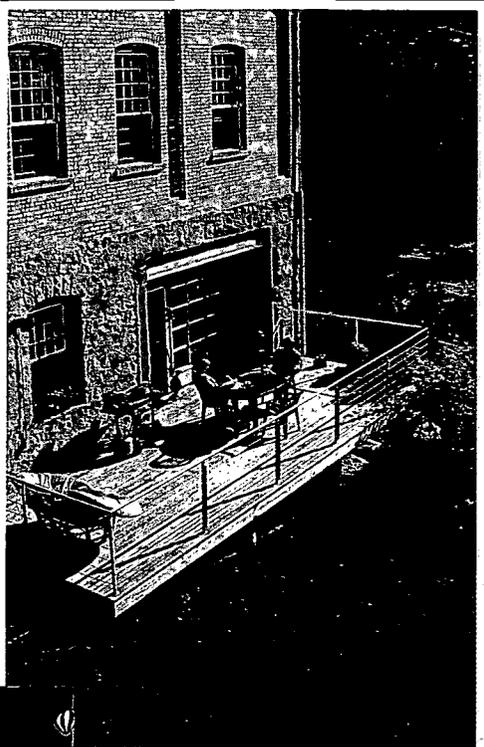


Serving the environmental management and engineering needs of petroleum refineries, metals manufacturers and many other clients, the Madison, Wisconsin-based RMT, Inc. has 18 offices across the United States and operations in the United Kingdom.



Alliant Energy's core utility business provides electricity, natural-gas, water or steam service to more than one million customers throughout Iowa, Wisconsin, Minnesota and Illinois.

For more than 90 years, the Cedar Rapids and Iowa City Railway Company (CRANDIC) has linked many eastern Iowa companies to major rail centers throughout the Midwest.



Since 1988, the Madison, Wisconsin-based Heartland Properties, Inc. has played a pivotal role in the development of affordable housing throughout the Midwest.

China is just one international market in which Alliant Energy has developed partnerships in the energy generation or infrastructure businesses.

Nearly four generations of customers already have come to depend on the reliable, competitively-priced electric, natural-gas, water and steam energy supplied by Alliant Energy. Keeping this proud partnership alive, however, does not mean taking today's customer for granted. It means working harder than ever to ensure that Alliant Energy will always be the customer's supplier of choice. Accordingly, Alliant Energy is constantly striving to achieve nothing short of excellence in customer service, emergency response and operational performance.

Earning the privilege to serve customers

Keeping the traffic moving.

Seeking to upgrade its traffic signals and lower its energy bill, the City of Clinton, Iowa, turned to Alliant Energy for a solution. By installing

more than 1,200 new traffic-signal lights that are both more visible and more energy-efficient, Alliant Energy enhanced its relationship with a valued customer.



Nothing puts Alliant Energy's utility business to the test like Mother Nature. Between March and November of 1998, five major storms throughout the Alliant Energy service territory knocked out electrical power to a combined 240,000 customers in hundreds of Iowa, Wisconsin, Minnesota and Illinois communities. In many instances, the damage to homes, buildings and equipment was truly unprecedented. Time and again, Alliant Energy employees worked around the clock to quickly and safely restore power.

Customers have come to depend on Alliant Energy to perform when storms and other emergencies make life challenging. As the energy-services industry becomes more competitive, every moment of customer contact is an opportunity to make good on our promises. From the "smile" in the voice of our customer service repre-

Promoting public safety. This year, Alliant Energy introduced a new community safety program. Here, Nancy Johnson, safety technical training specialist, explains the importance of electrical safety to school children. Other safety programs include natural-gas and electric demonstrations for fire departments, agricultural shows and civic groups.



sentatives to the manner in which our service technicians greet you at your door, Alliant Energy is working harder than ever to cultivate customer loyalty. In fact, more than seven out of 10 residential customers surveyed already say they would stick with Alliant Energy if offered a choice today.

Several factors may explain the high degree of satisfaction on the part of Alliant Energy customers. These include:

24-hour service

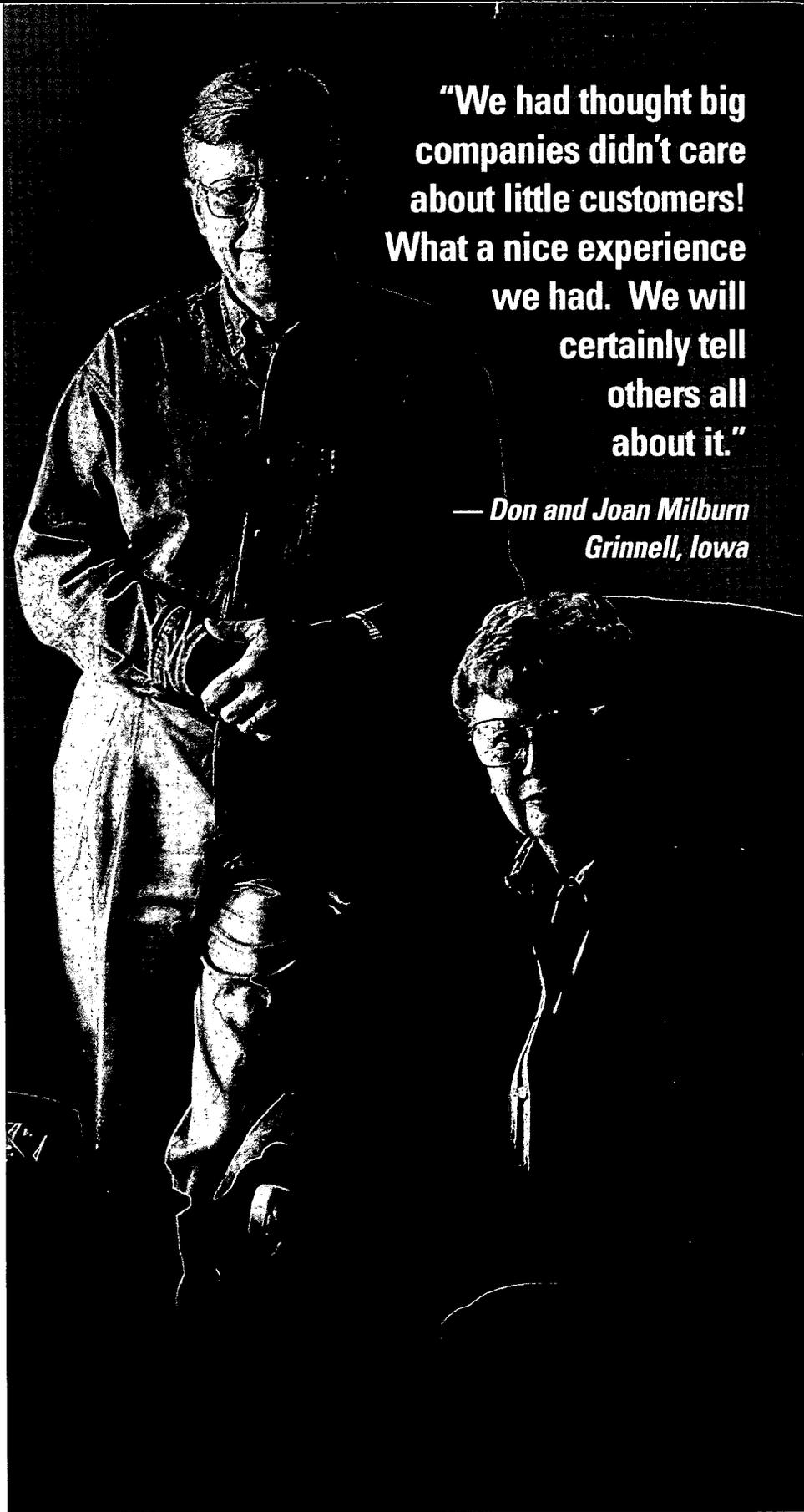
All customers, of course, can reach us anytime to report an emergency. Most customers also now have 24-hour access for routine service requests such as placing new service orders or inquiring about their monthly bill. Moreover, when calling one of our toll-free numbers, a typical Alliant Energy customer waits only 16 seconds before being connected to a customer service representative. By comparison, the average wait for all customer-service calling centers is 60 seconds, according to a 1998 study conducted by Purdue University.

Faster emergency response

Processes are continually being upgraded to minimize the length of a power outage or the time it takes Alliant Energy to respond when a customer notices the presence of natural gas. In 1998, for example, customers who called to report a natural-gas emergency could, on average, expect a knock on the door from an Alliant Energy technician within 28.7 minutes – even faster than the company's 30-minute goal.

Accurate, easy-to-read billing

Customers expect a mistake-free bill. Alliant Energy is working to meet these expectations. Moreover, some customers who used to receive multiple bills – such as a chain of 15 convenience stores – now can receive one summary bill.



“We had thought big companies didn’t care about little customers! What a nice experience we had. We will certainly tell others all about it.”

**— Don and Joan Milburn
Grinnell, Iowa**

Letters ... we get letters! Don and Joan Milburn of Grinnell, Iowa, took a moment to thank us in writing last fall after an Alliant Energy crew promptly restored electrical service to a family member's home just in time for a scheduled open house.

Respecting our surroundings.

Alliant Energy's commitment to environmental responsibility and stewardship reflects the company's respect for its natural surroundings. Moreover, taking care of the environment simply makes good business sense. In 1998, Alliant Energy adopted a comprehensive policy reaffirming its long-held commitment to our environment as a responsible corporate citizen.

"Every decision this company makes is screened for its potential environmental impact," says Erroll B. Davis Jr., president and chief executive officer. "We believe this proactive approach is not only appreciated by the public, but also highly valued by our shareowners."



Pictured here is the Karner blue butterfly, an endangered species whose Wisconsin habitat coincides with part of Alliant Energy's utility service territory. Working with a coalition of industry partners, conservation organizations and government agencies, Alliant Energy is helping to preserve and protect the habitat of this endangered insect whose origins date back to the last Ice Age. This is but one example of our commitment to environmental responsibility.

Because an unhappy customer today becomes someone else's customer tomorrow, Alliant Energy not only must do its job better, it must outshine the rest of the pack. In some instances, Alliant Energy has already demonstrated such prowess. A 1998 international comparison of 31 energy-services providers from the United States, Australia, the United Kingdom and New Zealand ranked Alliant Energy as a "best performer" in four categories, including overall reliability.

Behind the scenes, electric energy must be manufactured before it can be delivered to the customer's home or business. With a capacity of approximately 5,000 megawatts, Alliant Energy manufactures and markets electricity from 31 generating locations across the Midwest.

While Alliant Energy's plants are cost effective, the onset of competition has forced us to take additional steps to maximize profitability. Because price is the major consideration for bulk-power customers, manufacturers such as Alliant Energy must continuously drive down costs while driving up volume. By purchasing lower-cost coal from western states and efficiently reducing the length of planned maintenance outages at its power plants, Alliant Energy seeks to enhance its competitive position in the bulk-power marketplace.

Periodic spells of high temperatures during the summers of 1997 and 1998 forced both energy-services companies and regulators to think about new ways to ensure a reliable supply of energy to customers. Two

factors — temporary maintenance shutdowns of several Midwest nuclear power plants and a lack of sufficient transmission capacity — have, in tandem, led to several recent developments that will provide a more reliable energy supply for customers while protecting the interests of shareowners.

Among these are the replacement of the Kewaunee (Wisconsin) Nuclear Power Plant's two 400-ton steam generators in the spring of 2000. Alliant Energy and Wisconsin Public Service Corp., of Green Bay, Wisconsin, co-owner and operator of the plant, will together recover the \$90 million replacement cost in rates over an eight-and-one-half-year period.

Moreover, Alliant Energy will soon begin purchasing additional electricity from a new 450-megawatt natural-gas fired power plant to be located in south-central Wisconsin. This plant, which will be constructed by Polsky Energy Corp. of Northbrook, Illinois, is scheduled to be operating by the summer of 2000; it will manufacture enough energy to provide light and power to 100,000 homes. Also, the Public Service Commission of Wisconsin last year began a study of potential transmission-system projects in the Upper Midwest. Within the next year, the Commission is expected to approve projects that will enable Alliant Energy and other companies to procure more power from the west and south to better serve their customers.

Finally, Alliant Energy and Northern States Power Co. of Minneapolis announced plans to

develop an independent, for-profit, publicly-traded transmission company (ITC) to provide electric transmission services to the Upper Midwest. Formation of this new entity, which requires several regulatory approvals, would allow Alliant Energy to better meet the needs of both customers and shareowners. ■



A customer partnership heats up. By actively cultivating stronger partnerships with customers, Alliant Energy enhances its appeal as the energy-services marketplace becomes more competitive. Seeking to increase its production of cast iron while reducing its energy bill, Kirsh Foundry of Beaver Dam, Wisconsin turned to Alliant Energy in 1998. By financing the cost and installation of the furnace, Alliant Energy contributed to the expansion of this family-owned business. At left, Kirsh Executive Vice President Steve Kirsh, left, President Jim Kirsh, center, and Alliant Energy Key Account Manager Pat Keenan discuss the impact of the new furnace, which is also pictured.

Alliant Energy Resources fuels future growth

As competitive forces shape the energy-services industry, energy providers will be challenged to grow like never before. And, because consumption of electricity or natural gas is expected to grow only modestly within the company's utility service territory, Alliant Energy has entered several rapidly-growing energy-services markets that provide opportunities for new sources of earnings growth.

Under the Alliant Energy Resources umbrella, the company has launched four distinct platforms designed to meet customer needs throughout the Midwest, the nation and the world.

These platforms include:

Alliant Energy Industrial Services:

A provider of energy and environmental services designed to maximize productivity for industrial and large-commercial customers.

Alliant Energy International:

A partner in developing energy generation and infrastructure in growing markets throughout the world.

Alliant Energy Retail Services:

Encompassing a wide array of products and services designed to meet the comfort, security and productivity needs of residential and small commercial customers.

Cargill-Alliant Energy: An energy-trading joint venture that combines the superior risk-management and commodity trading expertise of Cargill, one of the world's largest and most established commodity trading firms, with Alliant Energy's low-cost electric-generation and transmission business experience.

Each of these four platforms provides unique prospects for growth

both individually and collectively as the competitive energy-services marketplace evolves.

Alliant Energy Industrial Services

was created in 1998 by combining two new units – Energy Planning and Energy Management – with two established businesses: Energy Applications, which provides facilities-based and commodities-based energy solutions; and RMT, Inc., an environmental-management and engineering firm with offices throughout the United States and the United Kingdom. Together, these four components comprise an industrial-services company with the expertise customers find valuable.

Industrial Services succeeded on several fronts in 1998. RMT, for example, was selected as a preferred vendor by clients such as BP Amoco and Weyerhaeuser. Energy Applications, meanwhile, launched several electricity generation projects for new and existing customers. And Energy Planning provided energy consulting to a large number of new clients, including Bowater Incorporated, the second-largest manufacturer of newsprint in the world. These units anticipate continued growth in 1999.

Alliant Energy International

continued its expansion in 1998, making a strategic investment in Peak Pacific, an energy development firm based in Singapore and active in China. Peak Pacific broke ground on a new power plant in 1999 near Zhengding, and will work to close several more projects throughout the year. At the same time, Alliant Energy is seeking to expand its New Zealand investments. Supplementing these developments, Alliant Energy is also seeking opportunities in the South American energy marketplace.

(continued on page 14)



ALLIANT ENERGY
Resources



A tasty solution; a satisfied customer. In 1998, Barilla America, Inc. chose Ames, Iowa, as the site for its only U.S. production facility, a 500,000 square-foot durum wheat mill, pasta factory and warehouse (shown at left). An Italian-based manufacturer of premium dry pasta, Barilla looked to Alliant Energy Industrial Services-Energy Applications for a cost-effective package of products and services that provided the new facility with an uninterrupted fuel supply using natural gas and a propane-air backup system (shown below).

"The Energy Applications people found a way to accommodate our fuel-management needs," said Dave Bramow, Barilla America plant manager. "They clearly went the extra mile for us."



Alliant Energy Retail

Services continues to pursue opportunities in a rapidly growing residential and small commercial marketplace. From appliance warranty services to power quality products and services, this residential energy-services market will only grow by the day. Alliant Energy launched a two-fold entry into this marketplace in 1998: (1) a Security Blanket Appliance Protection Plan; and (2) a Home Products Catalog, offering customers a variety of home-electronics, safety and home-improvement products – all by dialing a toll-free number or by visiting our Internet site at www.alliantenergycatalog.com. As this marketplace continues to grow, Alliant Energy will seek to acquire the skills and scale necessary to compete even more effectively in the future.

Cargill-Alliant Energy officially began operations in 1998, following completion of the Alliant Energy merger. This joint venture was born into a new world, in which the development of a new electricity-trading industry and extreme summer weather created an incredibly volatile commodity market that caused major losses for a few companies. Cargill-Alliant Energy also was impacted by this volatility, but only incurred a modest loss while gaining valuable experience in this rapidly developing marketplace.

An attractive array of home-electronics, safety and home-improvement products is available from Alliant Energy Resources. Call us toll-free at 1-877-888-1777 or visit us on the Internet at www.alliantenergycatalog.com

The sole focus of Alliant Energy Resources is growth. The platforms the company launched in 1998 benefit from the experience and profitability of Alliant Energy's other diversified companies, including:

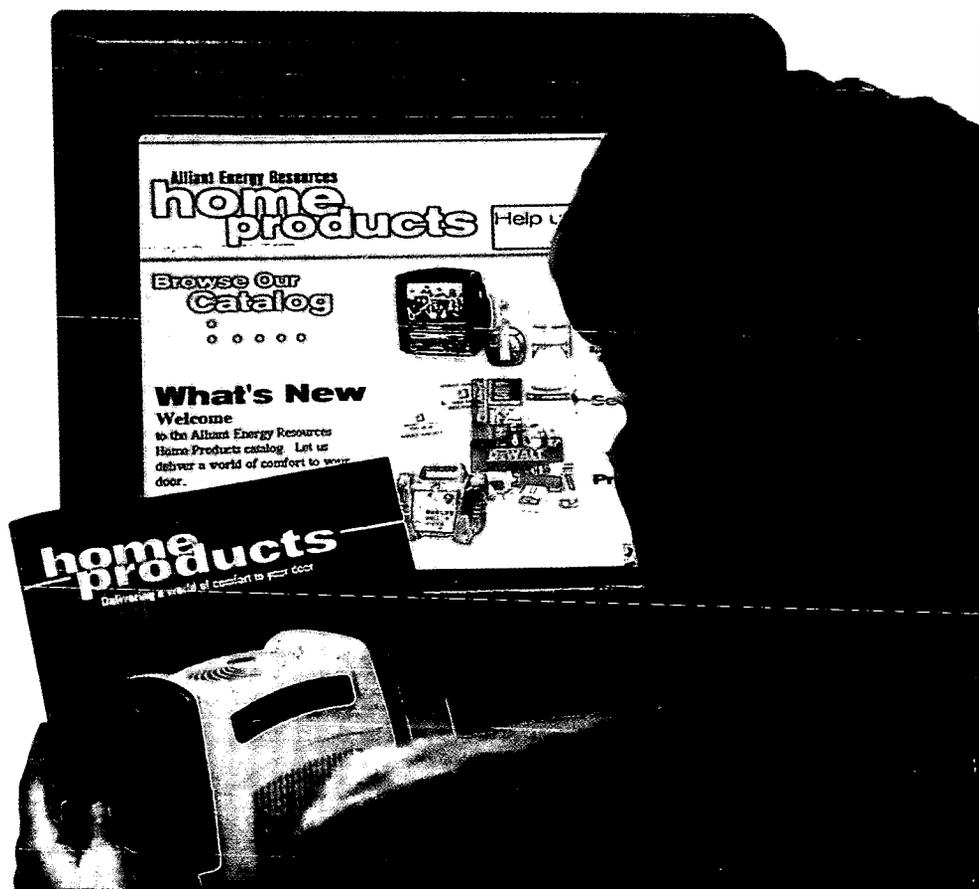
Alliant Energy Transportation and its subsidiaries, which saw another very profitable year. Alliant Energy Transportation continues to seek opportunities for expansion, to carry its well-known customer service and responsiveness to other customers through acquisitions or joint ventures.

Whiting Petroleum, which felt the effects in 1998 of extremely low oil and gas prices, but continued its strategy of acquiring reserves. The Denver, Colorado-based Whiting completed three acquisitions in 1998 totaling approximately \$35 million.

Heartland Properties, Inc. and its sister company, **Capital Square Financial Corp.**, continued to provide equity and debt

financing for affordable housing, developments in the Alliant Energy utility service territory. These affordable housing services complement Alliant Energy's utility business and reinforce the company's commitment to the many communities it is privileged to serve. Another property development entity, 2001 Development, in which Alliant Energy is a major investor, completed the construction of a new office building in downtown Cedar Rapids, Iowa.

Finally, Alliant Energy's investment in **McLeodUSA Inc.**, an independent telecommunications provider based in Cedar Rapids, Iowa, continues to represent a significant asset to our company. This investment had a market value of approximately \$320 million at the end of 1998, compared with a cost of \$30 million. Such an investment provides Alliant Energy with balance-sheet strength and enhances the company's low-cost capital structure. ■



GETTING READY FOR THE MILLENNIUM

You come home, flip a switch and the lights go on. You take off your coat, adjust the thermostat and soon the house is just as warm or cool as you like. Every day, the energy to keep you comfortable, secure and productive is there — always there. But will the energy be there on New Year's Day — January 1, 2000? For Alliant Energy

and its customers, that is the essence of the so-called Year 2000, or Y2K challenge.

Although humans would never mistake the Year 2000 for the year 1900, certain computers and other electronic information devices will not "know" any better because they only store the last two digits of the year ("99" is understood as the year 1999; but "00" could be interpreted as the year 1900 rather than 2000). Because the world is so highly dependent on and connected by computers and microprocessing chips, this seemingly trivial technology glitch could lead to a worldwide recession, according to some economists.

The Year 2000 challenge is nothing new to Alliant Energy. For several years, the company has been surveying, testing and upgrading its computers and other information-based equipment that are vital to serving customers. Because Alliant Energy cannot address all of its Year 2000 challenges without the help of suppliers, vendors, customers and

Stickers such as the one pictured here ("Y2K OK") are part of Alliant Energy's comprehensive Year 2000 equipment inventory and testing process.

other organizations with which we do business, the company has spent a considerable amount of time building greater awareness of the issue.

Wisconsin Governor Tommy Thompson is among those who have acknowledged Alliant Energy's Y2K-awareness efforts.

"Alliant Energy has helped build an effective public/private partnership in Wisconsin to meet the Year 2000 challenge," said Governor Thompson. "Alliant Energy officials have shared insights about Y2K with business and community leaders throughout the state and have helped lay the groundwork for state government's own efforts to prepare its institutions and programs for the Year 2000." ■

Dr. Edward Yardeni, a nationally recognized economist and Year 2000 expert, applauded Alliant Energy in a visit with company executives and managers in August 1998.

"We are not getting any global or even national leadership on Y2K," Yardeni said. "Companies have to fill this void and I think your organization has been doing that."

Building the Alliant Energy brand

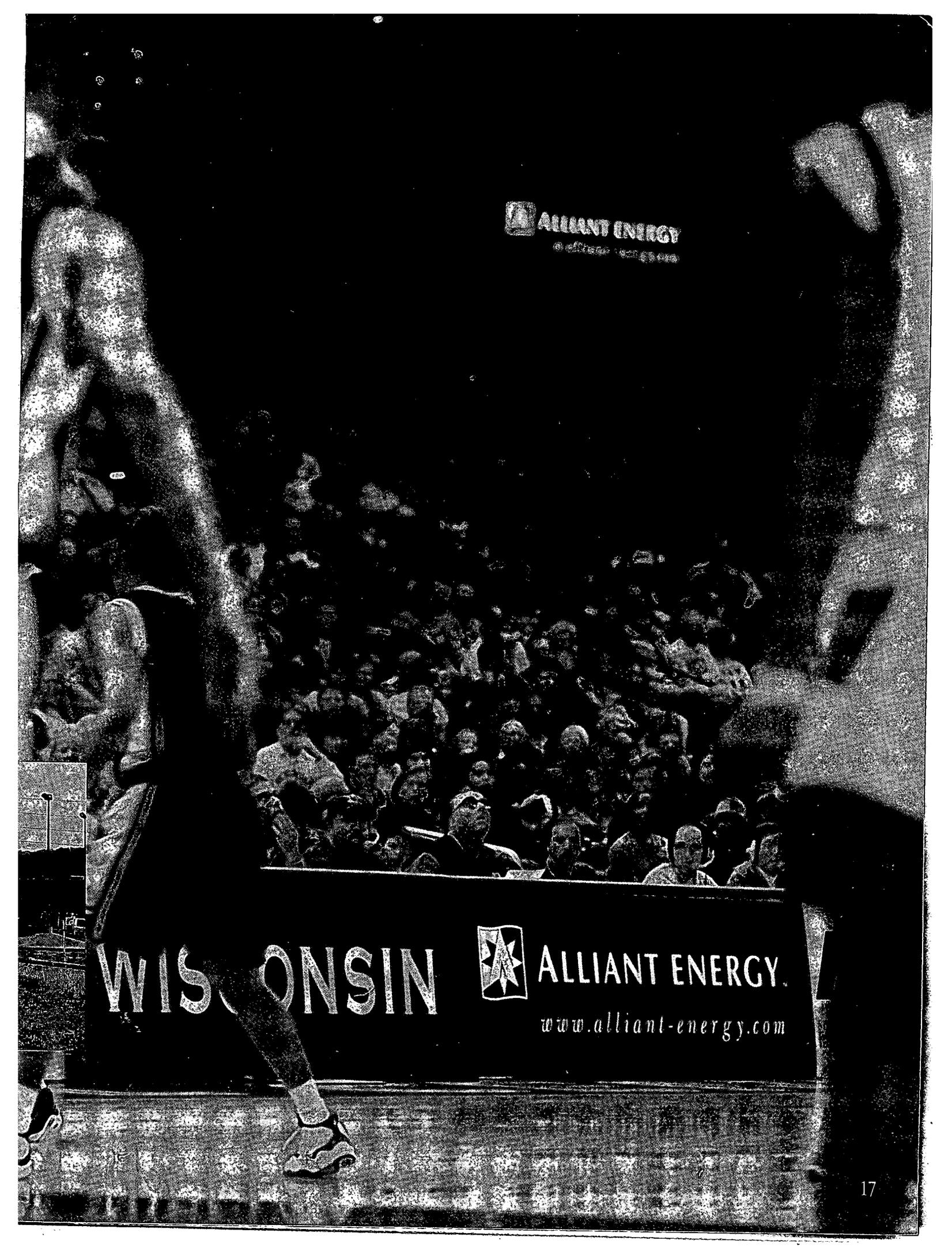
Since the formation of Alliant Energy on April 21, 1998, the company's new name has been showing up in a variety of places. From signs on company buildings to billboard advertisements at athletic venues, an integrated marketing-communications effort is underway to build awareness and understanding of the Alliant Energy brand.

