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WISCONSIN POWER AND LIGHT COMPANY

1979 ANNUAL REPORT

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Wisconsin Power and Light Company is an investor-owned electric, gas and water utility serving more than 400,000 customers. Its service area encompasses 600 cities, villages and towns across 16,000 square miles in central and southern Wisconsin. Its headquarters are in Madison, Wisconsin.

Wisconsin Power & Light Company

1979 Financial Highlights

	1979	1978
Operating Revenues	$362,278,000	$306,635,000
Operating Expenses	$307,956,000	$259,202,000
Net Income	$ 33,021,000	$ 29,093,000
Earnings on Common Stock	$ 27,883,000	$ 23,480,000
Earnings Per Share of Common Stock	$2.50	$2.15
Dividends Per Share of Common stock	$1.80	$1.72
Total Capitalization	$552,426,000	$550,768,000
Electric Sales (Thousand Kilowatt-Hours)	7,222,317	6,617,000
Gas Sales (Thousand Therms)	303,027	300,309

Contents

On the Cover

Cables and coils combine to produce an intriguing design. The picture that inspired Wisconsin Power and Light's annual report cover is shown on page 9.

THE PRESIDENT COMMENTS

In 1979 Wisconsin Power and Light Company set and achieved an improved earnings per share goal despite continuing cost pressures.

Several factors contributed to the Company's improved financial situation, including a 9 percent increase in electric sales volume and an interim rate increase granted by the Wisconsin Public Service Commission (PSC) in December 1978. These were enhanced by a variety of aggressive internal cost controls.

Standard and Poor's and Moody's Investors Service recognized WP&L's current good financial health and the ability to maintain it when they raised their ratings on our outstanding preferred stock to AA in August. Both agencies already rated the Company's bonds at AA. In announcing the rating change, Standard and Poor's cited a conservative capital structure and favorable coverage of fixed charges and preferred stock dividends.

The PSC issued a final order on our pending 1977 rate case in February 1980. While the commission increased WP&L's rate of return on shareowner investments to 13.5 percent, we believe the commission has yet to recognize that this percentage is not adequate for the inflationary environment of the '80s.

If Wisconsin Power and Light is to continue to explore ways to provide energy to its customers at the lowest possible cost, we must be allowed to attract capital investment to support these initiatives.

1979 Accomplishments

During 1979 the Company's gas conservation program advanced with the completion of more than 5,000 in-home audits, bringing the total done by WP&L since it initiated its program to more than 16,700. No other company in the industry can match this accomplishment.

Also in the past year, the Company began marketing solar water heating systems, an undertaking that has made the Company the largest retailer of such units in the state of Wisconsin. This program complements the Company's demonstration passive solar home project, begun in 1978.

One of the Company's passive solar homes won design and construction awards in a Department of Housing and Urban Development-sponsored competition. Like others the Company has built, the home was opened to the public.

While conservation, as well as load management, is an integral part of the Company's future load forecast, customer energy demand cannot be met without coal and nuclear central-station generating facilities.

We were pleased to receive, four years after first application, the approval for our new 400-megawatt coal-fired unit at the Company's Edgewater Generating Station. This facility is necessary as we look to continue to provide reliable electrical service in the mid-1980s. Construction is already underway, with completion scheduled for 1984.

"Financial strength is a key to good customer service..."

In the area of coal supplies and costs, we continued in 1979 to act on our conviction that we have a responsibility to get the best possible rates to help control the customers' bills. We have chosen to renegotiate tariffs rather than take the issues to court because, we believe, in the long run this will mean lower costs to our ratepayers. By cooperating with the railroads in the face of adversity, WP&L has been able to do as good a job of holding costs as any utility in the nation.

Wisconsin Power and Light President James R. Underkofler (center) brings the Company's perspective on rail transport problems in the state to other concerned leaders. Pictured here (from left) are George T. Brewer, corporate director of transportation and distribution for the A.O. Smith Corporation of Milwaukee; Donald R. Haldeman, president of the Wisconsin Farm Bureau; and Lowell B. Jackson, secretary of transportation for the State of Wisconsin.

Shareowner Services

During 1979 we continued a program of meeting with major investment analysts to keep them up-to-date on Company plans and financial performance. We were pleased to be invited to make a presentation before the Boston Security Analysts Society and we also met with analysts in Chicago, New York and Hartford.

Company Directors Allan Adams and Carol Toussaint accompanied management representatives to the Chicago meeting and met informally with security analysts. We plan to involve non-management members of the Board in similar future meetings both to add to their personal perspectives on how the investment community views WP&L and to give important investment advisors an additional way to better evaluate the Company.