In addition to print, radio and television advertising, Alliant Energy is also sponsoring intercollegiate athletics at state universities in Iowa and Wisconsin. This program, as well as other Alliant Energy advertising initiatives, reflects the company's commitment to create energy partnerships and solutions that increase the comfort, security and productivity of customers around the world. ■



ALLIANT ENERGY





ALLIANT ENERGY
A ALLIANT ENERGY COMPANY

WISCONSIN



ALLIANT ENERGY

www.alliant-energy.com

SHAREOWNER INFORMATION

Interstate Energy Corporation (doing business as Alliant Energy) had 76,943 shareowners as of December 31, 1998, based on the number of shareowner accounts. Shareowner records are maintained in the corporate general office in Madison, Wisconsin.

Market information EXCHANGE LISTINGS

	Stock Exchange	Trading Symbol	Newspaper Abbreviation
Interstate Energy Corporation (d.b.a. Alliant Energy) Common	New York Stock Exchange	LNT	IntstEngy
Wisconsin Power and Light Company - 4.50% Preferred	American Stock Exchange	Wis Pr	WI P&L pf

All other Wisconsin Power and Light Company preferred series and all preferred series of IES Utilities Inc. and Interstate Power Company are traded on the over-the-counter market.

Annual meeting

The 1999 Annual Meeting of Shareowners will be held at the Dubuque Five Flags Center, 405 Main Street, Dubuque, Iowa, on Wednesday, May 19, 1999, at 1 p.m., Central Daylight Time.

Street-name accounts

Shareowners whose stock is held by banks or brokerage firms and who wish to receive quarterly reports directly from the company should contact Shareowner Services to be placed on the mailing list.

Form 10-K information

Upon request, the company will provide, without charge, copies of the Annual Report on *Form 10-K* for the year ended December 31, 1998, as filed with the Securities and Exchange Commission. Direct requests to Shareowner Services. *All reports filed with the SEC are also available on the Internet through our home page.*

Analyst inquiries

Inquiries from the financial community may be directed to:

Robert Rusch
Investor Relations
Alliant Energy
P.O. Box 192
Madison, WI 53701-0192
Telephone: (608) 252-3470

Common stock quarterly price ranges and dividends

Quarter	1 9 9 8			1 9 9 7		
	High	Low	Dividend	High	Low	Dividend
First	\$33 7/8	\$31 1/2	\$0.50	\$28 7/8	\$27 1/8	\$0.50
Second	35 1/8	29 1/8	0.50	28 1/8	26 1/8	0.50
Third	32 1/8	28	0.50	29	27	0.50
Fourth	34	29 1/8	0.50	34 1/8	28 1/8	0.50
Year	\$35 1/8	\$28	\$2.00	\$34 1/8	\$26 1/8	\$2.00

Interstate Energy Corporation 1998 year-end common stock price: \$32 1/4

1999 record and dividend payment dates

Anticipated record and dividend payment dates are as follows:

Common Stock	
Record Dates	Payment Dates
Jan. 29	Feb. 13
Apr. 30	May 15
July 30	Aug. 14
Oct. 29	Nov. 15

Duplicate mailings

Annual Reports are mailed to all shareowners. You will receive duplicate mailings if your shares are registered in different names, but using the same address. To eliminate duplicate annual reports, call or send your request to Shareowner Services.

If you receive duplicate mailings of proxies and dividend checks because of slight differences in the registration of your accounts, please call Shareowner Services for instructions about combining your accounts.

Shareowner Direct Plan

The Plan is available to all shareowners of record, first-time investors, customers, vendors and employees. The Plan enables shareowners to buy common stock directly through the company without paying any brokerage commissions, fees or service charges. You may obtain a copy of the Plan Prospectus, detailing the features of the Plan, by contacting Shareowner Services.

Highlights of the Plan include:

- Optional cash investments by check or electronic transfer
- Dividends can be reinvested or received in cash
- Stock certificate safekeeping
- Sale of shares
- Electronic deposit of dividends.

Direct Deposit

Shareowners who are not reinvesting their dividends through the Plan may choose to have their quarterly dividend checks electronically deposited in their checking or savings accounts through this service.

Shareowner information

The company keeps its shareowners informed regularly through the *Annual Report*, the *Quarterly Report* and other communications. We encourage shareowners with questions or concerns to contact Shareowner Services.

Stock transfer agent and registrar

For Interstate Energy Corporation (doing business as Alliant Energy) common stock and all preferred stock of Wisconsin Power and Light Company, IES Utilities Inc. and Interstate Power Company, contact:

Interstate Energy Corporation
Shareowner Services
P.O. Box 2568
Madison, WI 53701-2568

Shareowner Services

The company's Shareowner Services representatives are available to assist you from 8:30 a.m. to 4:30 p.m. (Central Standard Time) each business day.

Madison, Wisconsin area:
(608) 252-3110

Toll-free:
1-800-356-5343

Please direct written inquiries to Shareowner Services at the above address.

Internet address:
www.alliant-energy.com

Board of Directors

Key to committee membership

- A = Audit Committee**
- C = Compensation and Personnel Committee**
- E = Environmental, Nuclear, Health and Safety Committee**
- N = Nominating and Governance Committee**
- X = Executive Committee**
- ° = Committee Chair**

Ages are as of December 31, 1998. Dates in brackets represent first year of board affiliation with a company that ultimately became part of the Alliant Energy family.



Rockne G. Flowers, 67
[1979]
Chief Executive Officer
Nelson Industries, Inc.
Stoughton, Wisconsin
Committees: **N°X**



Alan B. Arends, 65
[1993]
Chairman of the Board
Alliance Benefit Group
Financial Services Corp.
Albert Lea, Minnesota
Committees: **C N**



Erroll B. Davis Jr., 54
[1982]
President and Chief Executive Officer
Alliant Energy
Madison, Wisconsin



Wayne H. Stoppelmoor, 64
[1986]
Vice Chairman of the Board
Alliant Energy
Dubuque, Iowa
Committees: **X**



Anthony R. Weiler, 62
[1979]
Senior Vice President
Heilig-Meyers Co.
Richmond, Virginia
Committees: **C N**



Lee Liu, 65 [1981]
Chairman of the Board
Alliant Energy
Cedar Rapids, Iowa
Committees: **X°**



Royce L. Hanes, 66
[1982]
Director and Chairman
of the Board
Midwest Wholesale, Inc.
Mason City, Iowa
Committees: **A° E X**



Katharine C. Lyall, 57
[1986]
President
University of
Wisconsin System
Madison, Wisconsin
Committees: **A E**



Arnold M. Nemirow, 55
[1991]
Chairman,
President and Chief
Executive Officer
Bowater Incorporated
Greenville, South Carolina
Committees: **C° X**



Jack R. Newman, 65
[1994]
Partner
Morgan, Lewis & Bockius
Washington, D.C.
Committees: **E° A X**



Milton E. Neshek, 68
[1984]
General Counsel
and Member of the
Board of Directors
Kikkoman Foods, Inc.
Walworth, Wisconsin
Committees: **A E**



Robert W. Schlutz, 63
[1989]
President
Schlutz Enterprises
Columbus Junction, Iowa
Committees: **A E**



David Q. Reed, 67
[1967]
Independent
Practitioner of Law
Kansas City, Missouri
Committees: **C**



Robert D. Ray, 70
[1987]
President
Drake University
Des Moines, Iowa
Committees: **N**



Judith D. Pyle, 55
[1992]-
Vice Chair
The Pyle Group
Madison, Wisconsin
Committees: **C N**

OFFICERS

Ages are as of December 31, 1998. Dates in brackets represent the year each person joined a company that ultimately became part of the Alliant Energy family.

ALLIANT ENERGY OFFICERS

- Erroll B. Davis Jr.**, 54 [1978]
President and Chief Executive Officer
- William D. Harvey**, 49 [1986]
Executive Vice President-Generation
- James E. Hoffman**, 45 [1995]
Executive Vice President-Business Development
- Eliot G. Protsch**, 45 [1978]
Executive Vice President-Energy Delivery
- Barbara J. Swan**, 47 [1987]
Executive Vice President and General Counsel
- Thomas M. Walker**, 51 [1996]
Executive Vice President and Chief Financial Officer
- Pamela J. Wegner**, 51 [1993]
Executive Vice President-Corporate Services
- John E. Ebright**, 55 [1996]
Vice President-Controller
- Edward M. Gleason**, 58 [1977]
Vice President, Treasurer and Corporate Secretary
- Susan J. Kosmo**, 52 [1986]
Assistant Controller
- John E. Kratchmer**, 36 [1985]
Assistant Controller
- Linda J. Wentzel**, 50 [1978]
Assistant Corporate Secretary
- Enrique Bacalao**, 49 [1998]
Assistant Treasurer

ALLIANT ENERGY CORPORATE SERVICES OFFICERS*

- Erroll B. Davis Jr.**, 54 [1978]
Chief Executive Officer
- Pamela J. Wegner**, 51 [1993]
President
- William D. Harvey**, 49 [1986]
Executive Vice President-Generation
- James E. Hoffman**, 45 [1995]
Executive Vice President-Business Development
- Eliot G. Protsch**, 45 [1978]
Executive Vice President-Energy Delivery
- Barbara J. Swan**, 47 [1987]
Executive Vice President and General Counsel
- Thomas M. Walker**, 51 [1996]
Executive Vice President and Chief Financial Officer
- Dale R. Sharp**, 58 [1964]
Senior Vice President-Engineering and Operations Support
- Daniel A. Doyle**, 40 [1992]
Vice President-Manufacturing and Energy Portfolio Services
- John E. Ebright**, 55 [1996]
Vice President-Controller
- Dean E. Ekstrom**, 51 [1985]
Vice President-Sales and Service
- John F. Franz Jr.**, 59 [1992]
Vice President-Nuclear
- Edward M. Gleason**, 58 [1977]
Vice President, Treasurer and Corporate Secretary
- Dundeana K. Langer**, 40 [1984]
Vice President-Customer Operations
- Daniel L. Mineck**, 50 [1970]
Vice President-Performance Engineering and Environmental
- Kim K. Zuhlke**, 45 [1978]
Vice President-Customer Operations
- David L. Wilson**, 52 [1966]
Assistant Vice President-Nuclear
- Linda J. Wentzel**, 50 [1978]
Assistant Corporate Secretary
- Kent M. Ragsdale**, 49 [1985]
Assistant Corporate Secretary
- Enrique Bacalao**, 49 [1998]
Assistant Treasurer
- Steven F. Price**, 46 [1984]
Assistant Treasurer
- Robert A. Rusch**, 36 [1989]
Assistant Treasurer

*Alliant Energy Corporate Services, Inc. provides internal support to all business units within the company.

ALLIANT ENERGY RESOURCES OFFICERS**

- Erroll B. Davis Jr.**, 54 [1978]
Chief Executive Officer
- James E. Hoffman**, 45 [1995]
President
- Thomas L. Aller**, 49 [1993]
Vice President-Alliant Energy Investments
- Charles Castine**, 49 [1998]
Vice President-Industrial Services
- John K. Peterson**, 46 [1998]
Vice President-International
- John E. Ebright**, 55 [1996]
Vice President-Controller
- Edward M. Gleason**, 58 [1977]
Vice President, Treasurer and Corporate Secretary
- Linda J. Wentzel**, 50 [1978]
Assistant Corporate Secretary
- Enrique Bacalao**, 49 [1998]
Assistant Treasurer
- Steven F. Price**, 46 [1984]
Assistant Treasurer
- Robert A. Rusch**, 36 [1989]
Assistant Treasurer
- Daniel L. Siegfried**, 38 [1992]
Assistant Corporate Secretary

**Alliant Energy Resources, Inc. is the parent of the company's nonregulated businesses.

Alliant Energy 1998 Annual Report written, designed and photographed by Alliant Energy Corporate Communications.

INTERSTATE ENERGY CORPORATION

(Doing business as
Alliant Energy Corporation)

1998 FINANCIAL INFORMATION

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)

MERGER

On April 21, 1998, IES Industries Inc. (IES), WPL Holdings, Inc. (WPLH) and Interstate Power Company (IPC) completed a three-way merger (Merger) forming Interstate Energy Corporation (IEC). IEC is currently doing business as Alliant Energy Corporation. As a result of the Merger, the first tier subsidiaries of IEC include: Wisconsin Power and Light Company (WP&L), IES Utilities Inc. (IESU), IPC, Alliant Energy Resources, Inc. (Alliant Energy Resources) and Alliant Energy Corporate Services, Inc. (Alliant Energy Corporate Services) (the subsidiary formed to provide administrative services as required under the Public Utility Holding Company Act of 1935 (PUHCA)). Among various other regulatory constraints, IEC is operating as a registered public utility holding company subject to the limitations imposed by PUHCA.

As part of the approval process for the Merger, IEC agreed to various rate freezes and rate caps implemented in certain jurisdictions for periods not to exceed four years commencing on the effective date of the Merger (see "Liquidity and Capital Resources — Rates and Regulatory Matters" for a further discussion).

This MD&A includes information relating to IEC, IESU and WP&L (as well as IPC and Alliant Energy Resources). Where appropriate, information relating to a specific entity has been segregated and labeled as such. The financial results described below reflect the consummation of the Merger accounted for as a pooling of interests.

FORWARD-LOOKING STATEMENTS

Statements contained in this report (including MD&A) that are not of historical fact are forward-looking statements intended to qualify for the safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. From time to time, IEC, IESU or WP&L may make other forward-looking statements within the meaning of the federal securities laws that involve judgments, assumptions and other uncertainties beyond the control of such companies. These forward-looking statements may include, among others, statements concerning revenue and cost trends, cost recovery, cost reduction strategies and anticipated outcomes, pricing strategies, changes in the utility industry, planned capital expenditures, financing needs and availability, statements of expectations, beliefs, future plans and strategies, anticipated events or trends and similar comments concerning matters that are not historical facts. Investors and other users of the forward-looking statements are cautioned that such statements are not a guarantee of future performance and that such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied by, such statements. Some, but not all, of the risks and uncertainties include weather effects on sales and revenues, competitive factors, general economic conditions in the relevant service territory, federal and state regulatory or government actions, unanticipated construction and acquisition expenditures, issues related to stranded costs and the recovery thereof, the operations of IEC's nuclear facilities, unanticipated issues or costs associated with achieving Year 2000 compliance, the ability of IEC to successfully integrate the operations of the parties to the Merger and unanticipated costs associated therewith, unanticipated difficulties in achieving expected synergies from the Merger, unanticipated costs associated with certain environmental remediation efforts being undertaken by IEC, technological developments, employee workforce factors, including changes in key executives, collective bargaining agreements or work stoppages, political, legal and economic conditions in foreign countries IEC has investments in and changes in the rate of inflation.

UTILITY INDUSTRY OUTLOOK

IEC competes in an ever-changing utility industry. Set forth below is an overview of this evolving marketplace.

Electric energy generation, transmission and distribution are in a period of fundamental change in the manner in which customers obtain, and energy suppliers provide, energy services. As legislative, regulatory, economic and technological changes occur, electric utilities are facing increased numbers of alternative suppliers. Such competitive

pressures could result in loss of customers and an incurrence of stranded costs (i.e., assets and other costs rendered unrecoverable as the result of competitive pricing). To the extent stranded costs cannot be recovered from customers, they would be borne by security holders.

Legislation which would allow customers to choose their electric energy supplier is expected to be introduced in Iowa and Minnesota in 1999. IEC does not currently expect similar legislation to be introduced in Wisconsin this year. Nationwide, 16 states (including Illinois and Michigan) have decided to provide for customer choice.

IEC realized 56%, 39%, 3% and 2% of its electric utility revenues in 1998, in Iowa, Wisconsin, Minnesota and Illinois, respectively. Approximately 87% of the electric revenues were regulated by the respective state commissions while the other 13% were regulated by the Federal Energy Regulatory Commission (FERC). IEC realized 58%, 36%, 3% and 3% of its gas utility revenues in Iowa, Wisconsin, Minnesota and Illinois, respectively, during the same period.

IESU realized 100% of its electric and gas utility retail revenues in 1998 in Iowa. Approximately 93% of the electric revenues in 1998 were regulated by the Iowa Utilities Board (IUB) while the other 7% were regulated by the FERC.

WP&L realized 98% of its electric utility revenues in 1998 in Wisconsin and 2% in Illinois. Approximately 79% of the electric revenues in 1998 were regulated by the Public Service Commission of Wisconsin (PSCW) or the Illinois Commerce Commission (ICC) while the other 21% were regulated by the FERC. WP&L realized 96% of its gas utility revenues in 1998 in Wisconsin and 4% in Illinois.

Federal Regulation

WP&L, IESU and IPC are subject to regulation by the FERC. The National Energy Policy Act of 1992 addresses several matters designed to promote competition in the electric wholesale power generation market. In 1996, FERC issued final rules (FERC Orders 888 and 889) requiring electric utilities to open their transmission lines to other wholesale buyers and sellers of electricity. In March 1997, FERC issued orders on rehearing for Orders 888 and 889 (Orders 888-A and 889-A). In response to FERC Orders 888 and 888-A, Alliant Energy Corporate Services, on behalf of WP&L, IESU and IPC, filed an Open Access Transmission Tariff that complies with the orders. Upon receiving the final merger-related regulatory order, a compliance tariff was filed by Alliant Energy Corporate Services with the FERC. This filing was made to comply with the FERC's merger order. In response to FERC Orders 889 and 889-A, WP&L, IESU and IPC are participating in a regional Open Access Same-Time Information System.

FERC Order 888 permits utilities to seek recovery of legitimate, prudent and verifiable stranded costs associated with providing open access transmission services. FERC does not have jurisdiction over retail distribution and, consequently, the final FERC rules do not provide for the recovery of stranded costs resulting from retail competition. The various states retain jurisdiction over the question of whether to permit retail competition, the terms of such retail competition, and the recovery of any portion of stranded costs that are ultimately determined to have resulted from retail competition.

IEC and the utility subsidiaries cannot predict the long-term consequences of these rules on their results of operations or financial condition.

In November 1998, IEC and Northern States Power Co. (NSP) announced plans to develop an independent transmission company (ITC) to provide electric transmission services to the Upper Midwest. The two companies are developing a relationship by which NSP will create an independent transmission entity that, in turn, will lease the transmission assets of IEC. The independent entity is expected to be publicly traded and have its own board of directors, management and employees. In February 1999, the Nebraska Public Power District signed an agreement with IEC and NSP to share information and discuss how they might participate in the proposed ITC.

IEC expects to file with the PSCW, FERC and Minnesota Public Utilities Commission (MPUC) in the second quarter of 1999 for permission to lease its transmission assets to the ITC. Filings will also be made at the IUB and ICC at a later time. The first FERC filing will also include a tariff designed to allow for open and economical delivery

of electric power throughout the region. The tariff will be available to non-ITC participants as well as ITC members. Although no assurance can be given, IEC and NSP currently believe they can have the ITC established in the year 2000.

IEC had originally filed to participate in the Midwest Independent System Operator (Midwest ISO) which was conditionally approved by the FERC on September 16, 1998. However, as a result of the ITC announcement, IEC has withdrawn its Midwest ISO membership.

State Regulation

Iowa

IESU and IPC are subject to regulation by the IUB. The IUB has issued an order covering unbundling of natural gas rates for all Iowa customers. In the first quarter of 1999, the IUB conducted workshops concerning this unbundling as well as allowing choice of the supplier of the natural gas for the small volume natural gas customers. Inasmuch as gas is a flow-through cost item in Iowa, and IEC would retain the margins on the delivery of the natural gas, the impact on IEC of these potential changes is not expected to be material.

The IUB has been reviewing all forms of competition in the electric utility industry for several years. A group comprised of the IUB, IEC, MidAmerican Energy Company (MAEC), the rural electric cooperatives, the municipal utilities and Iowans for Choice in Electricity (a diverse group of industrial customers, marketers, such as Enron, and a low income customer representative, among others) has endorsed a bill that was agreed upon in February 1999. IEC expects the bill to be introduced in the Iowa Legislature in March 1999. The bill is opposed by the Office of Consumer Advocate, which is charged by Iowa law with representation of all consumers generally.

The bill would allow choice of electric suppliers for all customers on May 1, 2002. It would freeze IESU's and IPC's Iowa regulated prices at January 1999 levels. The IUB could not order any rate reductions subsequent to the bill's proposed effective date of June 1, 1999. It would allow, however, for investor-owned utilities to propose increases due to exogenous factors (for example, environmental compliance costs) in the generation cost component. Assigned service territories would be maintained for the delivery function. Delivery prices would be regulated, with the option available to propose performance based rate making. Prices for generation and other retail services would not be regulated, except for Standard Offer Service (SOS) pricing starting May 2002 for all residential customers and non-residential customers with annual usage of less than 25,000 kilowatt-hours (KWH). Pricing for SOS would initially be at levels equivalent to prices as they exist today. SOS would continue until at least December 31, 2005. The IUB would be able to terminate SOS if it were to determine several conditions exist, including, most importantly, that effective competition exists such that regulation is no longer necessary. If the IUB continues SOS past December 31, 2005, then prices would be based upon competitive bids. There are no price protections for non-residential customers with usage greater than 25,000 KWH annually, with the exception of transitional service. Transitional service would exist for no longer than one year, until May 1, 2003, at prices the IUB determines to be "just and reasonable." Currently existing automatic fuel adjustment clauses for recovery of fuel costs would be eliminated no later than May 2002. A "nuclear-only" fuel adjustment would be permitted with increased prices effective immediately if an electric company's nuclear plant is not operational due to exogenous factors.

Transition cost is the difference between the revenues that would have been collected pursuant to an electric company's revenue requirement existing as of January 1, 1999, and market prices for the period 2002 through 2005. These differences would be afforded 80% recovery in 2002, 70% in 2003, 60% in 2004, and 50% in 2005. Effective January 1, 2006, transition cost recovery would end. In lieu of accepting this transition cost recovery mechanism, an electric utility may elect to divest itself of its generation assets, including power supply contracts. In such case, the utility would be given an opportunity to be "made whole" for recovery of embedded costs with the possibility for shareowners to retain the amount realized from the sale of the assets beyond the sum of depreciated book value and unfunded decommissioning. A divestiture plan would be filed with the IUB no later than January 1, 2000, with IUB approval or modification by July 1, 2000. The utility would have until September 30, 2000, to revoke its election.

Costs of start-up, including computer systems and employee transition costs, would be recoverable over a ten-year period, as approved by the IUB. The difference between regulatory assets and liabilities would be fully recoverable as a delivery charge. Nuclear decommissioning costs would be fully recoverable.

IEC is unable to predict if this legislation will be enacted in 1999 or what modifications, if any, may be made to the proposed bill.

Wisconsin

WP&L is subject to regulation by the PSCW. The PSCW's inquiries into the future structure of the natural gas and electric utility industries are ongoing. The stated goal of the PSCW in the natural gas docket is "to accommodate competition but not create it." The PSCW has followed a measured approach to restructuring the natural gas industry in Wisconsin. The PSCW has determined that customer classes will be deregulated (i.e., the gas utility would no longer have an obligation to procure gas commodity for customers, but would still have a delivery obligation) in a step-wise manner, after each class has been demonstrated to have a sufficient number of gas suppliers available. A number of working groups have been established by the PSCW and these working groups are addressing numerous issues which need to be resolved before deregulation may proceed.

The short-term goals of the electric restructuring process are to ensure reliability of the state's electric system and development of a robust wholesale electric market. The longer-term goal is to establish prerequisite safeguards to protect customers prior to allowing retail customer choice.

The PSCW has issued an order outlining its policies and principles for Public Benefits (low-income assistance, energy efficiency, renewable generation and environmental research and development) including funding levels, administration of the funds and how funds should be collected from customers. The PSCW has proposed increasing annual funding levels primarily through utility rates by \$50 to \$75 million statewide.

In May 1998, the PSCW reactivated Docket No. 05-BU-101, with the objective of examining the degree of separation which should be required as a matter of policy between utility and non-utility activities involving the various state utilities. Hearings were held in the fourth quarter of 1998 but a final decision by the PSCW has not been issued yet. A future phase of the docket will investigate the standards of conduct that should govern relationships and transactions between a utility and its affiliates.

It is anticipated that there will be legislative proposals introduced in the 1999-2000 legislative session on issues dealing with restructuring, including affiliated interest, public benefits, competition and others. It is impossible to predict at this time the scope or the possibility of enactment of such proposals.

Minnesota

IPC is subject to regulation by the MPUC. The MPUC established an Electric Competition Working Group in April 1995. On October 28, 1997, the Working Group issued a report and recommendations on retail competition. The MPUC reviewed the report and directed its staff to develop an electric utility restructuring plan and timeline. It does not appear that any restructuring legislation will be passed in 1999.

Illinois

IPC and WP&L are subject to regulation by the ICC. In December 1997, the State of Illinois passed electric deregulation legislation requiring customer choice of electric suppliers for non-residential customers with loads of four megawatts or larger and for approximately one-third of all other non-residential customers starting October 1, 1999. All remaining non-residential customers will be eligible for customer choice beginning December 31, 2000 and all residential customers will be eligible for customer choice beginning May 1, 2002. The new legislation is not expected to have a significant impact on IEC's results of operations or financial condition given the relatively small size of IEC's Illinois operations.

Accounting Implications

Each of the utilities complies with the provisions of Statement of Financial Accounting Standards (SFAS) 71, "Accounting for the Effects of Certain Types of Regulation." SFAS 71 provides that rate-regulated public utilities record certain costs and credits allowed in the rate making process in different periods than for nonregulated entities. These are deferred as regulatory assets or regulatory liabilities and are recognized in the consolidated statements of income at the time they are reflected in rates. If a portion of the utility subsidiaries' operations becomes no longer subject to the provisions of SFAS 71 as a result of competitive restructurings or otherwise, a write-down of related regulatory assets and possibly other charges would be required, unless some form of transition cost recovery is established by the appropriate regulatory body that would meet the requirements under generally accepted accounting principles for continued accounting as regulatory assets during such recovery period. In addition, each utility subsidiary would be required to determine any impairment of other assets and write-down any impaired assets to their fair value. The utility subsidiaries believe they currently meet the requirements of SFAS 71.

Positioning for a Competitive Environment.

IEC and its subsidiaries cannot currently predict the long-term consequences of the competitive and restructuring issues described above on their results of operations or financial condition. The major objective is to allow the company to compete successfully in a competitive, deregulated utility industry. The strategy for dealing with these emerging issues includes seeking growth opportunities, forming strategic alliances with other energy-related businesses, continuing to offer quality customer service, initiating ongoing cost reductions and productivity enhancements and developing new products and services.

As competitive forces shape the energy-services industry, energy providers will face challenges to continued growth. Since consumption of electricity or natural gas is expected to grow, only modestly within IEC's utility service territory, IEC has entered several markets that provide opportunities for new sources of earnings growth.

In addition to Alliant Energy Resources' existing businesses, IEC has launched four distinct platforms designed to meet customer needs throughout the Midwest, the nation and the world. These platforms include:

Alliant Energy Industrial Services, a provider of energy and environmental services designed to maximize productivity for industrial and large commercial customers;

Alliant Energy International, a partner in developing energy generation and infrastructure in growing markets throughout the world;

Alliant Energy Retail Services, encompassing a wide array of products and services designed to meet the comfort, security and productivity needs of residential and small commercial customers; and

Cargill-Alliant Energy, an energy-trading joint venture that combines the superior risk-management and commodity trading expertise of Cargill Incorporated (Cargill); one of the world's largest and most established commodity trading firms, with IEC's low-cost electric-generation and transmission business experience.

IEC believes that each of these four platforms provides unique prospects for growth both individually and collectively as the competitive energy-services marketplace evolves.

IEC RESULTS OF OPERATIONS

Overview

IEC's net income for each of the last three years was as follows:

	<u>1998</u>	<u>1997</u>	<u>1996</u>
Earnings excluding merger-related charges —			
Net income (in thousands)	\$131,264	\$146,169	\$159,250
Earnings per share	\$1.71	\$1.92	\$2.11
Pre-tax merger-related charges (in thousands)	\$ 54,045	\$ 2,448	\$ 5,670
Earnings as reported —			
Net income (in thousands)	\$ 96,675	\$144,578	\$155,791
Earnings per share	\$1.26	\$1.90	\$2.06

The above financial information reflects the consummation of the Merger on April 21, 1998, as a pooling of interests. The merger-related charges were primarily for employee retirements and separations, the services of IEC's advisors, costs related to IEC's name change and other miscellaneous costs. IEC's utility operations reported net income of \$109.5 million in 1998, \$152.5 million for 1997 and \$167.9 million in 1996. Excluding merger-related expenses, the utility earnings were approximately \$140.7 million, \$153.8 million and \$170.8 million in 1998, 1997 and 1996, respectively. The decrease in utility earnings (excluding merger-related expenses) in 1998 resulted primarily from higher purchased-power and transmission costs at WP&L, a 15.7 percent decrease in retail natural gas sales largely due to milder weather conditions in 1998 compared to 1997, a \$9 million regulatory asset write-off at IESU, increased expenses for Year 2000 readiness efforts, higher injuries and damages expenses and increased depreciation expenses. These decreases were partially offset by a 2 percent increase in retail electricity sales volumes, largely due to continued economic growth within IEC's service territory, lower purchased-power capacity costs at IESU and IPC, reduced employee pension and benefits costs, and lower costs in 1998 due to merger-related operating efficiencies. A loss incurred on the disposition of an investment in 1997 at IESU also enhanced the 1998 earnings compared to 1997.

IEC's nonregulated operations (Alliant Energy Resources) reported net losses of approximately \$8.9 million, \$4.0 million and \$3.1 million in 1998, 1997 and 1996, respectively. Excluding merger-related expenses, the nonregulated operations net losses were approximately \$6.3 million, \$3.9 million and \$2.6 million in 1998, 1997 and 1996, respectively. The decrease in 1998 earnings (excluding merger-related expenses) was due to lower oil and gas prices at Whiting Petroleum Corp. (Whiting), IEC's Denver-based oil and gas subsidiary, continuing expenses for new business development in international and domestic markets, higher interest expense to fund IEC's growth and the pursuit of other business opportunities, and a modest loss from IEC's electricity trading joint venture. A tax benefit realized in 1997 from a donation of securities to IEC's charitable foundation also contributed to the lower earnings in 1998 compared to 1997. Increased earnings from IEC's industrial services businesses as well as gains realized on asset sales partially offset these items.

The 1997 decrease in utility earnings was primarily due to increased operating expenses, higher interest expense, rate decreases implemented at WP&L and IPC in 1997, the loss on the investment disposition at IESU in 1997 and the recognition of a gain on the sale of a combustion turbine in 1996 at WP&L. Partially offsetting this decrease were increased retail electric sales and costs incurred in 1996 relating to the successful defense of a hostile takeover attempt of IES by MAEC.

The decrease in nonregulated earnings in 1997 was primarily due to lower earnings at Whiting, business development expenses in international and domestic growth areas and a 1996 gain on the sale of an investment in assisted living properties. Partially offsetting these items were improved performance in the energy marketing businesses and the 1997 tax benefit resulting from the donation of securities.

Electric Utility Operations

Electric margins and megawatt-hour (MWH) sales for IEC for 1998 and 1997 were as follows:

	Revenues and Costs (in thousands)			MWHs Sold (in thousands)		
	1998	1997	Change	1998	1997	Change
Residential	\$ 519,687	\$ 509,207	2%	6,674	6,699	-
Commercial	330,693	320,308	3%	5,095	4,996	2%
Industrial	477,241	455,912	5%	12,718	12,320	3%
Total from ultimate customers	1,327,621	1,285,427	3%	24,487	24,015	2%
Sales for resale	199,128	192,346	4%	7,189	6,768	6%
Other	40,693	37,980	7%	158	161	(2%)
Total	1,567,442	1,515,753	3%	31,834	30,944	3%
Electric production fuels	283,866	265,105	7%			
Purchased-power	255,332	256,306	-			
Margin	\$1,028,244	\$ 994,342	3%			

Electric margins and MWH sales for IEC for 1997 and 1996 were as follows:

	Revenues and Costs (in thousands)			MWHs Sold (in thousands)		
	1997	1996	Change	1997	1996	Change
Residential	\$ 509,207	\$ 494,649	3%	6,699	6,668	-
Commercial	320,308	308,480	4%	4,996	4,878	2%
Industrial	455,912	428,726	6%	12,320	11,666	6%
Total from ultimate customers	1,285,427	1,231,855	4%	24,015	23,212	3%
Sales for resale	192,346	181,365	6%	6,768	7,459	(9%)
Other	37,980	27,155	40%	161	161	-
Total	1,515,753	1,440,375	5%	30,944	30,832	-
Electric production fuels	265,105	246,638	7%			
Purchased-power	256,306	231,014	11%			
Margin	\$ 994,342	\$ 962,723	3%			

Electric margin increased \$33.9 million, or 3%, and \$31.6 million, or 3%, for 1998 and 1997, respectively. The increase for both periods was primarily due to the recovery of concurrent and previously deferred expenditures for Iowa-mandated energy efficiency programs, reduced purchased-power capacity costs at IESU and IPC and higher sales volumes to ultimate customers. The recovery for energy efficiency programs in Iowa is in accordance with IUB orders (a portion of these recoveries is also amortized to expense in other operation expenses). Electric revenues included increased recoveries for energy efficiency program costs in Iowa of \$25.8 million and \$16.8 million for 1998 and 1997, respectively. The increased sales volumes were primarily due to continued economic growth within the IEC service territory. Weather normalized sales volumes (excluding off-system sales) increased approximately 2.4% in 1998 compared to an actual increase of 1.7%.

The 1998 increase in margin was partially offset by a lower margin at WP&L and rate decreases implemented at WP&L and IPC in 1997. The lower margin at WP&L, which was partially offset by an increase in retail sales, was also due to:

- a) Purchased-power and transmission costs — such costs have increased significantly because of stricter reliability requirements and higher transmission costs due to system constraints in Wisconsin. Recovery of such increased costs in Wisconsin generally involves regulatory lag between the time of the cost increase and the time a rate increase is implemented. The PSCW granted WP&L an annual rate increase of \$15 million in July 1998 related to these cost increases. In addition, WP&L made a filing with the PSCW in November 1998 seeking another rate increase for higher purchased-power and transmission costs. (Refer to “Rates and Regulatory Matters” for a further discussion of this filing). The effect of these 1998 cost increases was partially offset by WP&L’s reliance on more costly purchased-power in the first six months of 1997 due to various power plant outages, particularly the Kewaunee Nuclear Power Plant (Kewaunee).
- b) Lower off-system sales income — due to the transmission constraints, increased native demand, a more active bulk power market, which resulted in lower bulk power margins, and the implementation of a merger-related joint sales agreement (effective with the consummation of the Merger, the margins resulting from IEC’s off-system sales are allocated among IESU, IPC and WP&L). Pursuant to rate making provisions, bulk power margins at IESU and IPC are returned to ratepayers through their fuel adjustment clauses.

An increase in off-system sales at WP&L in 1997 also contributed to the 1997 margin increase. The impact of the power plant outages at WP&L in 1997 and the rate decreases implemented at WP&L and IPC in 1997 partially offset the 1997 margin increase.

IESU’s and IPC’s electric tariffs include energy adjustment clauses (EAC) that are designed to currently recover the costs of fuel and the energy portion of purchased-power billings (see Note 1(k) of the “Notes to Consolidated Financial Statements” for discussion of the EAC).

Gas Utility Operations

Gas margins and dekatherm (Dth) sales for IEC for 1998 and 1997 were as follows:

	Revenues and Costs (in thousands)			Dekatherms Sold (in thousands)		
	1998	1997	Change	1998	1997	Change
Residential	\$175,603	\$225,542	(22%)	28,378	33,894	(16%)
Commercial	85,842	115,858	(26%)	17,760	21,142	(16%)
Industrial	20,204	27,393	(26%)	5,507	6,217	(11%)
Transportation and other	13,941	25,114	(44%)	52,389	56,719	(8%)
Total	<u>295,590</u>	<u>393,907</u>	(25%)	<u>104,034</u>	<u>117,972</u>	(12%)
Cost of gas sold	<u>166,453</u>	<u>259,222</u>	(36%)			
Margin	<u>\$129,137</u>	<u>\$134,685</u>	(4%)			

Gas margins and Dth sales for IEC for 1997 and 1996 were as follows:

	Revenues and Costs (in thousands)			Dekatherms Sold (in thousands)		
	1997	1996	Change	1997	1996	Change
Residential	\$225,542	\$216,268	4%	33,894	37,165	(9%)
Commercial	115,858	108,187	7%	21,142	22,613	(7%)
Industrial	27,393	27,569	(1%)	6,217	6,856	(9%)
Transportation and other	25,114	23,931	5%	56,719	55,240	3%
Total	393,907	375,955	5%	117,972	121,874	(3%)
Cost of gas sold	259,222	240,324	8%			
Margin	\$134,685	\$135,631	(1%)			

Gas margin decreased \$5.5 million, or 4%, and decreased \$0.9 million, or 1%, for 1998 and 1997, respectively. Dth sales declined by 12% and 3% for 1998 and 1997, respectively, largely due to milder weather. A rate reduction implemented in April 1997 at WP&L also contributed to the decrease in margin for 1998 and 1997. Partially offsetting the decline in margin for 1998 and 1997 were higher revenues from the recovery of concurrent and previously deferred energy efficiency expenditures for Iowa-mandated energy efficiency program costs in accordance with IUB orders (a portion of these recoveries is also amortized to expense in other operation expenses) and gas cost adjustments at IPC. Gas revenues included increased recoveries for energy efficiency program costs in Iowa of \$6.3 million and \$4.0 million for 1998 and 1997, respectively.

IESU's and IPC's gas tariffs include purchased gas adjustment (PGA) clauses that are designed to currently recover the cost of utility gas sold (see Note 1(k) of the "Notes to Consolidated Financial Statements" for a discussion of the PGA).

Nonregulated and Other Revenues

Nonregulated and other revenues for 1998, 1997, and 1996 were as follows (in millions):

	1998	1997	1996
Environmental and engineering services	\$ 73	\$ 78	\$ 85
Oil and gas production	65	69	66
Transportation, rents and other	46	46	35
Nonregulated energy	40	151	192
Steam	27	29	24
Affordable housing	12	13	11
Water	5	5	4
	<u>\$ 268</u>	<u>\$ 391</u>	<u>\$ 417</u>

The revenues for nonregulated energy declined significantly in 1998 primarily due to decreased low-margin gas marketing activities and the transfer of the electricity trading business to the Cargill joint venture in July 1997, which markets electricity and risk management services to wholesale customers. IEC's investment in the joint venture is accounted for under the equity method of accounting. Oil and gas production revenues declined in 1998 primarily due to significantly lower oil and gas prices, largely offset by a significant increase in gas volumes sold.

In 1997, nonregulated energy revenues declined primarily due to the formation of the joint venture with Cargill as described above. Transportation, rents and other revenues increased primarily as a result of the acquisition of a gas gathering system in Texas in 1997. Environmental and engineering services revenues declined due to a softening market.

Operating Expenses

Other operation expenses for 1998, 1997 and 1996 were as follows (in millions):

	<u>1998</u>	<u>1997</u>	<u>1996</u>
Utility — WP&L/IESU/IPC	\$ 421	\$ 358	\$ 340
Nonregulated and other	<u>199</u>	<u>324</u>	<u>357</u>
	<u>\$ 620</u>	<u>\$ 682</u>	<u>\$ 697</u>

Other operation expenses at the utility subsidiaries increased \$63 million in 1998, including \$34 million of merger-related expenses. The merger-related expenses were primarily for employee retirements, separations and relocations. In addition, increased energy efficiency expenses in Iowa, a write-off of \$9 million of certain employee benefits related regulatory assets at IESU which were deemed no longer probable of recovery, higher administrative and general expenses at WP&L, higher injuries and damages expenses and increased expenses for Year 2000 readiness efforts also contributed to the increase. The increase was partially offset by reduced employee pension and benefit expenses, reduced conservation expense at WP&L, lower costs resulting from merger-related operating efficiencies and reduced nuclear operation expenses at IESU. In 1997, other operation expenses at the utility subsidiaries increased \$18 million primarily due to increased amortization of previously deferred energy efficiency expenditures in Iowa. These expenses were partially offset by a reduction in conservation expense at WP&L in accordance with an April 1997 rate order.

Other operation expenses at the nonregulated businesses decreased \$125 million in 1998 primarily due to the formation of the Cargill joint venture. These reductions in other operation expenses were partially offset by \$3 million of merger-related costs and continuing expenses for new business development in international and domestic markets. Other operation expenses decreased \$33 million in 1997 primarily due to the joint venture with Cargill and also reduced activity in the environmental and engineering services businesses and the energy marketing business. These decreases were partially offset by higher operating expenses at Whiting.

Maintenance expenses decreased slightly in 1998 primarily due to reduced expenses at fossil-fueled plants, which was virtually offset by increased maintenance at the nuclear plants. Maintenance expenses increased \$11.5 million in 1997 primarily due to increased nuclear maintenance expenses, higher transmission and distribution expenses at IESU and increased maintenance at fossil-fueled plants.

Depreciation and amortization expense increased \$19.8 million and \$27.3 million in 1998 and 1997, respectively, primarily as a result of utility property additions. The increase in 1998 was also due to a Kewaunee surcharge (which is recorded in depreciation and amortization expense with a corresponding increase in revenues resulting in no impact on earnings). Higher depreciation rates implemented at WP&L in January 1997 and higher depreciation and amortization expenses at Whiting also contributed to the 1997 increase.

Interest Expense and Other

Interest expense increased \$6.8 million in 1998 due to higher utility and nonregulated borrowings during 1998 and an adjustment to decrease interest expense in 1997 relating to a tax audit settlement at WP&L. Interest expense increased \$9.2 million in 1997 primarily due to the change in the amount of debt outstanding.

Miscellaneous, net income decreased \$13.2 million in 1998 primarily due to \$17 million of merger-related expenses, for the services of IEC's advisors and costs related to IEC's name change, and a modest loss from IEC's electricity trading joint venture. Gains realized on asset sales in 1998 partially offset these items. The 1997 results included a loss incurred on the disposition of an investment at IESU. The increase in income in 1997 was due to costs incurred in 1996 related to the successful defense of the hostile takeover attempt at IES. This was partially offset by the investment disposition loss at IESU in 1997, a gain on the sale of a combustion turbine at WP&L in 1996 and the gain on a sale of an investment in assisted living properties in 1996.

Income Taxes

IEC's income tax expense decreased \$23.6 million and \$24.0 million in 1998 and 1997, respectively, primarily due to lower pre-tax income. See Note 6 of the "Notes to Consolidated Financial Statements" for details on the effective tax rate changes.

LIQUIDITY AND CAPITAL RESOURCES

Historical IEC Analysis

Cash flows from operating activities at IEC increased \$4 million and \$12 million for 1998 and 1997, respectively. The increases were primarily due to changes in working capital and additional depreciation and amortization expense partially offset by lower net income and lower deferred taxes and investment tax credits. Cash flows used for financing activities decreased \$39 million and increased \$55 million in 1998 and 1997, respectively. The changes were primarily a result of the net changes in the amount of debt outstanding. Cash flows used for investing activities increased \$43 million and decreased \$44 million in 1998 and 1997, respectively, primarily due to changes in the levels of construction and acquisition expenditures. The decrease in 1997 was partially offset by higher proceeds from the disposition of assets in 1996.

Future Considerations

The capital requirements of IEC are primarily attributable to its utility subsidiaries' construction and acquisition programs, its debt maturities and business opportunities of Alliant Energy Resources. It is anticipated that future capital requirements of IEC will be met by cash generated from operations and external financing. The level of cash generated from operations is partially dependent upon economic conditions, legislative activities, environmental matters and timely regulatory recovery of utility costs. IEC's liquidity and capital resources will be affected by costs associated with environmental and regulatory issues. Emerging competition in the utility industry could also impact IEC's liquidity and capital resources, as discussed previously in the "Utility Industry Outlook" section.

At December 31, 1998, Alliant Energy Resources had approximately \$69 million of investments in foreign entities. At December 31, 1998, IESU, WP&L and IPC did not have any foreign investments. IEC continues to explore additional international investment opportunities. Such investments may carry a higher level of risk than IEC's traditional domestic utility investments or Alliant Energy Resources' domestic investments. Such risks could include foreign government actions, foreign economic and currency risks and others.

IEC is expected to pursue various potential business development opportunities, including international as well as domestic investments, and is devoting resources to such efforts. It is anticipated that IEC will strive to select investments where the international and other risks are both understood and manageable. Under PUHCA, IEC's investments in exempt wholesale generators (EWG's) and foreign utility companies (FUCO's) is limited to 50% of IEC's consolidated retained earnings. In addition, there are limitations on the amount of non-utility investments IEC can make under the Wisconsin Utility Holding Company Act (WUHCA) as well.

At December 31, 1998, IEC had an investment in the stock of McLeodUSA Inc. (McLeod), a telecommunications company, valued at \$320.3 million (based on a December 31, 1998 closing price of \$31.25 per share and compared to a cost basis of \$29.1 million). Pursuant to the applicable accounting rules, the carrying value of the investments are adjusted to the estimated fair value each quarter based on the closing price at the end of the quarter. The adjustments do not impact net income as the unrealized gains or losses, net of taxes, are recorded directly to the common equity section of the balance sheet and are a component of other comprehensive income. In addition, any such gains or losses are reflected in current earnings only at the time they are realized through a sale. IEC entered into an agreement in November 1998 with McLeod whereby IEC's ability to sell the McLeod stock is subject to various restrictions.

IEC had certain off-balance sheet financial guarantees and commitments outstanding at December 31, 1998. They generally consist of third-party borrowing arrangements and lending commitments, guarantees of financial

performance of syndicated affordable housing properties and guarantees relating to IEC's electricity trading joint venture. Refer to Note 12(d) of the "Notes to the Consolidated Financial Statements" for additional details.

Financing and Capital Structure

Access to the long-term and short-term capital and credit markets, and costs of external financing, are dependent on creditworthiness. The debt ratings of IEC and certain subsidiaries by Moody's and Standard & Poor's are as follows:

		<u>Moody's</u>	<u>Standard & Poor's</u>
IESU	Secured long-term debt	A2	A+
	Unsecured long-term debt	A3	A
WP&L	Secured long-term debt	Aa2	AA
	Unsecured long-term debt	Aa3	A+
IPC	Secured long-term debt	A1	A+
	Unsecured long-term debt	A2	A
Alliant Energy Resources	Commercial paper	P2	A1
IEC	Commercial paper (a)	P1	A1

(a) IESU, WP&L and IPC participate in a utility money pool which is funded, as needed, through the issuance of commercial paper by IEC. The PSCW has restricted WP&L from lending money to non-utility affiliates and non-Wisconsin utilities. As a result, WP&L is restricted from lending money to the utility money pool but is able to borrow money from the utility money pool.

Alliant Energy Resources is a party to a 3-Year Credit Agreement with various banking institutions. The agreement extends through October 2000, with one-year extensions available upon agreement by the parties. Unused borrowing availability under this agreement is also used to support Alliant Energy Resources' commercial paper program. A combined maximum of \$450 million of borrowings under this agreement and the commercial paper program may be outstanding at any one time. Interest rates and maturities are set at the time of borrowing. The rates are based upon quoted market prices and the maturities are less than one year. At December 31, 1998, Alliant Energy Resources had \$253 million of commercial paper outstanding and backed by this facility with interest rates ranging from 5.15%-5.85%. (See Note 11(a) of the "Notes to the Consolidated Financial Statements" for a discussion of interest rate swaps Alliant Energy Resources has entered into relative to \$200 million of short-term borrowings under, or backed by, this agreement.) Alliant Energy Resources intends to continue issuing commercial paper backed by this facility and no conditions existed at December 31, 1998 that would prevent the issuance of commercial paper or direct borrowings on its bank lines. Accordingly, this debt is classified as long-term. In addition, Alliant Energy Resources has in place a \$150 million 364-Day Credit Agreement which is described below.

Other than periodic sinking fund requirements, which will not require additional cash expenditures, the following long-term debt (in millions) will mature prior to December 31, 2003:

IESU	\$187.5
IPC	3.3
WP&L	1.9
Alliant Energy Resources	<u>279.2</u>
IEC	<u>\$471.9</u>

Depending upon market conditions, it is currently anticipated that a majority of the maturing debt will be refinanced with the issuance of long-term securities.

WP&L currently has no authority from the PSCW or the Securities and Exchange Commission (SEC) to issue additional long-term debt. On November 25, 1998, IESU and IPC received authority from the SEC under PUHCA

to issue \$200 million and \$80 million of long-term debt securities, respectively. The companies continually evaluate their future financing needs and will make any necessary regulatory filings as needed.

Under the most restrictive terms of their respective indentures, IESU, WP&L and IPC could have issued at least \$241 million, \$309 million and \$182 million of long-term debt at December 31, 1998, respectively.

On October 30, 1998, WP&L issued \$60 million of debentures at a coupon rate of 5.70% maturing on October 15, 2008. The net proceeds from the debt offering were used to pay down short-term debt, including short-term debt used to retire maturing long-term debt.

On November 30, 1998, IPC issued \$2.65 million and \$2.3 million of pollution control revenue bonds due November 1, 2005 and November 1, 2008, respectively. The proceeds were used to retire at maturity \$5.85 million of 5.95% pollution control revenue bonds. The bonds have a fixed interest rate of 4.30% for the first five years. Thereafter, IPC will have the option to reset the interest rate at one of three variable short-term interest rates or at a new long-term interest rate, based on the then prevailing market conditions, provided the rate does not exceed 12% per annum.

On November 30, 1998, IESU issued \$10 million of pollution control revenue bonds due November 1, 2023. The proceeds were used to refinance \$10 million of 5.95% pollution control revenue bonds that were due serially 2000 through 2007. The bonds have a fixed rate of 4.25% for the first five years. Thereafter, IESU will have the option to reset the interest rate at one of three variable short-term interest rates or at a new long-term interest rate, based on the then prevailing market conditions, provided the rate does not exceed 12% per annum.

The various charter provisions of the entities identified below authorize and limit the aggregate amount of additional shares of Cumulative Preferred Stock and Cumulative Preference Stock that may be issued. At December 31, 1998, the companies could have issued the following additional shares of Cumulative Preferred or Preference Stock:

	<u>IESU</u>	<u>WP&L</u>	<u>IPC</u>
Cumulative Preferred	-	2,700,775	1,238,619
Cumulative Preference	700,000	-	2,000,000

For interim financing, IESU, WP&L and IPC were authorized by the applicable federal or state regulatory agency to issue short-term debt as follows (in millions) at December 31, 1998:

	<u>IESU</u>	<u>WP&L</u>	<u>IPC</u>
Regulatory authorization	\$150	\$128	\$72
Short-term debt outstanding — external parties	-	\$ 50	-
Short-term debt outstanding — money pool	-	\$ 27	\$22

In addition to the short-term debt outstanding at its utility subsidiaries, IEC had an additional \$66 million of short-term debt outstanding at December 31, 1998. In addition to providing for ongoing working capital needs, this availability of short-term financing provides the companies flexibility in the issuance of long-term securities. The level of short-term borrowing fluctuates based on seasonal corporate needs, the timing of long-term financing, and capital market conditions. To maintain flexibility in its capital structure and to take advantage of favorable short-term rates, IESU and WP&L also use proceeds from the sale of accounts receivable and unbilled revenues to finance a portion of their long-term cash needs. IEC anticipates that short-term debt will continue to be available at reasonable costs due to current ratings by independent utility analysts and rating services.