Our series of fall meetings with Wisconsin shareowners—a tradition of 30 years—continues to be a satisfying way for management both to learn the particular concerns of shareowners and to report on WP&L's progress. These sessions, together with the annual shareowner meeting, put us in face-to-face contact with more than 1,500 shareowners each year.

Further, we asked all of our more than 50,000 shareowners to participate in a survey in November to help us better understand not only who our shareowners are, but also how we might better serve them.

One recently announced effort is WP&L's new Dividend Reinvestment and Stock Purchase Plan. Shareowners may now get a 5 percent discount from market value on shares purchased with reinvested dividends. Also under the plan, optional cash payments can be made and invested more frequently than in the past.

The Year Ahead

Maintaining high quality customer service at the least possible cost remains extremely important as we move into an era of rapidly rising energy costs and continuing uncertainties about our nation's energy programs. Linked to our traditional goal of reliable energy supply are our more recent conservation, pricing and alternate energy initiatives. These are designed to maximize the customers' decision-making opportunities to get the most reliable energy service at the least cost.

One of the key challenges to solving our nation's energy problems continues to be the ability to attract adequate amounts of capital, especially for the electric utility industry. In order for WP&L to raise the necessary capital, further improvement in our earnings on common equity is essential and possible. This will strengthen our internal generation of funds with which to finance future energy facilities and lessen our need to depend on uncertain and expensive financial markets.

Our employee group has been a key resource in our successful efforts to meet customer, shareowner and community needs. We recognize and appreciate these efforts. Wisconsin Power and Light will continue its commitment to provide a high standard of working conditions and individual opportunity consistent with comparable opportunities in the communities we serve.

We are proud that WP&L has a strong tradition of community involvement and service. We have effectively recognized new needs in recent years for environmental protection, public and community participation and equal employment opportunity. We will, in the months ahead, give added emphases to media, community and legislative activities on behalf of the interests of our customers, shareowners and employees.

James R. Underkofler
President and Chief Executive Officer

1979 Highlights

In June the Company filed with the Public Service Commission an **electric, gas and water rate case.** WP&L is seeking a 12.3 percent electric rate increase, a 4.7 percent increase in natural gas rates for customers on the Michigan Wisconsin pipeline system and a 0.7 percent increase in gas rates for Northern Natural pipeline customers. Hearings on the case, which is based on 1980 costs, have not yet been scheduled.

Twenty-one new industries located in WP&L territory in 1979 and 69 expanded their operations here as **service area development continued.** Nearly 7,000 new customers were added to the Company's electric system while new natural gas customers totaled more than 2,700. One of WP&L's four fall television commercials (below) highlighted the Company's key role in attracting a new industry to Delavan eight years ago and in helping it expand three times since then.

WP&L and the other three members of Eastern Wisconsin Utilities announced in June that they were deferring the operational date of the **proposed Haven nuclear plant** near Sheboygan for two years, from 1987 to 1989. (A subsequent order from the Public Service Commission in February 1980 led to the withdrawal of the application for the Haven project. See page 30.)

A hearing on WP&L's **1977 wholesale electric rate increase request** was held before a Federal Energy Regulatory Commission (FERC) Administrative Law Judge last summer. FERC has not issued a final decision on the request, which is based on a mid-1977 to mid-1978 test year.

At a series of retiree sessions held throughout the Company's service area in October, WP&L President James R. Underkofler announced a **pension increase** for approximately 480 employees, or beneficiaries of employees, who retired prior to 1977. The pension adjustment, with an estimated life cost of $1.8 million, is designed to ease inflation's impact. Approved by the Personnel Committee of the Company's Board of Directors, the increase became effective Jan. 1, 1980.