Alliant Energy Resources is also a party to a 364-Day Credit Agreement with various banking institutions. The agreement extends through October 18, 1999, with 364 day extensions available upon agreement by the parties. The unborrowed portion of this agreement is also used to support Alliant Energy Resources' commercial paper program. A combined maximum of \$150 million of borrowings under this agreement and commercial paper backed by this facility may be outstanding at any one time. Interest rates and maturities are set at the time of borrowing. The rates

are based upon quoted market prices and the maturities are less than one year. There were no borrowings under this facility at December 31, 1998.

In addition to the aforementioned borrowing capability under Alliant Energy Resources Credit Agreements, IEC has \$150 million of bank lines of credit, of which none was utilized at December 31, 1998, available for direct borrowing or to support commercial paper. Commitment fees are paid to maintain these lines and there are no conditions which restrict the unused lines of credit.

From time to time, IEC may borrow from banks and other financial institutions on "as-offered" credit lines in lieu of commercial paper, and has agreements with several financial institutions for such borrowings. There are no commitment fees associated with these agreements and there were no borrowings outstanding under these agreements at December 31, 1998.

IEC made a filing with the SEC in February 1999 under PUHCA to provide IEC with, among other things, broad authorization over the next three years to issue stock and debt, provide guarantees, acquire energy-related assets and enter into interest rate hedging transactions.

Given the above financing flexibility, including IEC's access to both the debt and equity securities markets, management believes it has the necessary financing capabilities in place to adequately finance its capital requirements for the foreseeable future.

Capital Requirements

General

Capital expenditure and investment and financing plans are subject to continual review and change. The capital expenditure and investment programs may be revised significantly as a result of many considerations, including changes in economic conditions, variations in actual sales and load growth compared to forecasts, requirements of environmental, nuclear and other regulatory authorities, acquisition and business combination opportunities, the availability of alternate energy and purchased-power sources, the ability to obtain adequate and timely rate relief, escalations in construction costs and conservation and energy efficiency programs.

Construction and acquisition expenditures for IEC for the year ended December 31, 1998 were \$372 million, compared with \$328 million for the year ended December 31, 1997. IEC's anticipated construction and acquisition expenditures for 1999 are estimated to be approximately \$495 million, consisting of approximately \$275 million in its utility operations, \$100 million for energy-related international investments and \$120 million for new business development initiatives at Alliant Energy Resources. IEC's anticipated utility construction and acquisition expenditures for 1999 is made up of 53% for electric transmission and distribution, 18% for electric generation, 10% for information technology and 19% for miscellaneous electric, gas, water and steam projects. The level of 1999 domestic and international investments could vary significantly from the estimates noted here depending on actual investment opportunities, timing of the opportunities and the receipt of regulatory approvals to exceed limitations in place under WUHCA and PUHCA on the amount of IEC's non-utility investments. It is expected that IEC will spend approximately \$1.3 billion on utility construction and acquisition expenditures during 2000-2003, including expenditures to comply with nitrogen oxides (NO_x) emissions reductions in Wisconsin as discussed in "Other Matters — Environmental." It is expected that Alliant Energy Resources will invest in energy products and services in domestic and international markets, industrial services initiatives and other strategic initiatives during 2000-2003.

IEC anticipates financing utility construction expenditures during 1999-2003 through internally generated funds supplemented, when required, by outside financing. Funding of a majority of the Alliant Energy Resources construction and acquisition expenditures is expected to be completed with external financings.

Nuclear Facilities

IEC owns interests in two nuclear facilities, Kewaunee and the Duane Arnold Energy Center (DAEC). Set forth below is a discussion of certain matters impacting these facilities.

Kewaunee, a 532-megawatt pressurized water reactor plant, is operated by Wisconsin Public Service Corporation (WPSC) and is jointly owned by WPSC (41.2%), WP&L (41.0%), and Madison Gas and Electric Company (MG&E) (17.8%). The Kewaunee operating license expires in 2013.

On April 7, 1998, the PSCW approved WPSC's application for replacement of the two steam generators at Kewaunee. The total cost of replacing the steam generators would be approximately \$90.7 million, with WP&L's share of the cost being approximately \$37.2 million. The replacement work is tentatively planned for the spring of 2000 and will take approximately 60 days. On July 2, 1998, the PSCW approved an agreement between the owners of Kewaunee which provides for WPSC to assume the 17.8% Kewaunee ownership share currently held by MG&E prior to work beginning on the replacement of steam generators. On September 29, 1998, WPSC and MG&E finalized an arrangement in which WPSC will acquire MG&E's 17.8% share of Kewaunee. This agreement, the closing of which is contingent upon the steam generator replacement, will give WPSC 59.0% ownership in Kewaunee. After the change in ownership, WPSC and WP&L will be responsible for the decommissioning of the plant. WPSC and WP&L are discussing revisions to the joint power supply agreement which will govern operation of the plant after the ownership change takes place.

On October 17, 1998, Kewaunee was shut down for a planned maintenance and refueling outage. Inspection of the plant's two steam generators shows that the repairs made in 1997 are holding up well and few additional repairs were needed. In addition to the inspection and repairs of the steam generator, a major overhaul was performed on the main turbine generator. The plant was back in operation on November 27, 1998.

Prior to the July 2, 1998 PSCW decision, the PSCW had directed the owners of Kewaunee to record depreciation and decommissioning cost levels based on an expected plant end-of-life of 2002 versus a license end-of-life of 2013. This was prompted by the uncertainty regarding the expected useful life of the plant without steam generator replacement. The revised end-of-life of 2002 resulted in higher depreciation and decommissioning expense at WP&L beginning in May 1997, in accordance with the PSCW rate order UR-110. This level of depreciation will remain in effect until the steam generator replacement is completed at which time the entire plant will be depreciated over 8.5 years using an accelerated method. At December 31, 1998, the net carrying amount of WP&L's investment in Kewaunee was approximately \$44.9 million. WP&L's retail customers in Wisconsin are responsible for approximately 80% of WP&L's share of Kewaunee costs (see Note 12(h) of the "Notes to Consolidated Financial Statements" for additional information).

DAEC, a 535-megawatt boiling water reactor plant, is operated by IESU which has a 70% ownership interest in the plant. The DAEC operating license expires in 2014. Pursuant to the most recent electric rate case order, the IUB allows IESU to currently recover \$6.0 million annually for IESU's 70% share of the cost to decommission DAEC. The current recovery figures are based on an assumed cost to decommission DAEC of \$252.8 million, which is IESU's 70% portion in 1993 dollars, based on the Nuclear Regulatory Commission (NRC) minimum formula (which exceeds the amount in the site-specific study completed in 1994). At December 31, 1998, IESU had \$91.7 million invested in external decommissioning trust funds and also had an internal decommissioning reserve of \$21.7 million recorded as accumulated depreciation.

IESU's 70% share of the estimated cost to decommission DAEC based on the most recent site-specific study completed in 1998 is \$334.2 million, in 1998 dollars. This study includes the costs to terminate DAEC's NRC license and to return the site to a greenfield condition. IESU's 70% share of the estimated cost to decommission DAEC based on the most recent NRC minimum formula is \$347.0 in 1997 dollars. The NRC minimum formula is intended to apply only to the cost of terminating DAEC's NRC license. The additional decommissioning expense funding requirements which should result from these updated studies are not reflected in IESU's rates.

In February 1999, IEC, NSP, WPSC and Wisconsin Electric Power Co. announced the formation of a nuclear management company (NMC) to sustain long-term safety, optimize reliability and improve the operational performance of their nuclear generating plants. Combined, the four utilities operate seven nuclear generating plants at five locations. IEC's participation in the NMC is contingent on approval from the SEC under PUHCA. Each utility will be required to obtain various other state or federal regulatory approvals prior to its participation in the NMC. In

addition, NRC approval is required if any utilities choose to transfer their operating license to the new company. As presently proposed, the utilities would continue to own their plants, be entitled to energy generated at the plants and retain the financial obligations for their safe operation, maintenance and decommissioning.

Refer to the "Other Matters — Environmental" section for a discussion of various issues impacting IEC's future capital requirements.

Rates and Regulatory Matters

In November 1997, as part of its Merger approval, FERC accepted a proposal by IESU, WP&L, and IPC, which provides for a four-year freeze on wholesale electric prices beginning with the effective date of the Merger.

In association with the Merger, IESU, WP&L and IPC entered into a System Coordination and Operating Agreement which became effective with the consummation of the Merger. The agreement, which has been approved by the FERC, provides a contractual basis for coordinated planning, construction, operation and maintenance of the interconnected electric generation and transmission systems of the three utility companies. In addition, the agreement allows the interconnected system to be operated as a single control area with off-system capacity sales and purchases made to market excess system capability or to meet system capability deficiencies. Such sales and purchases are allocated among the three utility companies based on procedures included in the agreement. The procedures were approved by both the FERC and all state regulatory bodies having jurisdiction over these sales.

IESU

In September 1997, IESU agreed with the IUB to provide Iowa customers a four-year retail electric and gas price freeze commencing on the effective date of the Merger. The agreement excluded price changes due to government-mandated programs (such as energy efficiency cost recovery), the electric fuel adjustment clause and PGA clause and unforeseen dramatic changes in operations. In addition, the price freeze does not preclude a review by either the IUB or Office of Consumer Advocate (OCA) into whether IESU is exceeding a reasonable return on common equity. Refer to the "Utility Industry Outlook" section for a discussion of possible legislation to be introduced in Iowa regarding restructuring the electric utility industry.

Under provisions of the IUB rules, IESU is currently recovering the costs it has incurred for its energy efficiency programs. Generally, the costs incurred through July 1997 are being recovered over various four-year periods. Statutory changes implemented by the IUB in 1997 allowed IESU to begin concurrent recovery of its prospective expenditures on August 1, 1997. The implementation of these changes will gradually eliminate the regulatory asset that was created under the prior rate making mechanism as these costs are recovered.

WP&L

In connection with its approval of the Merger, the PSCW accepted a WP&L proposal to freeze rates for four years following the date of the Merger. A re-opening of an investigation into WP&L's rates during the rate freeze period, for both cost increases and decreases, may occur only for single events that are not merger-related and have a revenue requirement impact of \$4.5 million or more. In addition, the electric fuel adjustment clause and PGA clause are not affected by the rate freezes.

In rate order UR-110, the PSCW approved new rates effective April 29, 1997. On average, WP&L's retail electric rates under the new rate order declined by 2.4% and retail gas rates declined by 2.2%. In addition, the PSCW ordered that it must approve the payment of dividends by WP&L to IEC that are in excess of the level forecasted in the rate order (\$58.3 million), if such dividends would reduce WP&L's average common equity ratio below 52.00% of total capitalization. The dividends paid by WP&L to IEC since the rate order was issued have not exceeded the level forecasted in the rate order.

The retail electric rates are based in part on forecasted fuel and purchased-power costs. Under PSCW rules, Wisconsin utilities can seek emergency rate increases if the annual costs are more than 3% higher than the estimated

costs used to establish rates. In March 1998, WP&L requested an electric rate increase to cover purchased-power and transmission costs that have increased due to transmission constraints and electric reliability concerns in the Midwest. On July 14, 1998, the PSCW granted a retail electric rate increase of \$14.8 million annually that was effective on July 16, 1998. In November 1998, WP&L requested another electric rate increase to cover additional increases in purchased-power and transmission costs. In early March 1999, the PSCW granted a retail electric rate increase of \$14.5 million. The additional revenues collected are subject to refund if WP&L's earnings exceed its authorized return on equity.

The gas performance incentive includes a sharing mechanism, whereby 40% of all gains and losses relative to current commodity prices as well as other benchmarks are retained by WP&L rather than refunded to or recovered from customers.

Rate order UR-110 also provided for the recovery of costs associated with WP&L's energy efficiency programs, including the recovery of the cost of capital associated with advances made to customers to install energy-efficient equipment.

In May 1998, the PSCW approved the deferral of certain costs associated with the Year 2000 issue and in November 1998, WP&L filed for rate recovery of \$16.1 million related to the Wisconsin retail portion of Year 2000 costs. A pre-hearing conference was held in January 1999 and hearings are scheduled for May 1999. Management anticipates receiving an order by the end of the second quarter of 1999.

In January 1999, WP&L made a filing with the PSCW proposing to begin deferring, on January 1, 1999, all costs associated with the United States Environmental Protection Agency's (EPA) required NOx emission reductions. WP&L has requested recovery of all the NOx reduction costs through a surcharge mechanism. WP&L anticipates receiving a final order in this proceeding in late 1999 or early 2000. Refer to the "Other Matters — Environmental" section for a further discussion of the NOx issue.

Refer to "Nuclear Facilities" for a discussion of several PSCW rulings regarding Kewaunee.

IPC

In September 1997, IPC agreed with the IUB to provide Iowa customers a four-year retail electric and gas price freeze commencing on the effective date of the Merger. The agreement excluded price changes due to government-mandated programs (such as energy efficiency cost recovery), the electric fuel adjustment clause and PGA clause and unforeseen dramatic changes in operations. In addition, the price freeze does not preclude a review by either the IUB or OCA into whether IPC is exceeding a reasonable return on common equity. IPC also agreed with the MPUC and ICC to four-year and three-year rate freezes, respectively, commencing on the effective date of the Merger. Refer to the "Utility Industry Outlook" section for a discussion of possible legislation to be introduced in Iowa regarding restructuring the electric utility industry.

On September 30, 1997, the IUB approved a settlement between IPC and the OCA which provided for an electric rate reduction in annual revenues of approximately \$3.2 million. The reduction applied to all bills rendered on and after October 7, 1997.

IPC is also recovering its energy efficiency costs in Iowa in a similar manner as IESU and began its concurrent cost recovery in October 1997.

Assuming capture of the merger-related synergies and no significant legislative or regulatory changes negatively affecting its utility subsidiaries, IEC does not expect the merger-related electric and gas price freezes to have a material adverse effect on its financial position or results of operations.

OTHER MATTERS

Year 2000

Overview

IEC utilizes software, embedded systems and related technologies throughout its business that will be affected by the date change in the Year 2000. The Year 2000 problem exists because many computerized operating systems, applications, databases and embedded systems use a standard two digit year field instead of four digits to reference a given year. For example, "00" in the date field would actually represent 1900. As a result, information technology and embedded systems may not properly recognize the Year 2000 or process data correctly, potentially causing data inaccuracies, operational malfunctions or operational failures.

Following up on earlier work, IEC formally established a company-wide project team in 1997 to assess, remediate and communicate its Year 2000 issues as well as develop the necessary contingency plans. Expertise on the team has been drawn from various areas, including, but not limited to, information technology, engineering, communications, internal audits, legal, facilities, supply chain, finance, and project management. A full-time project manager heads up a team of approximately 50 employees who are dedicated to the team full-time and another 475 employees are working on the project on a part-time basis. In addition, there are approximately 135 individuals from external consulting firms who are also providing various Year 2000-related services for the project team. Status reports are provided to senior management monthly and at every meeting of IEC's Board of Directors. Auditing of the Year 2000 inventory, remediation efforts and contingency planning is being done by the Internal Audits Department. IEC has also retained an outside third party to assess and evaluate its Year 2000 project.

The various phases of and other matters relating to the Year 2000 project are described below.

Assessment

A company-wide inventory has been completed for information technology (hardware, software, databases, network infrastructure operating systems) and embedded systems (computers or microprocessors that run specialized software). Inventoried devices and systems have been assessed and prioritized into three categories based on the relative critical nature of their business function: safety-related; critical-business-continuity-related; and non-critical.

Remediation and Testing

IEC's approach to remediation is to repair, replace or retire the affected devices and systems. Remediation and testing of safety-related and critical-business-continuity-related devices and systems is underway in all business units. In some cases IEC's ability to meet its target date for remediation is dependent upon the timely provision of necessary upgrades and modifications by its software vendors. As of December 31, 1998, IEC was expecting upgrades from 48 embedded system vendors and 14 information technology vendors. Should these upgrades be delayed it would impact IEC's ability to meet its target date. At this time, IEC does not expect that these upgrades will be delayed. As part of the testing process, client/server applications are being tested in an isolated test lab on Year 2000 compliant hardware and software. Also, IEC intends to implement a process to protect the integrity of the data once it is year 2000 compliant.

A. Embedded Systems

The project team is using testing standards and procedures based on those developed in the national electric utility industry effort led by the Electric Power Research Institute (EPRI). The team is also using information and testing guidance received from IEC's vendors. IEC is participating in EPRI's Year 2000 collaborative effort to share information about test procedures, test results and vendor information. The project team is also working with equipment vendors to ascertain Year 2000 compliance with systems and devices. Testing methodology includes a power on/off test and testing for 13 critical dates including 12/31/99, 1/1/2000 and 2/29/2000. All testing for assessing Year 2000 compliance has been completed. The only testing remaining is post-remediation testing. The goal

is to complete remediation/testing work for the embedded systems by March 31, 1999; approximately 85% of this remediation/testing work has been completed as of the end of 1998.

Experience to date suggests that Year 2000 problems in embedded systems are occurring at a lower rate than originally anticipated. For IEC, 1-2% of embedded systems have been identified as Year 2000 problematic. This rate is generally consistent in both volume and by type of device with other similar sized electric utilities participating in EPRI's Year 2000 Embedded System Program.

B. Information Technology

IEC's information technology Year 2000 readiness project consists of both application and operating systems, and infrastructure (PC, servers, printers, etc.) components. The inventory and assessment of both the systems and the infrastructure has been completed. IEC's goal is to complete the remediation and testing of the systems by March 31, 1999 and the infrastructure components by June 30, 1999. At the end of 1998, approximately 65% of the systems and 40% of the infrastructure components have been remediated and tested.

IEC's customer information systems and financial systems make up the majority of the remediation and testing effort remaining. The remediation and testing of the customer information systems was 70% complete at the end of 1998 with an anticipated completion date of May 31, 1999. The financial systems have been remediated with final roll-forward-testing scheduled to be completed by mid-year 1999. Therefore, it is anticipated that IEC will have its information technology remediation and testing efforts 90% complete by March 31, 1999 with work completed and into production by mid-year 1999.

Costs to Address Year 2000 Compliance

IEC's historical Year 2000 project expenditures as well as CURRENT ESTIMATES for the remaining costs to be incurred on the project are as follows (incremental costs, in millions):

<u>Description</u>	<u>Total</u>	<u>IESU</u>	<u>WP&L</u>	<u>Other</u>
Costs incurred from 1/1/98 — 12/31/98	\$ 8.7	\$ 4.8	\$ 3.2	\$ 0.7
Current estimate of remaining modifications	\$ 32	\$ 10	\$ 14	\$ 8

In addition, the company estimates it incurred \$3 million in costs for internal labor and associated overheads in 1998 and anticipates expenditures of \$8 million in 1999.

While work was done on the Year 2000 project prior to 1998, IEC did not begin tracking the costs separately until 1998. In accordance with an order received from the PSCW, WP&L began deferring its Year 2000 project costs, other than internal labor and associated overheads, in May 1998 (approximately \$2.7 million of the expenditures incurred at WP&L for the 12 months ended December 31, 1998 have been deferred.) (Refer to "Liquidity and Capital Resources - Rates and Regulatory Matters" for a further discussion.) IEC expects to fund its Year 2000 expenditures through internal sources. Other than the costs being deferred by WP&L pursuant to the PSCW order, IEC is expensing all the Year 2000 costs noted above.

Communications / Third Party Assessment

IEC is heavily dependent on other utilities (including electric, gas, telecommunications and water utilities) and its suppliers. An effort is underway to communicate with such parties to increase their awareness of Year 2000 issues and monitor and assess, to the extent possible, their Year 2000 readiness. IEC has sought written assurance that third parties with significant relationships with IEC will be Year 2000 ready. As part of an extensive awareness effort, IEC is also communicating with its utility customers, regulatory agencies, elected and appointed government officials, and industry groups. IEC executives and account managers are also having discussions with IEC's largest customers to review their initiatives for Year 2000 readiness. IEC is also working closely with the North American Electric Reliability Council (NERC) and the Natural Gas Council to assist their efforts to make certain all system interconnections across regional areas are Year 2000 compliant.

Risks and Contingency Planning

The systems which pose the greatest Year 2000 risks for IEC if the Year 2000 project is not successful are the telecommunications facilities and network systems as well as the information technology systems. The potential problems related to these systems include service interruptions, service order and billing delays and the resulting customer relations and cash flow issues. IEC is currently unable to quantify the financial impact of such contingencies if in fact they were to occur.

Even though IEC intends to complete the bulk of its Year 2000 remediation and testing activities by the end of March 1999 and has initiated Year 2000 communications with significant customers, key vendors, suppliers, and other parties material to IEC's operation, failures or delay in achieving Year 2000 compliance could significantly disrupt IEC's business. Therefore, IEC has initiated contingency planning to address alternatives in the event of a Year 2000 failure that occurs within IEC or where IEC is impacted by an external Year 2000 failure. The plan will address mission-critical processes, devices and systems and will include training, testing and rehearsal of procedures, and the need for installation of backup equipment as necessary. The goal is to have the contingency plan completed by mid-year 1999. As a member of Mid-America Interconnected Network, Inc. (MAIN), IEC is also working with the Operating Committee Y2K Task Force which will expand existing emergency operating strategies for member company control centers to ensure rapid responses to any Year 2000-related electric system disturbances and will coordinate those strategies with other reliability organizations. MAIN is one of the 10 regional coordinating councils that make up NERC. IEC also belongs to the Mid-Continent Area Power Pool (MAPP), another one of the 10 NERC councils, and will be coordinating Year 2000 contingency planning with MAPP as well.

As part of its contingency planning process, NERC has scheduled two nation-wide electric utility industry drills in April 1999 and September 1999. These drills will focus on safe and reliable electrical system operations with the partial loss of telecommunications. In addition to these NERC drills, IEC will be conducting three additional internal drills. These will include a March 1999 table-top drill, a June 1999 functional drill and an August 1999 full-scale development drill where key employees will test and critique IEC's contingency plans.

Since early 1998, IEC has devoted a significant portion of its information technology resources to the Year 2000 project given the importance of such project to the continued operations of IEC. As a result, there have been some delays in implementing other information technology projects. The delays are simply a matter of timing and IEC does not currently believe that such delays will have a material adverse impact on its results of operations or financial position.

Summary

Based on IEC's current schedule for completion of its Year 2000 tasks, IEC believes its plan is adequate to secure Year 2000 readiness of its critical systems. Nevertheless, achieving Year 2000 readiness is subject to many risks and uncertainties, as described above. If IEC, or third parties, fail to achieve Year 2000 readiness with respect to critical systems and, as such, there are systematic problems, there could be a material adverse effect on IEC's results of operations and financial condition.

Labor Issues

The status of the collective bargaining agreements at each of the utilities is as follows at December 31, 1998:

	<u>IESU</u>	<u>WP&L</u>	<u>IPC</u>
Number of collective bargaining agreements	6	1	3
Percentage of workforce covered by agreements	61	92	81

Eight agreements are scheduled to expire in 1999 and represent substantially all employees covered under collective bargaining agreements. These employees represent approximately 50% of all IEC employees. IEC has not

experienced any significant work stoppage problems in the past. While negotiations have commenced, IEC is currently unable to predict the outcome of these negotiations.

Market Risk Sensitive Instruments and Positions

IEC, through its consolidated subsidiaries, has historically had only limited involvement with derivative financial instruments and has not used them for speculative purposes. They have been used to manage well-defined interest rate and commodity price risks.

WP&L and Alliant Energy Resources have historically entered into interest rate swap agreements to reduce the impact of changes in interest rates on its variable-rate debt. The total notional amount of interest rate swaps outstanding at WP&L and Alliant Energy Resources at December 31, 1998, was \$30 million and \$200 million, respectively. See Note 11(a) of the "Notes to Consolidated Financial Statements" for additional information.

Whiting is exposed to market risk in the pricing of its oil and gas production. Historically, prices received for oil and gas production have been volatile because of seasonal weather patterns, supply and demand factors, transportation availability and price, and general economic conditions. Worldwide political developments have historically also had an impact on oil prices. In the past, IEC generally has not utilized derivative instruments designed to reduce its exposure to these price fluctuations and no such positions were outstanding at December 31, 1998. However, during 1999, IEC has entered into a limited amount of transactions involving a collar strategy for a portion of Whiting's gas production.

As discussed in Note 11(a) of the "Notes to Consolidated Financial Statements," from time to time WP&L utilizes gas commodity swap arrangements to mitigate the impact of price fluctuations on gas purchased and injected into storage during the summer months and withdrawn and sold at current prices during the winter months. While it is not WP&L's intent to terminate the contracts currently in place, the impact of a termination of all the agreements outstanding at December 31, 1998, would have been an estimated gain of \$0.8 million.

WP&L has entered into a weather insurance agreement which terminates March 31, 1999, for the purpose of hedging a portion of the risk associated with the changes in weather from normal conditions. Under this agreement, a payment will be made or received if the heating degree days from November 1, 1998 to March 31, 1999, fall outside certain pre-determined heating degree levels. The payment is limited to a maximum of \$5 million. At December 31, 1998, the fair value of this agreement if it were terminated would have resulted in a payment to WP&L of an estimated \$1.8 million.

In the course of Alliant Energy Resource's gas marketing activities, it enters into fixed-price sales commitments to customers and purchases the corresponding physical supplies at fixed prices from a third party provider to lock in the related margin on the sale. The risk associated with gas price fluctuations is managed by closely matching purchases from suppliers with the sales commitments to the customers. There were no derivative positions outstanding at December 31, 1998.

While IEC is exposed to credit risk when it enters into a hedging transaction, it has established procedures and policies designed to mitigate such risks due to a counterparty default. IEC utilizes a listing of approved counterparties and monitors the creditworthiness on an ongoing basis.

IEC's investments in China and New Zealand are valued in renminbi (RMB) and in New Zealand (NZ) dollars, respectively. As a result, these investments are subject to currency exchange risk when the investments are translated into U.S. dollars. During 1998, the RMB remained stable as compared to the U.S. dollar, however, the NZ dollar decreased in value in relation to the U.S. dollar. At December 31, 1998, IEC had a cumulative \$7.9 million foreign currency translation loss recorded in "Accumulated other comprehensive income" on its Consolidated Balance Sheets which primarily related to decreases in the NZ dollar in relation to the U.S. dollar.

At December 31, 1998, IEC had an investment in the stock of McLeod, a telecommunications company, valued at \$320.3 million (based on a December 31, 1998 closing price of \$31.25 per share and compared to a cost basis of \$29.1 million). Pursuant to the applicable accounting rules, the carrying value of the investments are adjusted to the

estimated fair value each quarter based on the closing price at the end of the quarter. IEC entered into an agreement in November 1998 with McLeod whereby IEC's ability to sell the McLeod stock is subject to various restrictions.

IEC has a 50% interest in an electricity trading joint venture with Cargill which is accounted for under the equity method of accounting. The joint venture's trading activities principally consist of marketing and trading over-the-counter contracts for the purchase and sale of electricity. The majority of the forward contracts represent commitments to purchase or sell electricity at fixed prices in the future and require settlement by physical delivery of electricity or are netted out in accordance with industry trading standards. The market risk exposure of the joint venture for its forward contracts outstanding at December 31, 1998, was not significant. In addition, Cargill has made guarantees to certain counterparties regarding the performance of contracts entered into by the joint venture. Guarantees of approximately \$50 million have been issued of which approximately \$5 million were outstanding at December 31, 1998. Under the terms of the joint venture agreement, any payments required under the guarantees would be shared by IEC and Cargill on a 50/50 basis to the extent the joint venture is not able to reimburse the guarantor for payments made under the guarantee.

Accounting Pronouncements

In February 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 98-1 addresses, among other things, expensing versus capitalization of costs, accounting for the costs incurred in the upgrading of the software and amortizing the capitalized cost of software. This statement is effective for fiscal years beginning after December 15, 1998. IEC adopted the requirements of this statement in 1999 and such adoption did not have any significant impact on its financial statements.

In April 1998, the AICPA issued SOP 98-5, "Reporting on the Costs of Start-up Activities." This SOP provides guidance on the financial reporting of start-up costs and organization costs. Costs of start-up activities and organization costs are required to be expensed as incurred. The statement is effective for periods beginning after December 15, 1998. IEC adopted the requirements of this statement in 1999 and such adoption did not have any significant impact on its financial statements.

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." The Statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or liability measured at its fair value. The Statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

SFAS 133 is effective for fiscal years beginning after June 15, 1999. SFAS 133 must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in hybrid contracts that were issued, acquired, or substantively modified after December 31, 1997. IEC has not yet quantified the impacts of SFAS 133 on the financial statements and has not determined the timing of or method of adoption of SFAS 133. However, the Statement could increase volatility in earnings and other comprehensive income.

In December 1998, the Emerging Issues Task Force reached consensus on Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities" (EITF Issue 98-10). EITF Issue 98-10 is effective for fiscal years beginning after December 15, 1998 and requires energy trading contracts to be recorded at fair value on the balance sheet, with the changes in fair value included in earnings. IEC anticipates that the adoption of EITF Issue 98-10 will not have a significant impact on IEC's financial statements based on its current operations.

Accounting for Obligations Associated with the Retirement of Long-Lived Assets

The staff of the SEC has questioned certain of the current accounting practices of the electric utility industry, including IESU and WP&L, regarding the recognition, measurement and classification of decommissioning costs for

nuclear generating stations in financial statements of electric utilities. In response to these questions, the FASB is reviewing the accounting for closure and removal costs, including decommissioning of nuclear power plants. If current electric utility industry accounting practices for nuclear power plant decommissioning are changed, the annual provision for decommissioning could increase relative to 1998, and the estimated cost for decommissioning could be recorded as a liability (rather than as accumulated depreciation), with recognition of an increase in the cost of the related nuclear power plant. Assuming no significant change in regulatory treatment, IESU and WP&L do not believe that such changes, if required, would have an adverse effect on their financial position or results of operations due to their ability to recover decommissioning costs through rates.

Inflation

IEC, IESU and WP&L do not expect the effects of inflation at current levels to have a significant effect on their financial position or results of operations.

Environmental

The pollution abatement programs of IESU, WP&L, IPC and Alliant Energy Resources are subject to continuing review and are revised from time to time due to changes in environmental regulations, changes in construction plans and escalation of construction costs. While management cannot precisely forecast the effect of future environmental regulations on IEC's operations, it has taken steps to anticipate the future while also meeting the requirements of current environmental regulations.

The Clean Air Act Amendments of 1990 (Act) require emission reductions of sulfur dioxide (SO₂), NO_x and other air pollutants to achieve reductions of atmospheric chemicals believed to cause acid rain. IESU, WP&L and IPC have met the provisions of Phase I of the Act and are in the process of meeting the requirements of Phase II of the Act (effective in the year 2000). The Act also governs SO₂ allowances, which are defined as an authorization for an owner to emit one ton of SO₂ into the atmosphere. The companies are reviewing their options to ensure they will have sufficient allowances to offset their emissions in the future. The companies believe that the potential costs of complying with these provisions of Title IV of the Act will not have a material adverse impact on their financial position or results of operations.

The Act and other federal laws also require the EPA to study and regulate, if necessary, additional issues that potentially affect the electric utility industry, including emissions relating to ozone transport, mercury and particulate control as well as modifications to the polychlorinated biphenyl (PCB) rules. In July 1997, the EPA issued final rules that would tighten the National Ambient Air Quality Standards for ozone and particulate matter emissions and in June 1998, the EPA modified the PCB rules. IEC cannot predict the long-term consequences of these rules on its results of operations or financial condition.

In October 1998, the EPA issued a final rule requiring 22 states, including Wisconsin, to modify their State Implementation Plans (SIPs) to address the ozone transport issue. The implementation of the rule will likely require WP&L to reduce its NO_x emissions at all of its plants to .15 lbs/mmBtu by 2003. WP&L is currently evaluating various options to meet the emission levels. These options include fuel switching, operational modifications and capital investments. Based on existing technology, the preliminary estimates indicate that capital investments will be approximately \$150 million. Refer to the "Rates and Regulatory Matters" section for a discussion of a filing WP&L made with the PSCW regarding rate recovery of these costs.

Revisions to the Wisconsin Administrative Code have been proposed that could have a significant impact on WP&L's operation of the Rock River Generating Station in Beloit, Wisconsin. The proposed revisions will affect the amount of heat that the Generating Station can discharge into the Rock River. WP&L cannot presently predict the final outcome of the rule, but believes that, as the rule is currently proposed, the capital investments and/or modifications required to meet the proposed discharge limits could be significant.

Pursuant to a routine internal review of documents, IESU determined that certain changes undertaken during previous years at one of its generating facilities may have required a federal prevention of significant deterioration (PSD) permit. IESU initiated discussions with its regulators on the matter, resulting in the submittal of a PSD permit application in February 1997. IESU received the permit in the second quarter of 1998. IESU may be subject to a penalty

for not having obtained the permit previously; however, IESU believes that any likely actions resulting from this matter will not have a material adverse effect on its financial position or results of operation.

Pursuant to a separate routine internal review of plant operations, IESU determined that certain permit limits were exceeded in 1997 at one of its generating facilities in Cedar Rapids, Iowa. IESU has initiated discussions with its regulators on the matter and has proposed a compliance plan which includes equipment modifications and contemplates operational changes. On May 13, 1998, IESU received a citation from the Linn County Health Department alleging violations at the facility. IESU has negotiated a settlement agreement with the Linn County Health Department, resolving the matter for \$30,000. The settlement was reviewed and approved by a local court with appropriate jurisdiction during the third quarter of 1998. On February 16, 1999, IESU received a letter from the Iowa Department of Natural Resources (IDNR) stating that IDNR will require the IESU customer served by this facility to obtain a PSD permit for the facility. IESU is currently evaluating the ramifications of this IDNR decision, and formulating a response. However, management believes that any likely actions resulting from this matter will not have a material adverse effect on IESU's financial position or results of operations.

In March 1998 and January 1999, IPC received Notices of Intent to Sue from an environmental group alleging certain violations of effluent limits, established pursuant to the Clean Water Act, at IPC's generating facility in Clinton, Iowa. On May 14, 1998, IPC received from the IDNR an inspection report and notice of violation addressing the same and other concerns as were raised by the environmental group. IPC responded to the environmental group on May 19, 1998, providing an evaluation of the alleged violations. IPC responded to the IDNR on June 26, 1998 with a plan of action addressing the IDNR's concerns. IPC responded to the environmental group again on February 22, 1999, stating that all of the alleged violations were either already resolved or invalid. While IPC believes that it has satisfied IDNR's concerns, it may be subject to a penalty for exceeding permit limits established for this facility, however, management believes that any likely actions resulting from this matter will not have a material adverse effect on IPC's financial position or results of operations.

Pursuant to an internal review of operations, IPC discovered that Unit No. 6 at its generating facility in Dubuque, Iowa, may require a Clean Air Act Acid Rain permit and continuous emissions monitoring system (CEMS). IPC has initiated discussions with the regulators, has discontinued operation of the unit pending resolution of the issues, and will be installing a CEMS on the unit and will be applying for an Acid Rain permit. Pursuant to its internal review, IPC also identified and disclosed to regulators a potentially similar situation at its Lansing, Iowa generating facility, and will potentially be installing CEMS and applying for Acid Rain permits for these units as well, pending the outcome of regulatory review. IPC may be subject to a penalty for not having installed the CEMS and for not having obtained the permit previously. However, IPC believes that any likely actions resulting from this matter will not have a material adverse effect on its financial position or results of operations.

A global treaty has been negotiated that could require reductions of greenhouse gas emissions from utility plants. In November 1998, the United States signed the treaty and agreed with the other countries to resolve all remaining issues by the end of 2000. At this time, management is unable to predict whether the United States Congress will ratify the treaty. Given the uncertainty of the treaty ratification and the ultimate terms of the final regulations, management cannot currently estimate the impact the implementation of the treaty would have on IEC's operations.

The Low-Level Radioactive Waste Policy Amendments Act of 1985 mandates that each state must take responsibility for the storage of low-level radioactive waste produced within its borders. The States of Iowa and Wisconsin are members of the six-state Midwest Interstate Low-Level Radioactive Waste Compact (Compact) which is responsible for development of any new disposal capability within the Compact member states. In June 1997, the Compact commissioners voted to discontinue work on a proposed waste disposal facility in the State of Ohio because the expected cost of such a facility was comparably higher than other options currently available. Dwindling waste volumes and continued access to existing disposal facilities were also reasons cited for the decision. A disposal facility located near Barnwell, South Carolina continues to accept the low-level waste, and IESU and WP&L currently ship the waste each produces to such site, thereby minimizing the amount of low-level waste stored on-site. In addition, given technological advances, waste compaction and the reduction in the amount of waste generated, DAEC and Kewaunee, each have on-site storage capability sufficient to store low-level waste expected to

be generated over at least the next ten years, with continuing access to the Barnwell disposal facility extending that on-site storage capability indefinitely.

See Notes 12(f) and 12(g) of the "Notes to Consolidated Financial Statements" for a further discussion of IEC's environmental issues.

Power Supply

The power supply concerns of 1997 have raised awareness of the electric system reliability challenges facing Wisconsin and the Midwest region. As a result, Wisconsin enacted electric reliability legislation in April 1998 (Wisconsin Reliability Act). The legislation has the goal of assuring reliable electric energy for Wisconsin. The new law, effective May 12, 1998, requires Wisconsin utilities to join a regional independent system operator for transmission by the year 2000, allows the construction of merchant power plants in the state and streamlines the regulatory approval process for building new generation and transmission facilities. As a requirement of the legislation, the PSCW completed a regional transmission constraint study. The PSCW is authorized to order construction of new transmission facilities, based on the findings of its constraint study, through December 31, 2004.

On September 24, 1997, the PSCW ordered WP&L and two other Wisconsin utilities to arrange for additional electric capacity to help maintain reliable service for their customers. In July 1998, IEC and Polsky Energy Corp. (Polsky) announced an agreement whereby Polsky would build, own and operate a power plant in southeastern Wisconsin capable of producing up to 450 megawatts (MW) of electricity (reduced from earlier estimates of 525 MW due to NOx emissions limitations imposed by the Wisconsin Department of Natural Resources (WDNR)). Under the agreement, IEC will purchase the capacity to meet the electric needs of its utility customers, as outlined by the Wisconsin Reliability Act. It is expected that this new power plant will be operational in June 2000. The PSCW issued an order dated December 18, 1998 approving the project.

Utility officials noted that it will take time for new transmission and power plant projects to be approved and built. While utility officials fully expect to meet customer demands in 1999, problems still could arise if there are unexpected power plant outages, transmission system outages or extended periods of extremely hot weather.

INTERSTATE ENERGY CORPORATION REPORT ON THE FINANCIAL INFORMATION

Interstate Energy Corporation management is responsible for the information and representations contained in the financial statements and in certain other sections of this Annual Report. The consolidated financial statements that follow have been prepared in accordance with generally accepted accounting principles. In addition to selecting appropriate accounting principles, management is responsible for the manner of presentation and for the reliability of the financial information. In fulfilling that responsibility, it is necessary for management to make estimates based on currently available information and judgments of current conditions and circumstances.

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

The Board of Directors participates in the financial information reporting process through its Audit Committee.



Erroll B. Davis Jr.
President and Chief Executive Officer
Interstate Energy Corporation



Thomas M. Walker
Executive Vice President and Chief Financial Officer
Interstate Energy Corporation



John E. Ehright
Vice President - Controller
Interstate Energy Corporation

January 29, 1999

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareowners of Interstate Energy Corporation:

We have audited the accompanying consolidated balance sheets and statements of capitalization of Interstate Energy Corporation (a Wisconsin corporation) and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, cash flows and changes in common equity for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Interstate Energy Corporation and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Milwaukee, Wisconsin
January 29, 1999

INTERSTATE ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	1998	1997	1996
	(in thousands, except per share amounts)		
Operating revenues:			
Electric utility	\$1,567,442	\$1,515,753	\$1,440,375
Gas utility	295,590	393,907	375,955
Nonregulated and other	267,842	390,967	416,510
	<u>2,130,874</u>	<u>2,300,627</u>	<u>2,232,840</u>
Operating expenses:			
Electric and steam production fuels	297,685	280,558	256,609
Purchased power	255,332	256,306	231,014
Cost of utility gas sold	166,453	259,222	240,324
Other operation	620,234	681,977	696,596
Maintenance	122,737	123,121	111,657
Depreciation and amortization	279,505	259,663	232,363
Taxes other than income taxes	105,626	103,397	98,838
	<u>1,847,572</u>	<u>1,964,244</u>	<u>1,867,401</u>
Operating income	<u>283,302</u>	<u>336,383</u>	<u>365,439</u>
Interest expense and other:			
Interest expense	129,363	122,563	113,321
Allowance for funds used during construction	(6,812)	(5,274)	(5,574)
Preferred dividend requirements of subsidiaries	6,699	6,693	6,687
Miscellaneous, net	(736)	(13,910)	(11,843)
	<u>128,514</u>	<u>110,072</u>	<u>102,591</u>
Income before income taxes	<u>154,788</u>	<u>226,311</u>	<u>262,848</u>
Income taxes	58,113	81,733	105,760
Income from continuing operations	<u>96,675</u>	<u>144,578</u>	<u>157,088</u>
Discontinued operations:			
Loss on disposal of subsidiary, net of applicable tax benefit of \$575 ..	-	-	(1,297)
Net income	<u>\$ 96,675</u>	<u>\$ 144,578</u>	<u>\$ 155,791</u>
Average number of common shares outstanding	<u>76,912</u>	<u>76,210</u>	<u>75,481</u>
Earnings per average common share (basic and diluted):			
Income from continuing operations	\$ 1.26	\$ 1.90	\$ 2.08
Discontinued operations	-	-	(0.02)
Net income	<u>\$ 1.26</u>	<u>\$ 1.90</u>	<u>\$ 2.06</u>

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

INTERSTATE ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31,	
	1998	1997
	(in thousands)	
ASSETS		
Property, plant and equipment:		
Utility		
Plant in service		
Electric	\$4,866,152	\$4,733,222
Gas	515,074	495,155
Other	409,711	366,395
	5,790,937	5,594,772
Less — Accumulated depreciation	2,852,605	2,631,582
	2,938,332	2,963,190
Construction work in progress	119,032	86,511
Nuclear fuel, net of amortization	44,316	55,777
	3,101,680	3,105,478
Other property, plant and equipment, net of accumulated depreciation and amortization of \$178,248 and \$139,920, respectively	355,100	329,264
	3,456,780	3,434,742
Current assets:		
Cash and temporary cash investments	31,827	27,329
Accounts receivable:		
Customer, less allowance for doubtful accounts of \$2,518 and \$2,400, respectively	102,966	123,545
Other, less allowance for doubtful accounts of \$490 and \$224, respectively	26,054	20,824
Notes receivable	13,392	23,410
Production fuel, at average cost	54,140	40,656
Materials and supplies, at average cost	53,490	49,845
Gas stored underground, at average cost	26,013	32,364
Regulatory assets	27,089	36,330
Prepaid gross receipts tax	22,222	22,153
Other	30,767	35,786
	387,960	412,242
Investments:		
Investment in McLeodUSA Inc.	320,280	328,022
Nuclear decommissioning trust funds	225,803	190,238
Investment in foreign entities	68,882	57,072
Other	54,776	49,319
	669,741	624,651
Other assets:		
Regulatory assets	341,684	352,365
Deferred charges and other	103,172	99,550
	444,856	451,915
Total assets	\$4,959,337	\$4,923,550

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

INTERSTATE ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS (Continued)

	December 31,	
	1998	1997
	(in thousands)	
CAPITALIZATION AND LIABILITIES		
Capitalization (See Consolidated Statements of Capitalization):		
Common stock	\$ 776	\$ 765
Additional paid-in capital	905,130	868,903
Retained earnings	537,372	581,376
Accumulated other comprehensive income	163,017	173,512
Total common equity	1,606,295	1,624,556
Cumulative preferred stock of subsidiaries, net	113,498	113,369
Long-term debt (excluding current portion)	1,543,131	1,467,903
	3,262,924	3,205,828
Current liabilities:		
Current maturities and sinking funds	63,414	18,329
Variable rate demand bonds	56,975	56,975
Commercial paper	64,500	114,500
Notes payable	51,784	42,000
Capital lease obligations	11,978	13,197
Accounts payable	204,297	192,634
Accrued taxes	84,921	78,923
Other	111,685	133,233
	649,554	649,791
Other long-term liabilities and deferred credits:		
Accumulated deferred income taxes	691,624	719,899
Accumulated deferred investment tax credits	77,313	82,862
Environmental liabilities	68,399	70,955
Customer advances	37,171	36,619
Capital lease obligations	13,755	23,634
Other	158,597	133,962
	1,046,859	1,067,931
Commitments and Contingencies (Note 12)		
Total capitalization and liabilities	\$4,959,337	\$4,923,550

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

INTERSTATE ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	<u>1998</u>	<u>1997</u>	<u>1996</u>
	(in thousands)		
Cash flows from operating activities:			
Net income	\$ 96,675	\$ 144,578	\$ 155,791
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization	279,505	259,663	232,363
Amortization of nuclear fuel	17,869	18,308	21,336
Amortization of deferred energy efficiency expenditures	27,083	15,786	6,669
Deferred taxes and investment tax credits	(27,720)	(11,661)	14,715
Refueling outage provision	(4,001)	9,290	(6,374)
Impairment of oil and gas properties	9,678	9,902	-
Impairment of regulatory assets	8,969	-	-
Other	(3,616)	5,468	(6,777)
Other changes in assets and liabilities:			
Accounts receivable	15,349	18,638	(13,935)
Notes receivable	10,018	(3,621)	14,663
Production fuel	(13,484)	2,814	271
Materials and supplies	(3,645)	(874)	5,615
Gas stored underground	6,351	(6,603)	(4,170)
Accounts payable	11,663	(27,726)	33,505
Accrued taxes	5,998	13,375	(11,676)
Benefit obligations and other	31,070	16,152	9,280
Net cash flows from operating activities	<u>467,762</u>	<u>463,489</u>	<u>451,276</u>
Cash flows used for financing activities:			
Common stock dividends declared	(140,679)	(145,631)	(143,344)
Dividends payable	(15,458)	285	310
Proceeds from issuance of common stock	33,832	15,535	17,393
Net change in Alliant Energy Resources, Inc. credit facility	70,492	9,908	47,860
Proceeds from issuance of other long-term debt	77,544	295,000	61,370
Reductions in other long-term debt	(27,663)	(146,590)	(20,679)
Net change in short-term borrowings	(40,216)	(109,884)	16,654
Principal payments under capital lease obligations	(13,250)	(12,964)	(19,108)
Other	(2,333)	(2,410)	(2,336)
Net cash flows used for financing activities	<u>(57,731)</u>	<u>(96,751)</u>	<u>(41,880)</u>
Cash flows used for investing activities:			
Construction and acquisition expenditures:			
Utility	(269,133)	(256,760)	(297,196)
Other	(102,925)	(71,280)	(115,078)
Deferred energy efficiency expenditures	-	(13,344)	(24,792)
Nuclear decommissioning trust funds	(20,305)	(17,435)	(15,994)
Proceeds from disposition of assets	16,677	15,993	69,838
Shared savings expenditures	(27,780)	(17,610)	(5,196)
Other	(2,067)	(1,790)	(18,026)
Net cash flows used for investing activities	<u>(405,533)</u>	<u>(362,226)</u>	<u>(406,444)</u>
Net increase in cash and temporary cash investments	<u>4,498</u>	<u>4,512</u>	<u>2,952</u>
Cash and temporary cash investments at beginning of period	<u>27,329</u>	<u>22,817</u>	<u>19,865</u>
Cash and temporary cash investments at end of period	<u>\$ 31,827</u>	<u>\$ 27,329</u>	<u>\$ 22,817</u>
Supplemental cash flow information:			
Cash paid during the period for:			
Interest	<u>\$ 126,376</u>	<u>\$ 117,255</u>	<u>\$ 107,970</u>
Income taxes	<u>\$ 84,916</u>	<u>\$ 69,272</u>	<u>\$ 111,006</u>
Noncash investing and financing activities:			
Capital lease obligations incurred	<u>\$ 1,426</u>	<u>\$ 16,781</u>	<u>\$ 14,281</u>

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

INTERSTATE ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CAPITALIZATION

December 31,
1998 1997
(in thousands
except share amounts)

Common equity:

Common stock - \$.01 par value - authorized 200,000,000 shares; outstanding 77,630,043 and 76,481,102 shares, respectively	\$	776	\$	765
Additional paid-in capital		905,130		868,903
Retained earnings		537,372		581,376
Accumulated other comprehensive income		<u>163,017</u>		<u>173,512</u>
		<u>1,606,295</u>		<u>1,624,556</u>

Cumulative preferred stock of subsidiaries:

Par/Stated Value	Authorized Shares	Shares Outstanding	Series	Mandatory Redemption		
\$100	*	449,765	4.40% - 6.20%	No	44,977	44,977
\$ 25	*	599,460	6.50%	No	14,986	14,986
\$ 50	466,406	366,406	4.30% - 6.10%	No	18,320	18,320
\$ 50	**	216,381	4.36% - 7.76%	No	10,819	10,819
\$ 50	**	545,000	6.40%	Yes***	<u>27,250</u>	<u>27,250</u>
					<u>116,352</u>	<u>116,352</u>
					<u>(2,854)</u>	<u>(2,983)</u>
					<u>113,498</u>	<u>113,369</u>

Less: unamortized expenses

* 3,750,000 authorized shares in total

** 2,000,000 authorized shares in total

*** \$53.20 mandatory redemption price

Long-term debt:

IES Utilities Inc. -

Collateral Trust Bonds:

7.65% series, due 2000	50,000	50,000
7.25% series, due 2006	60,000	60,000
6 7/8% series, due 2007	55,000	55,000
6% series, due 2008	50,000	50,000
7% series, due 2023	50,000	50,000
5.5% series, due 2023	<u>19,400</u>	<u>19,400</u>
	<u>284,400</u>	<u>284,400</u>

First Mortgage Bonds:

Series Y, 8 7/8%, due 2001	60,000	60,000
Series Z, 7.6%, due 1999	50,000	50,000
9 1/8% series, due 2001	21,000	21,000
7 1/4% series, due 2007	<u>30,000</u>	<u>30,000</u>
	<u>161,000</u>	<u>161,000</u>

Pollution control obligations:

5.75%, due serially 1999 to 2003	3,136	3,276
5.95%, retired in 1998	-	10,000
Variable rate (4.20% at December 31, 1998), due 2000 to 2010	11,100	11,100
Variable/fixed rate series 1998 (4.25% through 2003), due 2023	<u>10,000</u>	<u>-</u>
	<u>24,236</u>	<u>24,376</u>

Subordinated Deferrable Interest Debentures, 7 7/8%, due 2025	50,000	50,000
Senior Debentures, 6 1/2%, due 2009	<u>135,000</u>	<u>135,000</u>
Total IES Utilities Inc.	<u>654,636</u>	<u>654,776</u>

INTERSTATE ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CAPITALIZATION (Continued)

	December 31,	
	1998	1997
	(in thousands)	
Wisconsin Power and Light Company -		
First Mortgage Bonds:		
Series L, 6.25%, retired in 1998	\$ -	\$ 8,899
1984 Series A, variable rate (3.85% at December 31, 1998), due 2014	8,500	8,500
1988 Series A, variable rate (4.20% at December 31, 1998), due 2015	14,600	14,600
1990 Series V, 9.3%, due 2025	27,000	27,000
1991 Series A-D, variable rate (5.15% at December 31, 1998), due 2000 to 2015	33,875	33,875
1992 Series W, 8.6%, due 2027	90,000	90,000
1992 Series X, 7.75%, due 2004	62,000	62,000
1992 Series Y, 7.6%, due 2005	72,000	72,000
	307,975	316,874
Unsecured Debt:		
Debentures, 7%, due 2007	105,000	105,000
Debentures, 5.7%, due 2008	60,000	-
Total Wisconsin Power and Light Company	472,975	421,874
Interstate Power Company -		
First Mortgage Bonds:		
8% series, due 2007	25,000	25,000
8% series, due 2021	25,000	25,000
7% series, due 2023	94,000	94,000
	144,000	144,000
Pollution Control Revenue Bonds:		
5.95%, retired in 1998	-	5,850
6% series, due serially 1999 to 2007	10,950	11,400
5.75%, due 2003	1,000	1,000
6.25%, due 2009	1,000	1,000
6.30%, due 2010	5,600	5,600
6.35%, due 2012	5,650	5,650
Variable/fixed rate series 1998 (4.30% through 2003), due 2005 to 2008	4,950	-
	29,150	30,500
Total Interstate Power Company	173,150	174,500
Alliant Energy Resources, Inc. -		
Credit facility (5.15% - 5.85% at December 31, 1998)	252,505	182,013
Multifamily Housing Revenue Bonds issued by various housing and community development authorities, 4.20% - 7.55%, due 2004 to 2024	35,494	36,503
Other subsidiaries' debt, 0% - 10.75%, due 1999 to 2042	57,579	56,795
Total Alliant Energy Resources, Inc.	345,578	275,311
Interstate Energy Corporation -		
8.59% Senior notes, due 2004	24,000	24,000
	1,670,339	1,550,461
Less:		
Current maturities	(63,414)	(18,329)
Variable rate demand bonds	(56,975)	(56,975)
Unamortized debt premium and (discount), net	(6,819)	(7,254)
Total long-term debt	1,543,131	1,467,903
Total capitalization	\$3,262,924	\$3,205,828

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

INTERSTATE ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN COMMON EQUITY

	Common Stock	Additional Paid-In Capital	Retained Earnings (in thousands)	Accumulated Other Comprehensive Income (Loss)	Total Common Equity
1996:					
Beginning balance	\$750	\$832,670	\$ 569,982	\$ -	\$1,403,402
Comprehensive income:					
Net income			155,791		155,791
Other comprehensive loss net of tax:					
Minimum pension liability adjustment(a)				(809)	(809)
Total comprehensive income					154,982
Common stock dividends			(143,344)		(143,344)
Common stock issued	8	18,447			18,455
Treasury stock		(269)			(269)
Ending balance	758	850,848	582,429	(809)	1,433,226
1997:					
Comprehensive income:					
Net income			144,578		144,578
Other comprehensive income (loss):					
Unrealized gain on securities, net of tax(b)				174,688	174,688
Foreign currency translation adjustment				(20)	(20)
Minimum pension liability adjustment, net of tax(a)				(347)	(347)
Total comprehensive income					318,899
Common stock dividends			(145,631)		(145,631)
Common stock issued	7	18,138			18,145
Treasury stock		(83)			(83)
Ending balance	765	868,903	581,376	173,512	1,624,556
1998:					
Comprehensive income:					
Net income			96,675		96,675
Other comprehensive income (loss):					
Unrealized loss on securities, net of tax(b)				(4,589)	(4,589)
Foreign currency translation adjustment				(7,062)	(7,062)
Minimum pension liability adjustment, net of tax(a)				1,156	1,156
Total comprehensive income					86,180
Common stock dividends			(140,679)		(140,679)
Common stock issued	11	36,263			36,274
Treasury stock		(36)			(36)
Ending balance	\$776	\$905,130	\$ 537,372	\$163,017	\$1,606,295

(a) Net of tax expense (benefit) of \$(565), \$(243) and \$808 in 1996, 1997 and 1998, respectively.