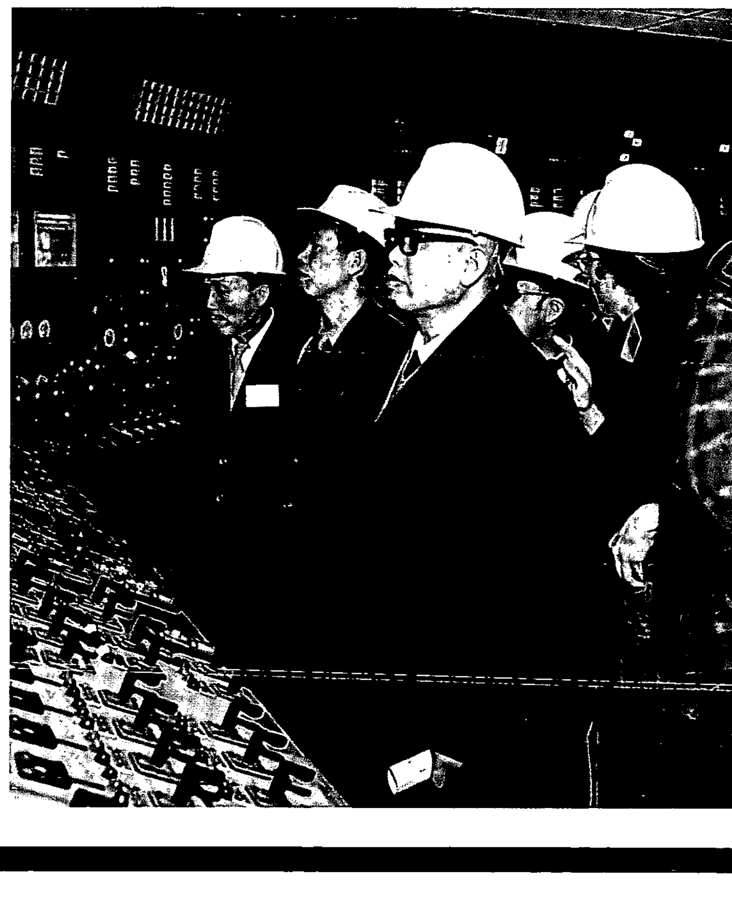
Groundbreaking ceremonies in August officially launched the construction of a **$1 million solar-heated operations center** in Baraboo. A solar water heating system will serve the entire operations center and a passive solar system will heat the building's two garages.

Electric system losses continued to decline in 1979 to 7.3 percent, an efficiency level considered nearly optimum for the Company and better than the industry average. A combination of tactics helped WP&L reduce the energy that is lost and dissipated as heat anytime an electric current flows through conductors, transformers and other utility system equipment. Those tactics were: 1) improvements in the transmission system in getting the bulk power from the generating plants to the distribution substations; 2) rebuilding worn-out portions of the distribution system; and 3) adding capacitors to the system.

WP&L built three demonstration homes during 1979 to acquaint customers with the advantages of passive solar heating. Approximately 9,000 persons toured the homes, which use south-facing windows to collect solar energy and a thermal mass, such as a masonry floor or walls or a rockbed to store heat. The Company's passive solar home in Beloit won design and construction awards in the Department of Housing and Urban Development's National Passive Solar Residential Design competition.

A 12-member delegation from the People's Republic of China and their University of Wisconsin-Madison hosts donned hard hats and toured WP&L's modern Columbia Energy Center near Portage in April. The delegation represented the First Ministry of Machine Building, which oversees post-secondary technical education and technological research for all heavy industry in China.

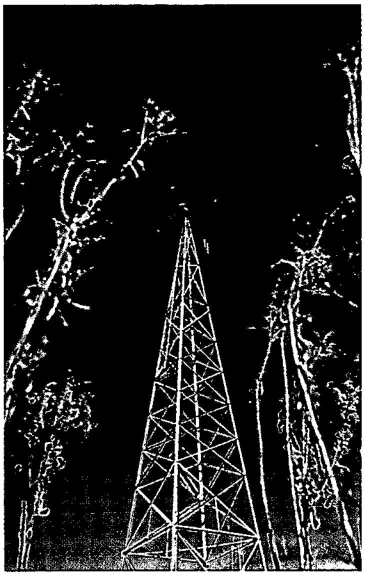
WP&L's first Career Information Seminar for minority group members and women affirmed the Company's commitment to human development. **The outreach into the minority community** was designed to make representatives of community, social service, employment and educational organizations aware of career opportunities at WP&L.



Highlights

WP&L filed a parallel generation rate schedule with the Wisconsin Public Service Commission in October that would **enable the Company to purchase excess power from customers** who develop their own electrical generation facilities. The alternate energy equipment could include windmills, methane or small hydroelectric generators, for example.

The Public Service Commission issued a final order **approving construction of Edgewater 5** in January 1980, more than four years after WP&L originally filed notice of its intent to construct the 400-megawatt coal-fired unit in Sheboygan. The order authorizes the construction of Edgewater 5 at a cost of $294.6 million, a figure that is based on the plant going on line in 1984. The unit originally was scheduled to begin commercial operation in 1982. Edgewater Units 1 and 2 will be retired when the new plant is completed.



In December the Company offered WP&L employees as well as shareowners of record the opportunity to participate in a **new Dividend Reinvestment and Stock Purchase Plan,** which went into effect in January 1980. The plan provides a number of new benefits, including a 5 percent discount from market price on all shares of common stock purchased with reinvested dividends.

A department that was formed in late 1978 implemented a number of new programs during 1979 to aid the career development of WP&L employees. **The Human Resource Planning and Development Department** also is responsible for training, management development, career assessment and the further development of equal opportunity and affirmative action programs.