(b) Net of tax expense (benefit) of \$124,271 and \$(3,218) in 1997 and 1998, respectively.

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

INTERSTATE ENERGY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(a) General

The Consolidated Financial Statements include the accounts of Interstate Energy Corporation (IEC) and its consolidated subsidiaries. IEC resulted from the April 1998 merger between WPL Holdings, Inc. (WPLH), IES Industries Inc. (IES) and Interstate Power Company (IPC) (refer to Note 2 for a discussion of the merger). IEC is an investor-owned holding company currently doing business as Alliant Energy Corporation whose subsidiaries are IES Utilities Inc. (IESU), Wisconsin Power and Light Company (WP&L), IPC, Alliant Energy Resources, Inc. (Alliant Energy Resources) and Alliant Energy Corporate Services, Inc. (Alliant Energy Corporate Services). IESU, WP&L and IPC are engaged principally in the generation, transmission, distribution and sale of electric energy; the purchase, distribution, transportation and sale of natural gas; and water and steam services in selective markets. The principal markets of IESU, WP&L and IPC are located in Iowa, Wisconsin, Minnesota and Illinois. Alliant Energy Resources (through its numerous direct and indirect subsidiaries) provides energy products and services to domestic and international markets; provides industrial services including environmental, engineering and transportation services; invests in affordable housing initiatives; and invests in various other strategic initiatives. Alliant Energy Corporate Services is the subsidiary formed to provide administrative services to IEC and its subsidiaries as required under the Public Utility Holding Company Act of 1935 (PUHCA).

The consolidated financial statements reflect investments in controlled subsidiaries on a consolidated basis. All significant intercompany balances and transactions, other than certain energy-related transactions affecting IESU, WP&L and IPC, have been eliminated from the Consolidated Financial Statements. Such energy-related transactions are made at prices that approximate market value and the associated costs are recoverable from customers through the rate making process. The financial statements are prepared in conformity with generally accepted accounting principles, which give recognition to the rate making and accounting practices of the Federal Energy Regulatory Commission (FERC) and state commissions having regulatory jurisdiction.

Unconsolidated investments for which IEC has at least a 20% voting interest are generally accounted for under the equity method of accounting. These investments are stated at acquisition cost, increased or decreased for IEC's equity in net income or loss, which is included in "Miscellaneous, net" in the Consolidated Statements of Income and decreased for any dividends received. Investments that do not meet the criteria for consolidation or the equity method of accounting are accounted for under the cost method.

The preparation of the financial statements requires management to make estimates and assumptions that affect: 1) the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and 2) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain prior period amounts have been reclassified on a basis consistent with the current year presentation.

(b) Regulation

IEC is a registered public utility holding company subject to regulation by the Securities and Exchange Commission (SEC) under the PUHCA. IESU, WP&L and IPC are subject to regulation by the FERC and their respective state regulatory commissions (Iowa Utilities Board (IUB), Public Service Commission of Wisconsin (PSCW), Minnesota Public Utilities Commission (MPUC) and Illinois Commerce Commission (ICC)).

(c) Regulatory Assets

IESU, WP&L and IPC are subject to the provisions of Statement of Financial Accounting Standards, "Accounting for the Effects of Certain Types of Regulation" (SFAS 71). SFAS 71 provides that rate-regulated

public utilities record certain costs and credits allowed in the rate making process in different periods than for unregulated entities. These are deferred as regulatory assets or regulatory liabilities and are recognized in the Consolidated Statements of Income at the time they are reflected in rates. At December 31, 1998 and 1997, regulatory assets of \$368.8 million and \$388.7 million, respectively, were comprised of the following items (in millions):

	IESU		WP&L		IPC	
	1998	1997	1998	1997	1998	1997
Tax-related (Note 1(d))	\$ 81.4	\$ 80.3	\$ 49.3	\$ 55.5	\$29.8	\$29.7
Energy efficiency program costs	39.8	59.4	53.5	29.5	25.9	30.0
Environmental liabilities (Note 12(f))	35.2	42.9	19.5	22.2	17.5	6.2
Other	5.0	17.0	11.2	13.6	0.7	2.4
Total	<u>\$161.4</u>	<u>\$199.6</u>	<u>\$133.5</u>	<u>\$ 120.8</u>	<u>\$73.9</u>	<u>\$68.3</u>

Refer to the individual notes referenced above for a further discussion of certain items reflected in regulatory assets. Regulators allow IESU and IPC to earn a return on energy efficiency program costs but not on the other regulatory assets. In Wisconsin, WP&L is allowed to earn a return on all regulatory assets other than those associated with manufactured gas plants (MGP).

If a portion of IESU's, WP&L's or IPC's operations become no longer subject to the provisions of SFAS 71 as a result of competitive restructuring or otherwise, a write-down of related regulatory assets would be required, unless some form of transition cost recovery is established by the appropriate regulatory body that would meet the requirements under generally accepted accounting principles for continued accounting as regulatory assets during such recovery period. In addition, IESU, WP&L or IPC would be required to determine any impairment to other assets and write-down such assets to their fair value.

(d) Income Taxes

IEC follows the liability method of accounting for deferred income taxes, which requires the establishment of deferred tax assets and liabilities, as appropriate, for all temporary differences between the tax basis of assets and liabilities and the amounts reported in the financial statements. Deferred taxes are recorded using currently enacted tax rates as shown in Note 6.

Except as noted below, income tax expense includes provisions for deferred taxes to reflect the tax effects of temporary differences between the time when certain costs are recorded in the accounts and when they are deducted for tax return purposes. As temporary differences reverse, the related accumulated deferred income taxes are reversed to income. Investment tax credits have been deferred and are subsequently credited to income over the average lives of the related property. As part of the affordable housing business, IEC is eligible to claim affordable housing credits. These tax credits reduce current federal taxes to the extent IEC has consolidated taxes payable.

Consistent with Iowa rate making practices for IESU and IPC, deferred tax expense is not recorded for certain temporary differences (primarily related to utility property, plant and equipment). As the deferred taxes become payable (over periods exceeding 30 years for some generating plant differences) they are recovered through rates. Accordingly, IESU and IPC have recorded deferred tax liabilities and regulatory assets for certain temporary differences, as identified in Note 1(c). In Wisconsin, the PSCW has allowed rate recovery of deferred taxes on all temporary differences since August 1991. WP&L established a regulatory asset associated with temporary differences occurring prior to August 1991, which is recovered through rates.

(e) Common Shares Outstanding

The weighted average common shares outstanding used in the calculation of basic earnings per share for IEC were 76,912,219; 76,209,935 and 75,480,539 for 1998, 1997 and 1996, respectively. The common stock shares used for calculating diluted earnings per share for IEC were 76,928,631; 76,212,073 and 75,484,281 for 1998, 1997 and 1996, respectively.

(f) Temporary Cash Investments

Temporary cash investments are stated at cost, which approximates market value, and are considered cash equivalents for the Consolidated Statements of Cash Flows. These investments consist of short-term liquid investments that have maturities of less than 90 days from the date of acquisition.

(g) Depreciation of Utility Property, Plant and Equipment

IESU, WP&L and IPC use a combination of remaining life and straight-line depreciation methods as approved by their respective regulatory commissions. The remaining life of the Duane Arnold Energy Center (DAEC), IESU's nuclear generating facility, is based on the Nuclear Regulatory Commission (NRC) license life of 2014. The remaining life of the Kewaunee Nuclear Power Plant (Kewaunee), of which WP&L is a co-owner, is based on the PSCW approved revised end-of-life of 2002 (prior to May 1997 the calculation was based on the NRC license life of 2013). Depreciation expense related to the decommissioning of DAEC and Kewaunee is discussed in Note 12(h). WP&L implemented higher depreciation rates effective January 1, 1997. The average rates of depreciation for electric and gas properties of IESU, WP&L and IPC, consistent with current rate making practices, were as follows:

	IESU			WP&L			IPC		
	1998	1997	1996	1998	1997	1996	1998	1997	1996
Electric	3.5%	3.5%	3.5%	3.6%	3.6%	3.3%	3.6%	3.6%	3.6%
Gas	3.5%	3.5%	3.5%	3.8%	3.8%	3.7%	3.4%	3.4%	3.4%

(b) Property, Plant and Equipment

Utility plant (other than acquisition adjustments at IESU of \$26.8 million, net of accumulated amortization, recorded at cost) is recorded at original cost, which includes overhead and administrative costs and an allowance for funds used during construction (AFUDC). The AFUDC, which represents the cost during the construction period of funds used for construction purposes, is capitalized as a component of the cost of utility plant. The amount of AFUDC applicable to debt funds and to other (equity) funds, a non-cash item, is computed in accordance with the prescribed FERC formula. These capitalized costs are recovered in rates as the cost of the utility plant is depreciated. The aggregate gross rates used were as follows:

	1998	1997	1996
IESU	8.9%	6.7%	5.5%
WP&L	5.2%	6.2%	10.2%
IPC	7.0%	6.0%	5.8%

Other property, plant and equipment is recorded at original cost. Upon retirement or sale of other property and equipment, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in "Miscellaneous, net" in the Consolidated Statements of Income. Normal repairs, maintenance and minor items of utility plant and other property, plant and equipment are expensed. Ordinary retirements of utility plant, including removal costs less salvage value, are charged to accumulated depreciation upon removal from utility plant accounts and no gain or loss is recognized.

(i) Restatement of Consolidated Financial Statements/Oil and Gas Properties

During the third quarter of 1998, IEC's oil and gas subsidiary, Whiting Petroleum Corporation (Whiting), changed its accounting method for oil and gas properties from the full cost method to the successful efforts method. While both methods are acceptable under generally accepted accounting principles, successful efforts is the preferred method. Management believes that the successful efforts method more accurately presents the results of Whiting's exploration, development and production activities and minimizes asset impairments caused by temporary declines in oil and gas prices, which may not be representative of overall or long-term markets or management's estimate of fair market value. As a result, impairments will only be recognized under the successful efforts method when there has been a permanent decline in the fair value of the oil and gas properties. As required by generally accepted accounting

principles, all prior period financial statements of IEC presented herein have been restated to reflect the change in accounting method.

Under the successful efforts method of accounting, Whiting capitalizes all costs related to property acquisitions and successful exploratory wells, all development costs and the costs of support equipment and facilities. Unproved leasehold costs are capitalized and are reviewed periodically for impairment. All costs related to unsuccessful exploratory wells are expensed when such wells are determined to be non-productive and other exploration costs, including geological and geophysical costs, are expensed as incurred. Depreciation, depletion and amortization of proved oil and gas properties is determined on a field-by-field basis using the unit-of-production method over the life of the remaining proved reserves. Estimated costs (net of salvage value) of site remediation, including offshore platform dismantlement, are included in the depreciation and depletion calculation. Proved oil and gas properties are reviewed on a field-by-field basis whenever events or circumstances indicate that the carrying value of such properties may be impaired.

The cumulative effect of the restatement at January 1, 1994, was an after-tax reduction in retained earnings of \$2.7 million. The restated net income amounts for 1994 through 1997 are as follows (in thousands):

	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>
Net income prior to restatement	\$154,290	\$158,675	\$147,806	\$150,281
Adjustment for change in accounting method for oil and gas properties from the full cost method to the successful efforts method	<u>(9,712)</u>	<u>(2,884)</u>	<u>(1,835)</u>	<u>(4,391)</u>
Restated net income	<u>\$144,578</u>	<u>\$155,791</u>	<u>\$145,971</u>	<u>\$145,890</u>

The restated earnings per average common share (basic and diluted) for 1994 through 1997 are as follows:

	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>
Earnings per average common share prior to restatement (basic and diluted)	\$ 2.02	\$ 2.10	\$ 1.97	\$ 2.04
Adjustment for change in accounting method for oil and gas properties from the full cost method to the successful efforts method	<u>(0.12)</u>	<u>(0.04)</u>	<u>(0.02)</u>	<u>(0.06)</u>
Restated earnings per average common share (basic and diluted)	<u>\$ 1.90</u>	<u>\$ 2.06</u>	<u>\$ 1.95</u>	<u>\$ 1.98</u>

(j) Operating Revenues

IEC accrues revenues for services rendered but unbilled at month-end in order to more properly match revenues with expenses.

In accordance with an order from the PSCW, effective January 1, 1998, off-system gas sales for WP&L are included in the Consolidated Statements of Income as a reduction of the cost of gas sold rather than as gas revenues. In 1997, off-system gas sales were included in the Consolidated Statements of Income as gas revenue.

(k) Utility Fuel Cost Recovery

IESU's and IPC's tariffs provide for subsequent adjustments to its electric and natural gas rates for changes in the cost of fuel and purchased energy and in the cost of natural gas purchased for resale. Changes in the under/over collection of these costs are reflected in "Electric and steam production fuels" and "Cost of utility gas sold" in the Consolidated Statements of Income. The cumulative effects are reflected on the Consolidated Balance Sheets as a current asset or current liability, pending automatic reflection in future billings to customers. At IESU and IPC, purchased capacity costs are not recovered from electric customers through energy adjustment clauses. Recovery of these costs must be addressed in base rates in a formal rate proceeding.

WP&L's retail electric rates are based in part on forecasted fuel and purchased-power costs. Under PSCW rules, Wisconsin utilities can seek emergency rate increases if the annual costs are more than 3% higher than the estimated costs used to establish rates. WP&L has a gas performance incentive which includes a sharing mechanism whereby 40% of all gains and losses relative to current commodity prices, as well as other benchmarks, are retained by WP&L rather than refunded to or recovered from customers.

(l) Nuclear Refueling Outage Costs

The IUB allows IESU to collect, as part of its base revenues, funds to offset other operating and maintenance expenditures incurred during refueling outages at DAEC. As these revenues are collected, an equivalent amount is charged to other operating and maintenance expenses with a corresponding credit to a reserve. During a refueling outage, the reserve is reversed to offset the refueling outage expenditures. Operating expenses incurred during refueling outages at Kewaunee are expensed by WP&L as incurred.

(m) Nuclear Fuel

Nuclear fuel for DAEC is leased. Annual nuclear fuel lease expenses include the cost of fuel, based on the quantity of heat produced for the generation of electric energy, plus the lessor's interest costs related to fuel in the reactor and administrative expenses. Nuclear fuel for Kewaunee is recorded at its original cost and is amortized to expense based upon the quantity of heat produced for the generation of electricity. This accumulated amortization assumes spent nuclear fuel will have no residual value. Estimated future disposal costs of such fuel are expensed based on kilowatt-hours generated.

(n) Translation of Foreign Currency

Assets and liabilities of international investments where the local currency is the functional currency have been translated at year-end exchange rates and related income statement results have been translated using average exchange rates prevailing during the year. Adjustments resulting from translation have been recorded in other comprehensive income.

(o) Comprehensive Income

On January 1, 1998, IEC adopted SFAS 130, "Reporting Comprehensive Income." SFAS 130 establishes standards for reporting of comprehensive income and its components in a full set of general purpose financial statements. SFAS 130 requires reporting a total for comprehensive income which includes, in addition to net income: (1) unrealized holding gains/losses on securities classified as available-for-sale under SFAS 115; (2) foreign currency translation adjustments accounted for under SFAS 52; and (3) minimum pension liability adjustments made pursuant to SFAS 87. Refer to the "Consolidated Statements of Changes in Common Equity" for additional information regarding comprehensive income.

(p) Derivative Financial Instruments

From time to time, IEC enters into interest rate swaps to reduce exposure to interest rate fluctuations in connection with short and variable rate long-term debt issues. The swap's cash flows correspond with those of the underlying exposures. The related costs associated with these agreements are amortized over their respective lives as components of interest expense.

IEC, through its consolidated subsidiaries, currently utilizes derivative financial and commodity instruments to reduce price risk inherent in its gas and electric activities on a very limited basis and such instruments may not be used for trading purposes. The costs or benefits associated with any such hedging activities are recognized when the related purchase or sale transactions are completed.

(2) MERGER:

On April 21, 1998, IES, WPLH and IPC completed a three-way merger (Merger) forming IEC. Each outstanding share of common stock of IES, WPLH and IPC was exchanged for 1.14, 1.0 and 1.11 shares, respectively, of IEC common stock resulting in the issuance of approximately 77 million shares of IEC common.

stock, \$.01 par value per share. The outstanding debt and preferred stock securities of IEC and its subsidiaries were not affected by the Merger. In connection with the Merger, the number of authorized shares of IEC common stock was increased to 200,000,000.

The Merger was accounted for as a pooling of interests and the accompanying Consolidated Financial Statements, along with the related notes, are presented as if the companies were combined as of the earliest period presented. As part of the pooling, the accrued pension liability (and offsetting regulatory asset), of IES was recomputed using the method used by WPLH and IPC to recognize deferred asset gains. In addition, IPC adopted unbilled revenues as part of the pooling to conform to the revenue accounting method used by WPLH and IES. Neither of these adjustments had any income statement impact for the periods presented in this report.

Operating revenues and net income for the three months ended March 31, 1998, and for the years ended December 31, 1997, and December 31, 1996, were as follows (in millions):

	<u>WPLH</u>	<u>IES</u>	<u>IPC</u>	<u>IEC</u>
Three months ended March 31, 1998				
Operating revenues	\$229.5	\$241.7	\$ 85.1	\$ 556.3
Net income	\$ 15.8	\$ 8.1	\$ 5.0	\$ 28.9
Year ended December 31, 1997				
Operating revenues	\$978.7	\$990.1	\$331.8	\$2,300.6
Net income	\$ 61.3	\$ 56.6	\$ 26.7	\$ 144.6
Year ended December 31, 1996				
Operating revenues	\$932.8	\$973.9	\$326.1	\$2,232.8
Net income	\$ 71.9	\$ 58.0	\$ 25.9	\$ 155.8

The financial results of IES have been restated for all periods presented to reflect a change in accounting method for Whiting's oil and gas properties implemented in the third quarter of 1998 from the full cost method to the successful efforts method. See Note 1(i) for additional information. In addition, the operating revenues of WPLH and IES for the 1998 and 1997 periods presented have been adjusted to reflect the financial results of a joint venture between the two companies as a consolidated subsidiary.

(3) LEASES:

IESU has a capital lease covering its 70% undivided interest in nuclear fuel purchased for DAEC. Future purchases of fuel may also be added to the fuel lease. This lease provides for annual one-year extensions and IESU intends to continue exercising such extensions. Interest costs under the lease are based on commercial paper costs incurred by the lessor. IESU is responsible for the payment of taxes, maintenance, operating cost, risk of loss and insurance relating to the leased fuel. The lessor has a \$45 million credit agreement with a bank supporting the nuclear fuel lease. The agreement continues on a year-to-year basis, unless either party provides at least a three-year notice of termination; no such notice of termination has been provided by either party. Annual nuclear fuel lease expenses (included in "Electric and steam production fuels" in the Consolidated Statements of Income) for 1998, 1997 and 1996 were \$14.2 million, \$16.6 million and \$18.2 million, respectively.

IEC's operating lease rental expenses for 1998, 1997 and 1996 were \$21.6 million, \$20.3 million and \$20.0 million, respectively. IEC's future minimum lease payments by year are as follows (in thousands):

<u>Year</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
1999	\$12,293	\$ 23,075
2000	8,051	19,743
2001	4,338	14,183
2002	2,674	9,649
2003	561	7,333
Thereafter	<u>141</u>	<u>29,961</u>
	28,058	<u>\$103,944</u>
Less: Amount representing interest	<u>2,325</u>	
Present value of net minimum capital lease payments	<u>\$25,733</u>	

(4) UTILITY ACCOUNTS RECEIVABLE:

Utility customer accounts receivable, including unbilled revenues, arise primarily from the sale of electricity and natural gas. At December 31, 1998, IEC was serving a diversified base of residential, commercial and industrial customers and did not have any significant concentrations of credit risk.

Separate accounts receivable financing arrangements exist for two of IEC's utility subsidiaries, IESU and WP&L, which are similar in most important aspects. In both cases, the utility subsidiaries sell up to a pre-determined maximum amount of accounts receivable to a financial institution on a limited recourse basis, including sales to customers and to other public, municipal and cooperative utilities, as well as billings to the co-owners of the jointly-owned electric generating plants that the utility subsidiaries operate. The amounts are discounted at the then-prevailing market rate and additional administrative fees are payable according to the activity levels undertaken. All billing and collection functions remain the responsibility of the respective utilities. Specifics of the two agreements include (dollars in millions):

	<u>IESU</u>	<u>WP&L</u>
Year agreement expires	1999	1999
Maximum amount of receivables that can be sold	\$ 65	\$150
Effective 1998 all-in cost	6.02%	5.95%
Average monthly sale of receivables - 1998	\$ 63	\$ 83
- 1997	\$ 65	\$ 92
Receivables sold at December 31, 1998	\$ 55	\$ 75

(5) INVESTMENTS:

(a) McLeodUSA Inc. (McLeod)

At December 31, 1998, IEC had the following investment in McLeod, a telecommunications company (in millions):

	<u>Shares</u>	<u>Cost</u>	<u>Fair Market Value</u>
Class A common stock	9.0	\$29.1	\$282.0
Unexercised vested options, net of cost to exercise	<u>1.3</u>	<u>-</u>	<u>38.3</u>
	<u>10.3</u>	<u>\$29.1</u>	<u>\$320.3</u>

Pursuant to the provisions of SFAS 115, IEC's investment in McLeod is considered an available-for-sale security thus the carrying value of the investment is adjusted to the estimated fair value each quarter based on the closing price at the end of the quarter. The adjustment does not impact earnings as the unrealized gains or losses, net

of taxes; are recorded directly to the common equity section of the Consolidated Balance Sheets. In addition, any such gains or losses are reflected in current earnings only at the time they are realized through a sale. IEC entered into an agreement in November 1998 with McLeod whereby IEC's ability to sell the McLeod stock is subject to various restrictions.

(b) Foreign Entities

At December 31, 1998, IEC had \$68.9 million of investments in foreign entities on its Consolidated Balance Sheets that included: 1) investments in several generation facilities in China; 2) investments in several New Zealand utility entities; and 3) an investment in an international venture capital fund. IEC accounts for the China investments under the equity method and the other investments under the cost method. The geographic concentration of IEC's investments in foreign entities at December 31, 1998, included investments of approximately \$36.1 million in China, \$32.3 million in New Zealand and \$0.5 million in other countries.

(6) INCOME TAXES:

The components of federal and state income taxes for IEC for the years ended December 31 were as follows (in millions):

	<u>1998</u>	<u>1997</u>	<u>1996</u>
Current tax expense	\$92.5	\$99.6	\$ 96.9
Deferred tax expense	(22.2)	(6.1)	20.3
Amortization of investment tax credits	(5.6)	(5.6)	(5.6)
Affordable housing tax credits	(6.6)	(6.2)	(5.8)
	<u>\$58.1</u>	<u>\$81.7</u>	<u>\$105.8</u>

The overall effective income tax rates shown below for the years ended December 31 were computed by dividing total income tax expense by income before income taxes and preferred dividend requirements of subsidiaries.

	<u>1998</u>	<u>1997</u>	<u>1996</u>
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefits	8.0	6.4	6.5
Affordable housing tax credits	(4.1)	(2.7)	(2.2)
Amortization of investment tax credits	(3.4)	(2.4)	(2.1)
Adjustment of prior period taxes	(0.4)	(2.2)	1.0
Merger expenses	2.4	0.5	1.2
Oil and gas production credits	(1.6)	(0.6)	(0.5)
Other items, net	<u>0.1</u>	<u>1.1</u>	<u>0.3</u>
Overall effective income tax rate	<u>36.0%</u>	<u>35.1%</u>	<u>39.2%</u>

The accumulated deferred income taxes (assets) and liabilities as set forth below on the Consolidated Balance Sheets at December 31 arise from the following temporary differences (in millions):

	<u>1998</u>	<u>1997</u>
Property related	\$677.7	\$654.7
McLeod investment	121.1	124.3
Investment tax credit related	(43.0)	(46.1)
Decommissioning related	(33.4)	(31.7)
Other	<u>(30.8)</u>	<u>18.7</u>
	<u>\$691.6</u>	<u>\$719.9</u>

(7) BENEFIT PLANS:

(a) Pension Plans and Other Postretirement Benefits

IEC adopted SFAS 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" in 1998. IEC has several non-contributory defined benefit pension plans that cover substantially all of its employees who are subject to a collective bargaining agreement. Plan benefits are generally based on years of service and compensation during the employees' latter years of employment. Eligible employees of IEC that are not subject to a collective bargaining agreement are covered by the Alliant Energy Cash Balance Pension Plan, a non-contributory defined benefit pension plan. During each year of service, IEC credits each participant's account with a benefit credit equal to 5% of base pay as well as a guaranteed minimum interest credit equal to 4%. The projected unit credit actuarial cost method was used to compute pension cost and the accumulated and projected benefit obligations. IEC's policy is to fund all of the pension plans at an amount that is at least equal to the minimum funding requirements mandated by the Employee Retirement Income Security Act of 1974, as amended (ERISA), and that does not exceed the maximum tax deductible amount for the year.

IEC also provides certain other postretirement benefits to retirees, including medical benefits for retirees and their spouses (and Medicare Part B reimbursement for certain retirees) and, in some cases, retiree life insurance. IESU's and IPC's funding of other postretirement benefits generally approximates the annual rate recovery of such costs, while WP&L's funding generally approximates the maximum tax deductible amount on an annual basis.

The weighted-average assumptions as of the measurement date of September 30 are as follows:

	Qualified Pension Benefits			Other Postretirement Benefits		
	1998	1997	1996	1998	1997	1996
Discount rate	6.75%	7.25%	7.50%	6.75%	7.25%	7.50%
Expected return on plan assets	9%	8-9%	8-9%	9%	8-9%	8-9%
Rate of compensation increase	3.5-4.5%	3.5-5.0%	3.5-5.0%	3.5%	3.5%	3.5-4.5%
Medical cost trend on covered charges:						
Initial trend range	N/A	N/A	N/A	8%	8%	8-9%
Ultimate trend range	N/A	N/A	N/A	5.0-6.0%	5.0-6.5%	5.0-6.5%

The components of IEC's qualified pension benefits and other postretirement benefits costs are as follows (in millions):

	Qualified Pension Benefits			Other Postretirement Benefits		
	1998	1997	1996	1998	1997	1996
Service cost	\$ 13.8	\$ 13.1	\$ 13.4	\$ 5.1	\$ 4.7	\$ 4.9
Interest cost	35.4	32.2	30.0	9.7	9.8	9.6
Expected return on plan assets	(47.2)	(39.0)	(36.8)	(3.7)	(2.6)	(1.9)
Amortization of:						
Transition obligation (asset)	(2.4)	(2.4)	(2.4)	4.7	4.9	5.0
Prior service cost	2.8	2.5	1.7	(0.3)	(0.3)	(0.3)
Actuarial (gain)/loss	(0.9)	-	0.4	(1.2)	(0.2)	(0.1)
Total	<u>\$ 1.5</u>	<u>\$ 6.4</u>	<u>\$ 6.3</u>	<u>\$14.3</u>	<u>\$16.3</u>	<u>\$17.2</u>

During 1998, 1997 and 1996, IEC recognized an additional \$10.3 million, \$5.1 million and \$4.7 million, respectively, of costs in accordance with SFAS 88. The charges were for severance and early retirement programs in the respective years. In addition, during 1998 and 1997, IEC recognized \$10.2 million and \$1.7 million, respectively, of curtailment charges relating to IEC's other postretirement benefits. The amounts include a December 1998 early retirement program.

The measurement date for accounting purposes is September 30 for IEC as disclosed above. Prior to the Merger, WPLH, IPC and IES used December 31, November 1 and September 30 measurement dates, respectively.

The assumed medical trend rates are critical assumptions in determining the service and interest cost, and accumulated postretirement benefit obligation related to postretirement benefit costs. A one percent change in the medical trend rates for 1998, holding all other assumptions constant, would have the following effects (in millions):

	<u>1 Percent Increase</u>	<u>1 Percent Decrease</u>
Effect on total of service and interest cost components	\$ 2.3	(\$ 1.8)
Effect on postretirement benefit obligation	\$15.6	(\$13.0)

A reconciliation of the funded status of IEC's plans to the amounts recognized on IEC's Consolidated Balance Sheets at December 31 is presented below (in millions):

	<u>Qualified Pension Benefits</u>		<u>Other Postretirement Benefits</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
Change in benefit obligation:				
Net benefit obligation at beginning of year	\$ 474.2	\$ 426.6	\$ 146.4	\$ 136.5
Service cost	13.8	13.1	5.1	4.7
Interest cost	35.4	32.2	9.7	9.8
Plan participants' contributions	-	-	1.3	1.4
Plan amendments	(2.5)	11.8	-	-
Actuarial (gain) / loss	24.8	13.7	(3.6)	1.0
Curtailments	(3.0)	2.5	1.9	0.7
Special termination benefits	10.7	5.1	-	-
Gross benefits paid	<u>(25.0)</u>	<u>(30.8)</u>	<u>(7.5)</u>	<u>(7.7)</u>
Net benefit obligation at end of year	<u>528.4</u>	<u>474.2</u>	<u>153.3</u>	<u>146.4</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	529.1	482.6	50.7	37.2
Actual return on plan assets	2.2	72.5	2.5	3.7
Employer contributions	-	4.8	7.0	16.1
Plan participants' contributions	-	-	1.3	1.4
401(h) assets recognized	-	-	1.1	-
Gross benefits paid	<u>(25.0)</u>	<u>(30.8)</u>	<u>(7.5)</u>	<u>(7.7)</u>
Fair value of plan assets at end of year	<u>506.3</u>	<u>529.1</u>	<u>55.1</u>	<u>50.7</u>
Funded status at end of year	(22.1)	54.9	(98.2)	(95.7)
Unrecognized net actuarial (gain) / loss	30.3	(56.9)	(7.5)	(4.0)
Unrecognized prior service cost	25.8	32.1	(1.7)	(2.3)
Unrecognized net transition obligation (asset)	<u>(10.6)</u>	<u>(13.0)</u>	<u>60.6</u>	<u>73.2</u>
Net amount recognized at end of year	<u>\$ 23.4</u>	<u>\$ 17.1</u>	<u>\$ (46.8)</u>	<u>\$ (28.8)</u>
Amounts recognized on the Consolidated Balance Sheets consist of:				
Prepaid benefit cost	\$ 38.9	\$ 42.7	\$ 0.9	\$ 0.9
Accrued benefit cost	(15.5)	(25.6)	(47.7)	(29.7)
Additional minimum liability	(7.7)	-	-	-
Intangible asset	7.7	-	-	-
Net amount recognized at measurement date	<u>23.4</u>	<u>17.1</u>	<u>(46.8)</u>	<u>(28.8)</u>
Contributions paid after 9/30 and prior to 12/31	-	-	6.8	-
Net amount recognized at 12/31/98	<u>\$ 23.4</u>	<u>\$ 17.1</u>	<u>\$ (40.0)</u>	<u>\$ (28.8)</u>

The benefit obligation and fair value of plan assets for the postretirement welfare plans with benefit obligations in excess of plan assets were \$146.5 million and \$45.3 million, respectively, as of September 30, 1998 and \$139.8 million and \$46.3 million, respectively, as of the prior measurement date. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with benefit obligations in excess of plan assets were \$250.5 million, \$241.1 million and \$217.9 million, respectively, as of September 30, 1998.

IEC also sponsors several non-qualified pension plans which cover certain current and former officers. Funding of such plans at December 31, 1998, totaled approximately \$4 million. IEC's pension benefit obligation under these plans was \$25.8 million and \$18.7 million at December 31, 1998 and 1997, respectively. IEC's pension expense under these plans was \$4.5 million, \$3.7 million, and \$2.0 million in 1998, 1997 and 1996, respectively.

A significant number of IEC employees also participate in defined contribution pension plans (401(k) plans). IEC's contributions to the plans, which are based on the participants' level of contribution, were \$7.7 million, \$5.5 million and \$4.9 million in 1998, 1997 and 1996, respectively.

(h) Long-Term Equity Incentive Plan

IEC has a long-term equity incentive plan which permits the grant of non-qualified stock options, incentive stock options, restricted stock, performance shares and performance units to key employees. As of December 31, 1998, only non-qualified stock options and performance units had been granted to key employees. The maximum number of shares of IEC common stock that may be issued under the plan may not exceed one million. Options are granted at the fair market value of the shares on the date of grant and vest over three years. Options outstanding will expire no later than 10 years after the grant date. The first options were granted in 1995 and became exercisable in January 1998. All options granted prior to the consummation of the Merger were issued by WPLH. A summary of the stock option activity for 1998, 1997 and 1996 is as follows:

	1998		1997		1996	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year . . .	191,800	\$ 28.98	114,150	\$ 29.56	41,900	\$ 27.50
Options granted	636,451	31.32	77,650	28.12	72,250	30.75
Options exercised	(8,900)	28.59	-	-	-	-
Options forfeited	(68,267)	30.49	-	-	-	-
Outstanding at end of year	<u>751,084</u>	<u>\$ 30.83</u>	<u>191,800</u>	<u>\$ 28.98</u>	<u>114,150</u>	<u>\$ 29.56</u>
Exercisable at end of year	38,250	\$ 27.50	-	-	-	-

The range of exercise prices for the options outstanding at December 31, 1998 was \$27.50 to \$31.56.

The value of the options at the grant date using the Black-Scholes pricing method is as follows:

	1998	1997	1996
Value of options based on Black-Scholes model	\$4.93	\$3.30	\$3.47
Volatility	21%	15%	16%
Risk free interest rate	5.75%	6.43%	5.56%
Expected life	10 years	10 years	10 years
Expected dividend yield	7.0%	7.0%	7.0%

IEC follows Accounting Principles Board (APB) Opinion 25, "Accounting for Stock Issued to Employees," to account for stock options. No compensation cost is recognized because the option exercise price is equal to the market price of the underlying stock on the date of grant. Had compensation cost for the plan been determined based

on the Black-Scholes value at the grant dates for awards as prescribed by SFAS 123 "Accounting for Stock-Based Compensation," pro forma net income and earnings per share would have been:

	<u>1998</u>	<u>1997</u>	<u>1996</u>
Net income (in millions)	\$93.5	\$144.3	\$155.5
Earnings per share (basic and diluted)	\$1.22	\$ 1.89	\$ 2.06

The performance units represent accumulated dividends on the shares underlying the non-qualified stock options and are expensed over a three-year vesting period based on the annual dividend rate at the grant date. The performance unit payout is contingent upon three-year performance criteria. The cost of this program in 1998, 1997 and 1996 was not significant.

(8) COMMON, PREFERRED AND PREFERENCE STOCK:

(a) Common Stock

During 1998, 1997 and 1996, IEC issued 890,035; 687,962 and 777,649 shares of common stock under its various stock plans, respectively. Shares issued prior to the Merger consummation by IES and IPC have been adjusted for the applicable conversion ratios. In addition, 260,039 shares were issued in 1998 in connection with the acquisition of oil and gas properties. At December 31, 1998, IEC had a total of 4.0 million shares available for issuance pursuant to its Shareowner Direct Plan, Long-Term Equity Incentive Plan and 401(k) Savings Plan. IEC has declared a quarterly dividend of 50 cents per share each quarter since the consummation of the Merger.

During 1998, 1997 and 1996, IEC reacquired 1,133 shares, 3,278 shares and 10,771 shares, respectively, of its common stock on the open market. Such shares were reacquired by IES prior to the consummation of the Merger and have been adjusted for the IES conversion ratio. These shares were subsequently issued to various IEC directors and employees. At December 31, 1998, no shares remained held as treasury stock.

In October 1998, the Board of Directors of IEC adopted a new Shareowner Rights Plan (new plan) to replace IEC's former plan that expired on February 22, 1999. The new plan was approved on January 15, 1999 by the SEC. On January 20, 1999, the Board of Directors declared a dividend of one common share purchase right (right) on each outstanding share of IEC's common stock which was issued on February 22, 1999 to coincide with the expiration of the former plan. Rights under the new plan will be exercisable only if a person or group acquires, or announces a tender offer to acquire, 15% or more of IEC's common stock. Each right will initially entitle shareowners to buy one-half of one share of IEC's common stock. The rights will only be exercisable in multiples of two at an initial price of \$95.00 per full share, subject to adjustment. If any shareowner acquires 15% or more of the outstanding common stock of IEC, each right (subject to limitations) will entitle its holder to purchase, at the right's then current exercise price, a number of common shares of IEC or of the acquirer having a market value at the time of twice the right's per full share exercise price. The Board of Directors is also authorized to reduce the 15% thresholds to not less than 10%.

In rate order UR-110, the PSCW ordered that it must approve the payment of dividends by WP&L to IEC that are in excess of the level forecasted in the rate order (\$58.3 million), if such dividends would reduce WP&L's average common equity ratio below 52.00% of total capitalization. The dividends paid by WP&L to IEC since the rate order was issued have not exceeded the level forecasted in the rate order.

(b) Preferred and Preference Stock

In 1993, IPC issued 545,000 shares of 6.40%, \$50 par value preferred stock with a final redemption date of May 1, 2022. Under the provisions of the mandatory sinking fund, beginning in 2003, IPC is required to redeem annually \$1.4 million of 6.40% preferred stock (27,250 shares).

(9) DEBT:

(a) Short-Term Debt

IEC maintains committed bank lines of credit, most of which are at the bank prime rates, to obtain short-term borrowing flexibility, including pledging lines of credit as security for any commercial paper outstanding. Amounts

available under these lines of credit totaled \$150 million as of December 31, 1998. Commitment fees are paid to maintain these lines and there are no conditions which restrict the unused lines of credit. Alliant Energy Resources also maintains a credit agreement with various banking institutions. The unborrowed portion of this agreement is also used to support Alliant Energy Resources' commercial paper program. The amount available under this agreement as of December 31, 1998, was \$150 million. Information regarding short-term debt and lines of credit is as follows (in millions):

	<u>1998</u>	<u>1997</u>	<u>1996</u>
As of year end —			
Commercial paper outstanding	\$64.5	\$114.5	\$198.2
Notes payable outstanding	\$51.8	\$ 42.0	\$ 68.3
Discount rates on commercial paper	5.10-6.55%	5.82-5.90%	5.35-6.05%
Interest rates on notes payable	5.44-7.00%	5.00-5.90%	5.28-6.59%
For the year ended —			
Average amount of short-term debt (based on daily outstanding balances)	\$126.6	\$211.0	\$207.9
Average interest rate on short-term debt	5.55%	5.61%	5.57%

(b) Long-Term Debt

IESU's Indentures and Deeds of Trust securing its First Mortgage Bonds constitute direct first mortgage liens upon substantially all tangible public utility property. IESU's Indenture and Deed of Trust securing its Collateral Trust Bonds constitutes a second lien on substantially all tangible public utility property while First Mortgage Bonds remain outstanding. Substantially all of WP&L's and IPC's utility plant is secured by its First Mortgage Bonds. WP&L also maintains an unsecured indenture relating to the issuance of debt securities. In addition, IEC's long-term debt includes unsecured debentures, notes payable and revenue bonds related to its affordable housing properties.

Alliant Energy Resources is a party to a 3-Year Credit Agreement with various banking institutions. The agreement extends through October 2000, with one-year extensions available upon agreement by the parties. Unused borrowing availability under this agreement is also used to support Alliant Energy Resources' commercial paper program. A combined maximum of \$450 million of borrowings under this agreement and the commercial paper program may be outstanding at any one time. Interest rates and maturities are set at the time of borrowing. The rates are based upon quoted market prices and the maturities are less than one year. At December 31, 1998, Alliant Energy Resources had \$253 million of commercial paper outstanding backed by this facility with interest rates ranging from 5.15%-5.85%. (See Note 11(a) for a discussion of several interest rate swaps Alliant Energy Resources has entered into relative to \$200 million of short-term borrowings under, or backed by, this agreement). Alliant Energy Resources intends to continue issuing commercial paper backed by this facility and no conditions existed at December 31, 1998 that would prevent the issuance of commercial paper or direct borrowings on its bank lines. Accordingly, this debt is classified as long-term.

Debt maturities (excluding periodic sinking fund requirements, which will not require additional cash expenditures) for 1999 to 2003 are \$318.1 million, \$56.0 million, \$84.7 million, \$3.8 million and \$9.3 million, respectively. Depending upon market conditions, it is currently anticipated that a majority of the maturing debt will be refinanced with the issuance of long-term securities.

Refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" (MD&A) for a further discussion of IEC's debt.

(10) ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS:

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- **Current Assets and Current Liabilities** — The carrying amount approximates fair value because of the short maturity of such financial instruments.
- **Nuclear Decommissioning Trust Funds** — The carrying amount represents the fair value of these trust funds, as reported by the trustee. The balance of the “Nuclear decommissioning trust funds” as shown on the Consolidated Balance Sheets included \$43.0 million and \$35.7 million of net unrealized gains at December 31, 1998 and December 31, 1997, respectively, on the investments held in the trust funds. The accumulated reserve for decommissioning costs was adjusted by a corresponding amount.
- **Cumulative Preferred Stock** — Based upon the market yield of similar securities and quoted market prices.
- **Long-Term Debt** — Based upon the market yield of similar securities and quoted market prices.
- **Investment in McLeod** — Pursuant to the provisions of SFAS 115, the carrying value of the McLeod investment is adjusted to estimated fair value based on the closing price at the end of the quarter.
- **Investments in New Zealand** — Fair value of the New Zealand investments are generally based on quoted market prices.

The following table presents the carrying amount and estimated fair value of certain financial instruments for IEC as of December 31 (in millions):

	1998		1997	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Nuclear decommissioning trust funds	\$ 226	\$ 226	\$ 190	\$ 190
Cumulative preferred stock	113	109	113	105
Long-term debt, including current portion	1,664	1,753	1,543	1,600
Investment in McLeod (Note 5(a))	320	320	328	328
Investments in New Zealand (Note 5(b))	32	44	34	33

Since IESU, WP&L and IPC are subject to regulation, any gains or losses related to the difference between the carrying amount and the fair value of its financial instruments may not be realized by IEC's shareowners.

(II) DERIVATIVE FINANCIAL INSTRUMENTS:

IEC, through its consolidated subsidiaries, has historically had only limited involvement with derivative financial instruments and has not used them for speculative purposes. They have been used to manage well-defined interest rate and commodity price risks.

(a) Interest Rate Swaps and Forward Contracts —

At December 31, 1998, Alliant Energy Resources had two interest rate swap agreements outstanding (both expiring in April 2000 with the bank having a 1-year extension option for one of the agreements) each with a notional amount of \$100 million. WP&L also had two interest rate swap agreements outstanding (both expiring in 2000) at December 31, 1998, and the combined notional amount of the two agreements was \$30 million. These agreements were entered into in order to reduce the impact of changes in variable interest rates by converting variable rate borrowings into fixed rate borrowings thus all agreements require Alliant Energy Resources and WP&L to pay a fixed rate and receive a variable rate. Had Alliant Energy Resources and WP&L terminated the agreements at December 31, 1998, they would have had to make payments of \$2.9 million and \$0.3 million, respectively.

On September 14, 1998, WP&L entered into an interest rate forward contract related to the anticipated issuance of \$60 million of debentures. The securities were issued on October 30, 1998, and the forward contract was settled, which resulted in a cash payment of \$1.5 million by WP&L.

(b) Gas Commodities Instruments —

WP&L uses gas commodity swaps to reduce the impact of price fluctuations on gas purchased and injected into storage during the summer months and withdrawn and sold at current market prices during the winter months. The notional amount of gas commodity swaps outstanding as of December 31, 1998, was 5.8 million dekatherms. Had WP&L terminated all of the agreements existing at December 31, 1998, it would have realized an estimated gain of \$0.8 million.

(c) Electricity Trading Joint Venture —

IEC has a 50% interest in an electricity trading joint venture with Cargill Incorporated (Cargill) which is accounted for under the equity method of accounting. The joint venture's trading activities principally consist of marketing and trading over-the-counter contracts for the purchase and sale of electricity. The majority of the forward contracts represent commitments to purchase or sell electricity at fixed prices in the future and require settlement by physical delivery of electricity or are netted out in accordance with industry trading standards. The value-at-risk of the joint venture for its forward contracts outstanding at December 31, 1998, was not significant.

(12) COMMITMENTS AND CONTINGENCIES:

(a) Construction and Acquisition Program

Plans for IEC's construction and acquisition program can be found elsewhere in this report in the "Liquidity and Capital Resources - Capital Requirements" section of MD&A.

(b) Purchased-Power, Coal and Natural Gas Contracts

IEC has entered into purchased-power capacity and coal contracts and its minimum commitments are as follows (dollars in millions, megawatt-hours (MWHs) and tons in thousands):

	Purchased-Power		Coal (including transportation costs)	
	Dollars	MWHs	Dollars	Tons
1999	\$104.0	1,691	\$49.2	11,560
2000	102.4	1,571	24.6	4,457
2001	71.0	925	15.7	2,695
2002	43.5	280	5.4	1,036
2003	36.2	280	0.3	95

IEC is in the process of negotiating several new coal contracts. In addition, it expects to supplement its coal contracts with spot market purchases to fulfill its future fossil fuel needs.

IEC also has various natural gas supply, transportation and storage contracts outstanding. The minimum dekatherm commitments, in millions, for 1999-2003 are 194.8, 162.8, 146.8, 122.3 and 95.1, respectively. The minimum dollar commitments for 1999-2003, in millions, are \$158.7, \$95.9, \$83.5, \$58.8 and \$46.1, respectively. The gas supply commitments are all index-based. IEC expects to supplement its natural gas supply with spot market purchases as needed.

(c) Information Technology Services

In May 1998, IEC entered into an agreement, expiring in 2004, with Electronic Data Systems Corporation (EDS) for information technology services. IEC's anticipated operating and capital expenditures under the agreement for 1999 are estimated to total approximately \$21 million. Future costs under the agreement are variable and are dependent upon IEC's level of usage of technological services from EDS.

(d) Financial Guarantees and Commitments

IEC has financial guarantees, which were generally issued to support third-party borrowing arrangements and similar transactions, amounting to \$18.1 million outstanding at December 31, 1998. Such guarantees are not reflected in the consolidated financial statements. Management believes that the likelihood of IEC having to make any material cash payments under these agreements is remote.

In addition, as part of IEC's electricity trading joint venture with Cargill, Cargill has made guarantees to certain counterparties regarding the performance of contracts entered into by the joint venture. Guarantees of approximately \$50 million have been issued of which approximately \$5 million were outstanding at December 31, 1998. Under the terms of the joint venture agreement, any payments required under the guarantees would be shared by IEC and Cargill on a 50/50 basis to the extent the joint venture is not able to reimburse the guarantor for payments made under the guarantee.

As of December 31, 1998, Alliant Energy Resources had extended commitments to provide \$7.2 million in nonrecourse, fixed rate, permanent financing to developers which are secured by affordable housing properties. IEC anticipates other lenders will ultimately finance these properties.

(e) Nuclear Insurance Programs

Public liability for nuclear accidents is governed by the Price Anderson Act of 1988, which sets a statutory limit of \$9.8 billion for liability to the public for a single nuclear power plant incident and requires nuclear power plant operators to provide financial protection for this amount. As required, IESU provides this financial protection for a nuclear incident at DAEC through a combination of liability insurance (\$200 million) and industry-wide retrospective payment plans (\$9.6 billion). Under the industry-wide plan, each operating licensed nuclear reactor in the United States is subject to an assessment in the event of a nuclear incident at any nuclear plant in the United States. The owners of DAEC could be assessed a maximum of \$88.1 million per nuclear incident, with a maximum of \$10 million per incident per year (of which IESU's 70% ownership portion would be approximately \$61.7 million and \$7 million, respectively) if losses relating to the incident exceeded \$200 million. These limits are subject to adjustments for changes in the number of participants and inflation in future years. On a similar note, WP&L, as a 41% owner of Kewaunee, is subject to an overall assessment of approximately \$36.1 million per incident, not to exceed \$4.1 million payable in any given year.

IESU and WP&L are members of Nuclear Electric Insurance Limited (NEIL). NEIL provides \$1.9 billion of insurance coverage for IESU and \$1.8 billion for WP&L on certain property losses for property damage, decontamination and premature decommissioning. The proceeds from such insurance, however, must first be used for reactor stabilization and site decontamination before they can be used for plant repair and premature decommissioning. NEIL also provides separate coverage for additional expense incurred during certain outages. Owners of nuclear generating stations insured through NEIL are subject to retroactive premium adjustments if losses exceed accumulated reserve funds. NEIL's accumulated reserve funds are currently sufficient to more than cover its exposure in the event of a single incident under the primary and excess property damage or additional expense coverages. However, IESU could be assessed annually a maximum of \$1.9 million for NEIL primary property, \$3.5 million for NEIL excess property and \$0.7 million for NEIL additional expenses if losses exceed the accumulated reserve funds. WP&L could be assessed annually a maximum of \$1.1 million for NEIL primary property, \$2.0 million for NEIL excess property and \$0.6 million for NEIL additional expense coverage. IESU and WP&L are not aware of any losses that they believe are likely to result in an assessment.

In the unlikely event of a catastrophic loss at Kewaunee or DAEC, the amount of insurance available may not be adequate to cover property damage, decontamination and premature decommissioning. Uninsured losses, to the extent not recovered through rates, would be borne by IEC and could have a material adverse effect on IEC's financial position and results of operations.

(f) Environmental Liabilities

IEC has recorded environmental liabilities of approximately \$78.4 million on its Consolidated Balance Sheets at December 31, 1998. IEC's significant environmental liabilities are discussed below.

Manufactured Gas Plant Sites

IESU, WP&L and IPC all have current or previous ownership interests in properties previously associated with the production of gas at MGP sites for which they may be liable for investigation, remediation and monitoring costs relating to the sites. A summary of information relating to the sites is as follows:

	<u>IESU</u>	<u>WP&L</u>	<u>IPC</u>
Number of known sites for which liability may exist	34	14	9
Liability recorded at December 31, 1998 (millions)	\$26.6	\$ 7.7	\$17.5
Regulatory asset recorded at December 31, 1998 (millions)	\$26.6	\$14.1	\$17.5

The companies are working pursuant to the requirements of various federal and state agencies to investigate, mitigate, prevent and remediate, where necessary, the environmental impacts to property, including natural resources, at and around the sites in order to protect public health and the environment. The companies each believe that they have completed the remediation at various sites, although they are still in the process of obtaining final approval from the applicable environmental agencies for some of these sites.

Each company records environmental liabilities based upon periodic studies, most recently updated in the fourth quarter of 1998, related to the MGP sites. Such amounts are based on the best current estimate of the remaining amount to be incurred for investigation, remediation and monitoring costs for those sites where the investigation process has been or is substantially completed, and the minimum of the estimated cost range for those sites where the investigation is in its earlier stages. It is possible that future cost estimates will be greater than current estimates as the investigation process proceeds and as additional facts become known. The amounts recognized as liabilities are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are not discounted to their fair value.

Management currently estimates the range of remaining costs to be incurred for the investigation, remediation and monitoring of all IEC sites to be approximately \$35 million to \$66 million. IESU, WP&L and IPC currently estimate their share of the remaining costs to be incurred to be approximately \$17 million to \$36 million, \$5 million to \$9 million and \$13 million to \$21 million, respectively.

Under the current rate making treatment approved by the PSCW, the MGP expenditures of WP&L, net of any insurance proceeds, are deferred and collected from gas customers over a five-year period after new rates are implemented. The MPUC also allows the deferral of MGP-related costs applicable to the Minnesota sites, and IPC has been successful in obtaining approval to recover such costs in rates in Minnesota. While the IUB does not allow for the deferral of MGP-related costs, it has permitted utilities to recover prudently incurred costs. As a result, regulatory assets have been recorded by each company which reflect the probable future rate recovery, where applicable. Considering the current rate treatment, and assuming no material change therein, IESU, WP&L and IPC believe that the clean-up costs incurred for these MGP sites will not have a material adverse effect on their respective financial positions or results of operations.

In April 1996, IESU filed a lawsuit against certain of its insurance carriers seeking reimbursement for its MGP-related costs. Settlement has been reached with all its carriers and all issues have been resolved. In 1994, IPC filed a lawsuit against certain of its insurance carriers to recover its MGP-related costs. Settlements have been

reached with eight carriers. IPC is continuing its pursuit of additional recoveries but is unable to predict the amount of any additional recoveries they may realize. Amounts received from insurance carriers are being deferred by IESU and IPC pending a determination of the regulatory treatment of such recoveries. WP&L has settled with all of its carriers.

National Energy Policy Act of 1992

The National Energy Policy Act of 1992 requires owners of nuclear power plants to pay a special assessment into a "Uranium Enrichment Decontamination and Decommissioning Fund." The assessment is based upon prior nuclear fuel purchases. IESU is recovering the costs associated with this assessment through its electric fuel adjustment clauses over the period the costs are assessed. IESU's 70% share of the future assessment at December 31, 1998 was \$7.8 million and has been recorded as a liability with a related regulatory asset for the unrecovered amount. WP&L had a regulatory asset and a liability of \$5.4 million and \$4.6 million recorded at December 31, 1998, respectively. IEC continues to pursue relief from this assessment through litigation.

Oil and Gas Properties Dismantlement and Abandonment Costs

Whiting is responsible for certain dismantlement and abandonment costs related to various off-shore oil and gas platforms (and related on-shore plants and equipment), the most significant of which is located off the coast of California. Whiting estimates the total costs for these properties to be approximately \$13 million and the most significant expenditures are not expected to be incurred until 2004. In accordance with applicable accounting requirements, Whiting has accrued these costs resulting in a recorded liability of \$13 million at December 31, 1998.

(g) Spent Nuclear Fuel

The Nuclear Waste Policy Act of 1982 assigned responsibility to the U.S. Department of Energy (DOE) to establish a facility for the ultimate disposition of high level waste and spent nuclear fuel and authorized the DOE to enter into contracts with parties for the disposal of such material beginning in January 1998. IESU and WP&L entered into such contracts and have made the agreed payments to the Nuclear Waste Fund held by the U.S. Treasury. The companies were subsequently notified by the DOE that it was not able to begin acceptance of spent nuclear fuel by the January 31, 1998 deadline. Furthermore, the DOE has experienced significant delays in its efforts and material acceptance is now expected to occur no earlier than 2010 with the possibility of further delay being likely. IEC has participated in several litigation proceedings against the DOE on this issue and the respective courts have affirmed the DOE's responsibility for spent nuclear fuel acceptance. IEC is evaluating its options for recovery of damages due to the DOE's delay in accepting spent nuclear fuel.

The Nuclear Waste Policy Act of 1982 assigns responsibility for interim storage of spent nuclear fuel to generators of such spent nuclear fuel, such as IESU and WP&L. In accordance with this responsibility, IESU and WP&L have been storing spent nuclear fuel on site at DAEC and Kewaunee, respectively, since plant operations began. IESU will have to increase its spent fuel storage capacity at DAEC to store all of the spent fuel that will be produced before the current license expires in 2014. To provide assurance that both the operating and post-shutdown storage needs are satisfied, construction of a dry cask modular facility is being contemplated. With minor modifications, Kewaunee would have sufficient fuel storage capacity to store all of the fuel it will generate through the end of the license life in 2013. No decisions have been made concerning post-shutdown storage needs. Legislation is being considered on the federal level that would, among other provisions, expand the DOE's permanent spent nuclear fuel storage to include interim storage for spent nuclear fuel as early as 2002. This legislation has been submitted in the U.S. House. The prospects for passage by the U.S. Congress, and subsequent successful implementation by the DOE, are uncertain at this time.

(b) Decommissioning of DAEC and Kewaunee

Pursuant to the most recent electric rate case order, the IUB and PSCW allow IESU and WP&L to recover \$6 million and \$16 million annually for their share of the cost to decommission DAEC and Kewaunee, respectively.

Decommissioning expense is included in "Depreciation and amortization" in the Consolidated Statements of Income and the cumulative amount is included in "Accumulated depreciation" on the Consolidated Balance Sheets to the extent recovered through rates.

Additional information relating to the decommissioning of DAEC and Kewaunee includes (dollars in millions):

	<u>DAEC</u>	<u>Kewaunee</u>
Assumptions relating to current rate recovery figures:		
IEC's share of estimated decommissioning cost	\$252.8	\$189.7
Year dollars in	1993	1998
Method to develop estimate	NRC minimum formula	Site-specific study
Annual inflation rate	4.91%	5.83%
Decommissioning method	Prompt dismantling and removal	Prompt dismantling and removal
Year decommissioning to commence	2014	2013
Average after-tax return on external investments	6.82%	6.21%
External trust fund balance at December 31, 1998	\$ 91.7	\$134.1
Internal reserve at December 31, 1998	\$ 21.7	-
After-tax earnings on external trust funds in 1998	\$ 2.7	\$ 5.2

The rate recovery figures for DAEC only included an inflation estimate through 1997. Both IESU and WP&L are funding all rate recoveries for decommissioning into external trust funds and funding on a tax-qualified basis to the extent possible. All of the rate recovery assumptions are subject to change in future regulatory proceedings. In accordance with their respective regulatory requirements, IESU and WP&L record the earnings on the external trust funds as interest income with a corresponding entry to interest expense at IESU and to depreciation expense at WP&L. The earnings accumulate in the external trust fund balances and in accumulated depreciation on utility plant.

IESU's 70% share of the estimated cost to decommission DAEC based on the most recent site-specific study completed in 1998 is \$334.2 million, in 1998 dollars. This study includes the costs to terminate DAEC's NRC license and to return the site to a greenfield condition. IESU's 70% share of the estimated cost to decommission DAEC based on the most recent NRC minimum formula is \$347.0 in 1997 dollars. The NRC minimum formula is intended to apply only to the cost of terminating DAEC's NRC license. The additional decommissioning expense funding requirements which should result from these updated studies are not reflected in IESU's rates.

(i) Legal Proceedings

IEC is involved in legal and administrative proceedings before various courts and agencies with respect to matters arising in the ordinary course of business. Although unable to predict the outcome of these matters, IEC believes that appropriate reserves have been established and final disposition of these actions will not have a material adverse effect on its financial position or results of operations.

(13) JOINTLY-OWNED ELECTRIC UTILITY PLANT:

Under joint ownership agreements with other Iowa and Wisconsin utilities, IESU, WP&L and IPC have undivided ownership interests in jointly-owned electric generating stations and related transmission facilities. Each of the respective owners is responsible for the financing of its portion of the construction costs. Kilowatt-hour generation and operating expenses are divided on the same basis as ownership with each owner reflecting its respective costs in

its Consolidated Statements of Income. Information relative to IESU's, WP&L's and IPC's ownership interest in these facilities at December 31, 1998 is as follows (dollars in millions):

	Ownership Interest %	In-service Date	Plant MW Capacity	1998			1997		
				Plant in Service	Accumulated Provision for Depreciation	CWIP	Plant in Service	Accumulated Provision for Depreciation	CWIP
IESU									
Coal:									
Ottumwa Unit 1	48.0	1981	716	\$ 193.1	\$102.7	\$ 0.8	\$ 191.6	\$ 96.6	\$ -
Neal Unit 3	28.0	1975	515	59.0	32.4	0.1	60.8	30.6	0.1
Nuclear:									
DAEC	70.0	1974	520	507.1	247.2	1.4	500.6	230.8	2.8
Total IESU				\$ 759.2	\$382.3	\$ 2.3	\$ 753.0	\$358.0	\$2.9
WP&L									
Coal:									
		1975 &							
Columbia Energy Center	46.2	1978	1,023	\$ 161.5	\$ 93.8	\$ 1.4	\$ 161.4	\$ 89.2	\$0.8
Edgewater Unit 4	68.2	1969	330	52.4	30.8	0.4	51.5	29.5	1.0
Edgewater Unit 5	75.0	1985	380	229.0	85.9	0.2	229.4	79.8	0.1
Nuclear:									
Kewaunee Nuclear Power Plant	41.0	1974	535	132.2	93.7	6.4	132.0	86.6	0.3
Total WP&L				\$ 575.1	\$304.2	\$ 8.4	\$ 574.3	\$285.1	\$2.2
IPC									
Coal:									
Neal Unit 4	21.5	1979	640	\$ 82.1	\$ 48.4	\$ 1.5	\$ 82.2	\$ 45.8	\$ -
Louisa Unit 1	4.0	1983	738	24.7	11.7	-	24.7	10.9	-
Total IPC				\$ 106.8	\$ 60.1	\$ 1.5	\$ 106.9	\$ 56.7	\$ -
Total IEC				\$1,441.1	\$746.6	\$12.2	\$1,434.2	\$699.8	\$5.1

(14) SEGMENTS OF BUSINESS:

In 1998, IEC adopted SFAS 131, "Disclosures About Segments of an Enterprise and Related Information." IEC's principal business segments are:

- **Regulated domestic utilities** — consists of IEC's three regulated utility operating companies (IESU, WP&L, and IPC) serving customers in Iowa, Wisconsin, Minnesota and Illinois. The regulated domestic utility business is broken down into three segments which are: 1) electric operations; 2) gas operations; and 3) other, which includes the water and steam businesses as well as the unallocated portions of the utility business.
- **Nonregulated businesses** — represents the operations of Alliant Energy Resources and its subsidiaries. This includes the company's domestic and international energy products and services businesses; industrial services, which includes environmental, engineering and transportation services; investments in affordable housing initiatives; and investments in various other strategic initiatives.
- **Other** — includes the operations of IEC's parent company and Alliant Energy Corporate Services, as well as any reconciling/eliminating entries.

Intersegment revenues were not material to IEC's operations and there was no single customer whose revenues exceeded 10% or more of IEC's consolidated revenues. Refer to Note 5(b) for a breakdown of IEC's international investments by country.

Certain financial information relating to IEC's significant business segments and products and services is presented below:

	Regulated Domestic Utilities				Nonregulated Businesses	Other	IEC Consolidated
	Electric	Gas	Other	Total			
	(in thousands)						
1998							
Operating revenues	\$1,567,442	\$295,590	\$ 31,235	\$1,894,267	\$238,676	\$ (2,069)	\$2,130,874
Depreciation and amortization expense	219,364	23,683	2,623	245,670	33,835	-	279,505
Operating income (loss)	271,511	16,027	5,598	293,136	(8,608)	(1,226)	283,302
Interest expense, net			96,951	96,951	23,298	2,302	122,551
Preferred and preference dividends			6,699	6,699	-	-	6,699
Net (income) loss from equity method subsidiaries			(858)	(858)	2,197	-	1,339
Miscellaneous, net (other than equity income/loss)			3,545	3,545	(7,973)	2,353	(2,075)
Income tax expense (benefit)			77,257	77,257	(17,232)	(1,912)	58,113
Net income (loss)			109,542	109,542	(8,898)	(3,969)	96,675
Total assets	3,202,837	458,832	469,822	4,131,491	869,261	(41,415)	4,959,337
Investments in equity method subsidiaries			5,189	5,189	49,446	-	54,635
Construction and acquisition expenditures	233,638	33,200	2,295	269,133	102,925	-	372,058
1997							
Operating revenues	\$1,515,753	\$393,907	\$ 30,882	\$1,940,542	\$361,961	\$ (1,876)	\$2,300,627
Depreciation and amortization expense	201,742	21,553	2,432	225,727	33,936	-	259,663
Operating income (loss)	316,880	29,330	2,169	348,379	(6,818)	(5,178)	336,383
Interest expense, net			95,734	95,734	23,197	(1,642)	117,289
Preferred and preference dividends			6,693	6,693	-	-	6,693
Net (income) loss from equity method subsidiaries			(32)	(32)	849	-	817
Miscellaneous, net (other than equity income/loss)			(8,257)	(8,257)	(8,282)	1,812	(14,727)
Income tax expense (benefit)			101,739	101,739	(18,616)	(1,390)	81,733
Net income (loss)			152,502	152,502	(3,966)	(3,958)	144,578
Total assets	3,142,910	448,845	485,225	4,076,980	838,504	8,066	4,923,550
Investments in equity method subsidiaries			5,694	5,694	39,175	-	44,869
Construction and acquisition expenditures	217,023	33,984	5,753	256,760	71,280	-	328,040

	Regulated Domestic Utilities			Total	Nonregulated Businesses		IEC Consolidated
	Electric	Gas	Other		Other		
	(in thousands)						
1996							
Operating revenues	\$1,440,375	\$375,955	\$ 24,008	\$1,840,338	\$393,963	(\$ 1,461)	\$2,232,840
Depreciation and amortization expense	180,989	18,124	1,891	201,004	31,359	-	232,363
Operating income (loss)	326,370	40,521	7,001	373,892	(6,666)	(1,787)	365,439
Interest expense, net			86,084	86,084	17,859	3,804	107,747
Preferred and preference dividends			6,687	6,687	-	-	6,687
Net (income) loss from equity method subsidiaries			(372)	(372)	18	-	(354)
Miscellaneous, net (other than equity income/loss)			(1,390)	(1,390)	(9,968)	(131)	(11,489)
Income tax expense (benefit)			115,033	115,033	(12,724)	3,451	105,760
Net income (loss) from continuing operations			167,850	167,850	(1,851)	(8,911)	157,088
Discontinued operations			-	-	(1,297)	-	(1,297)
Net income (loss)			167,850	167,850	(3,148)	(8,911)	155,791
Total assets	3,122,761	511,110	452,885	4,086,756	546,690	6,380	4,639,826
Investments in equity method subsidiaries			6,110	6,110	11,163	-	17,273
Construction and acquisition expenditures	247,323	34,738	15,135	297,196	115,078	-	412,274

Products and Services

Year	Revenues							
	Regulated Domestic Utilities			Nonregulated Businesses				
	Electric	Gas	Other	Environmental and Engineering Services	Oil and Gas Production	Nonregulated Energy	Transportation, Rents and Other	Total Nonregulated Businesses
	(in thousands)							
1998	\$1,567,442	\$295,590	\$31,235	\$72,616	\$64,622	\$40,536	\$60,902	\$238,676
1997	1,515,753	393,907	30,882	78,105	68,922	151,128	63,806	361,961
1996	1,440,375	375,955	24,008	84,859	65,724	192,217	51,163	393,963

(15) DISCONTINUED OPERATIONS:

IEC's financial statements reflect the discontinuance of operations of its utility energy and marketing consulting business in 1995. During 1996, IEC recognized a loss of \$1.3 million, net of applicable income tax benefit, associated with the final disposition of the business.

(16) SELECTED CONSOLIDATED QUARTERLY FINANCIAL DATA (Unaudited):

	Quarter Ended *			
	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>	<u>December 31</u>
	(in thousands, except per share data)			
1998**				
Operating revenues	\$556,283	\$491,012	\$555,313	\$528,266
Operating income	73,880	32,627	122,196	54,599
Net income (loss)	28,875	(9,098)	51,704	25,194
Earnings per average common share (basic and diluted)	0.38	(0.12)	0.67	0.33
1997				
Operating revenues	\$663,650	\$493,842	\$556,858	\$586,277
Operating income	92,319	56,987	120,297	66,780
Net income	40,688	19,799	54,969	29,122
Earnings per average common share (basic and diluted)	0.54	0.26	0.72	0.38

* Financial results have been restated for all quarters presented with the exception of the third and fourth quarter of 1998 to reflect a change in accounting method for IEC's oil and gas properties implemented in the third quarter of 1998 from the full cost method to the successful efforts method. See Note 1(i) for additional information.

** Net income for 1998 was impacted by the recording of approximately \$10 million, \$35 million, \$6 million and \$3 million of pre-tax merger-related expenses in the first, second, third and fourth quarters, respectively.

INTERSTATE ENERGY CORPORATION

(Doing business as
Alliant Energy Corporation)

SELECTED FINANCIAL AND OPERATING STATISTICS

INTERSTATE ENERGY CORPORATION

Financial Information

	1998*	1997**	1996**	1995**	1994**
	(Dollars in thousands except for per share data)				
Income Statement Data:					
Operating revenues	\$2,130,874	\$2,300,627	\$2,232,840	\$1,976,807	\$1,889,231
Operating expenses	1,847,572	1,964,244	1,867,401	1,611,875	1,575,723
Operating income	283,302	336,383	365,439	364,932	313,508
Income from continuing operations	96,675	144,578	157,088	159,157	147,064
Discontinued operations	-	-	(1,297)	(13,186)	(1,174)
Net income	96,675	144,578	155,791	145,971	145,890
Common Stock Data:					
Weighted average common shares outstanding (000s)	76,912	76,210	75,481	74,680	73,751
Return on average common equity(1)	6.0%	9.5%	11.0%	10.5%	10.7%
Per Share Data:					
Income from continuing operations	\$ 1.26	\$ 1.90	\$ 2.08	\$ 2.13	\$ 1.99
Discontinued operations	-	-	\$ (0.02)	\$ (0.18)	\$ (0.01)
Earnings per average common share (basic and diluted)	\$ 1.26	\$ 1.90	\$ 2.06	\$ 1.95	\$ 1.98
Dividends declared per common share(2)	\$ 2.00	\$ 2.00	\$ 1.97	\$ 1.94	\$ 1.92
Book value at year-end(1)	\$ 20.69	\$ 21.24	\$ 18.91	\$ 18.70	\$ 18.60
Market value at year-end(2)	\$ 32.25	\$ 33.13	\$ 28.13	\$ 30.63	\$ 27.38
Other Selected Financial Data:					
Construction and acquisition expenditures ..	\$ 372,058	\$ 328,040	\$ 412,274	\$ 375,184	\$ 390,875
Total assets at year-end(1)	\$4,959,337	\$4,923,550	\$4,639,826	\$4,476,406	\$4,269,637
Long-term obligations, net	\$1,713,649	\$1,604,305	\$1,444,355	\$1,357,755	\$1,358,258
Times interest earned before income taxes ..	2.25X	2.90X	3.38X	3.36X	3.43X
Capitalization Ratios:					
Common stock(1)	49%	51%	52%	51%	51%
Preferred and preference stock	4%	3%	4%	4%	4%
Long-term debt	47%	46%	44%	45%	45%
Total	100%	100%	100%	100%	100%

* The 1998 financial results reflect the recording of \$54 million of pre-tax merger-related charges.

** Financial results have been restated to reflect a change in accounting method for IEC's oil and gas properties implemented in the third quarter of 1998 from the full cost method to the successful efforts method. Refer to IEC's Note 1(i) of the "Notes to Consolidated Financial Statements" for additional information regarding the restatement.

(1) In the third quarter of 1997, IEC began adjusting the carrying value of its investments in McLeodUSA Inc. to its estimated fair value, pursuant to the applicable accounting rules. At December 31, 1998, the adjustment reflected an unrealized gain of approximately \$291 million with a net of tax increase to common equity of \$170 million.

(2) Represents data for WPL Holdings, Inc. for periods prior to the consummation of the Merger.

INTERSTATE ENERGY CORPORATION

Electric Operating Information (Utility Only)

	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>
Operating Revenues (000s):					
Residential	\$ 519,687	\$ 509,207	\$ 494,649	\$ 498,071	\$ 469,217
Commercial	330,693	320,308	308,480	302,889	296,329
Industrial	<u>477,241</u>	<u>455,912</u>	<u>428,726</u>	<u>412,711</u>	<u>401,097</u>
Total from ultimate customers	1,327,621	1,285,427	1,231,855	1,213,671	1,166,643
Sales for resale	199,128	192,346	181,365	143,726	136,839
Other	<u>40,693</u>	<u>37,980</u>	<u>27,155</u>	<u>24,271</u>	<u>27,322</u>
Total	<u>\$1,567,442</u>	<u>\$1,515,753</u>	<u>\$1,440,375</u>	<u>\$1,381,668</u>	<u>\$1,330,804</u>
Electric Sales (000s MWH):					
Residential	6,674	6,699	6,668	6,705	6,276
Commercial	5,095	4,996	4,878	4,816	4,578
Industrial	<u>12,718</u>	<u>12,320</u>	<u>11,666</u>	<u>11,360</u>	<u>10,870</u>
Total from ultimate customers	24,487	24,015	23,212	22,881	21,724
Sales for resale	7,189	6,768	7,459	5,001	4,757
Other	<u>158</u>	<u>161</u>	<u>161</u>	<u>163</u>	<u>182</u>
Total	<u>31,834</u>	<u>30,944</u>	<u>30,832</u>	<u>28,045</u>	<u>26,663</u>
Customers (End of Period):					
Residential	773,724	764,604	755,085	744,440	733,866
Commercial	128,430	126,959	125,426	123,786	122,217
Industrial	2,618	2,555	2,472	2,418	2,362
Other	<u>3,267</u>	<u>3,281</u>	<u>3,207</u>	<u>2,749</u>	<u>2,734</u>
Total	<u>908,039</u>	<u>897,399</u>	<u>886,190</u>	<u>873,393</u>	<u>861,179</u>
Other Selected Electric Data:					
System capacity at time of peak demand (MW):					
Company-owned	5,231	5,257	5,192	5,077	4,960
Firm purchases and sales (net)	<u>618</u>	<u>660</u>	<u>583</u>	<u>547</u>	<u>603</u>
Total(1)	<u>5,849</u>	<u>5,917</u>	<u>5,775</u>	<u>5,624</u>	<u>5,563</u>
Maximum peak hour demand (MW) (1)	5,228	5,045	4,953	5,032	4,714
Sources of electric energy (000s MWH):					
Steam	19,119	17,423	17,014	17,606	16,739
Nuclear	4,201	3,874	4,054	4,166	4,501
Purchases	10,033	10,660	10,895	7,416	6,454
Other	<u>504</u>	<u>565</u>	<u>392</u>	<u>349</u>	<u>289</u>
Total	<u>33,857</u>	<u>32,522</u>	<u>32,355</u>	<u>29,537</u>	<u>27,983</u>
Revenue per KWH from ultimate customers (in cents)					
	5.42	5.35	5.31	5.30	5.37

(1) Figures represent a summation of the individual peak demands of IESU, WP&L and IPC thus they do not represent the coincident peak of the entire IEC system.

INTERSTATE ENERGY CORPORATION

Gas Operating Information (Utility Only)

	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>
Operating Revenues (000s):					
Residential	\$175,603	\$225,542	\$216,268	\$179,761	\$179,694
Commercial	85,842	115,858	108,187	87,951	92,082
Industrial	20,204	27,393	27,569	30,462	40,427
Transportation and other	13,941	25,114	23,931	21,952	12,396
Total	<u>\$295,590</u>	<u>\$393,907</u>	<u>\$375,955</u>	<u>\$320,126</u>	<u>\$324,599</u>
Gas Sales (000s Dekatherms):					
Residential	28,378	33,894	37,165	33,827	32,447
Commercial	17,760	21,142	22,613	20,599	20,219
Industrial	5,507	6,217	6,856	6,381	8,709
Transportation and other	52,389	56,719	55,240	54,267	42,730
Total	<u>104,034</u>	<u>117,972</u>	<u>121,874</u>	<u>115,074</u>	<u>104,105</u>
Customers at End of Period (Excluding Transportation and Other):					
Residential	342,586	337,956	331,919	326,005	319,628
Commercial	43,825	43,316	42,658	42,095	41,496
Industrial	982	963	1,022	1,059	1,058
Total	<u>387,393</u>	<u>382,235</u>	<u>375,599</u>	<u>369,159</u>	<u>362,182</u>
Other Selected Gas Data:					
Revenue per dekatherm sold (excluding transportation and other)	\$ 5.45	\$ 6.02	\$ 5.28	\$ 4.90	\$ 5.09
Purchased gas costs per dekatherm sold (excluding transportation and other)	\$ 3.22	\$ 4.23	\$ 3.61	\$ 3.31	\$ 3.70



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