In addition to WP&L's annual shareowner meeting, **informal meetings between Company executives and shareowners** were held in Baraboo, Berlin and Mineral Point, Wis., during 1979. The 1980 annual meeting is scheduled for April 23 in Madison.

Continuing a tradition of leadership...

Wisconsin Power and Light Company has a well-earned reputation as a leader.

Throughout the utility industry, it is considered innovative and willing to move into untested areas. Among business leaders, the Company is a trusted partner in industrial expansion and energy management. In the cities and towns it serves, it is regarded as a staunch community citizen. A Louis Harris customer poll conducted in 1979 shows that WP&L has the most positive image of any major Wisconsin utility.

Yet, as the nation strains under the weight of an overinflated economy and the realization that energy resources are, in fact, limited, there may be some who have forgotten Wisconsin Power and Light's well-established tradition of creative leadership and good service.

The Company itself has not. It knows that when times get tough, the temptation to pull back, to wait and see, is strong.

It's the dynamic, responsible energy provider that sees this time as an opportunity to find new ways to help customers control their costs which, in turn, leads to increased corporate strength and flexibility.

Today, the arenas for action —for leadership—are changing. Civic group and Chamber of Commerce luncheons, town council sessions and industrial development planning meetings remain cornerstones of activity. Added to the "be there" list are the hearing rooms of the state legislature and the U.S. Congress, the staff offices of local and federal agencies, private and public school classrooms and editorial boardrooms of newspapers.

Wisconsin Power and Light is there because, in the past, it has been among the first to offer creative solutions to energy-related problems. More importantly, however, it is there because it is offering direction for the future.

When bankruptcy of the Milwaukee Road threatened not only Wisconsin's coal supplies but also rail transport of food, goods and materials, Wisconsin Power and Light took action. It joined with agribusiness, manufacturing and governmental leaders to help resolve this mutual concern.

"Wisconsin Power and Light is only one of a number of utilities that depend on Western coal transported by the Milwaukee Road," said Paul Hassett, executive director of the Wisconsin Association of Manufacturers and Commerce, "but it has been among the most active in seeking solutions to the railroad's problems.

"It moved into the issue early, recognizing the impact rail service has on the entire state economy," Hassett added.

WP&L President James R. Underkofler testified on the importance of the Milwaukee Road to the citizens of Wisconsin at a public hearing conducted by the U.S. Senate Select Committee on Small Business.

"He told Senator (Gaylord) Nelson (D-Wis. and committee chair) that the provision of good rail service is essential to managing not only the state's coal supply but all commerce," Hassett said.

WP&L greeted other rail transport problems in the Midwest with the same characteristic decisiveness, underscoring the Company's broad commitment to coal-fired generation.

The Company convened a series of meetings of executives from Illinois, Iowa, Michigan, Minnesota, Montana and Wisconsin utilities. The group has formulated specific objectives for alleviating coal delivery problems.

To its tariff negotiations with rail carriers, Wisconsin Power and Light brings a philosophy that costs and service are equally important. A low rate may benefit customers in the short term, but if it contributes to inadequate deliveries that force switches to more expensive generating fuels, the customer is faced with significantly higher energy costs.

Negotiating the best delivery contracts has put WP&L at the forefront of industry-wide efforts to solve this problem.

Also recognized at the national level is the Company's leadership in solar energy development.

In June 1979, WP&L Vice President Homer Vick was called to appear before a U.S. House of Representatives joint subcommittee meeting to give his views on the role of utilities

in the development of solar energy.

The U.S. Department of Energy (DOE), through studies coordinated by private consultants, also came to Wisconsin Power and Light for solar-related information during 1979.

Brookhaven National Laboratory and ICF, Inc., both under DOE contract, used data supplied by WP&L. Booz•Allen and Hamilton turned to Wisconsin Power and Light as it attempted to determine consumer response to solar commercialization and make recommendations to DOE.

Susan Miller, senior energy economist for the consulting firm, said that she looked to the most active utilities for her research. She also believes Wisconsin Power and Light, as a winter-climate utility, is playing a significant role in solar development.

Nuclear power accounts for a third of Wisconsin's electrical generation. The Kewaunee nuclear plant, owned in part by Wisconsin Power and Light, underwent standard maintenance during refueling in June 1979. Here, the inside of the generator stator is shown with the rotor removed.

"The popular notion is that solar is only good for maybe 10 percent of the nation—and then only in the sunbelt. When other parts of the country look at what WP&L is doing in Wisconsin, they begin to see the strong possibilities. WP&L is the shining star in that area. Its work lends credibility to the entire solar program," Miller said.

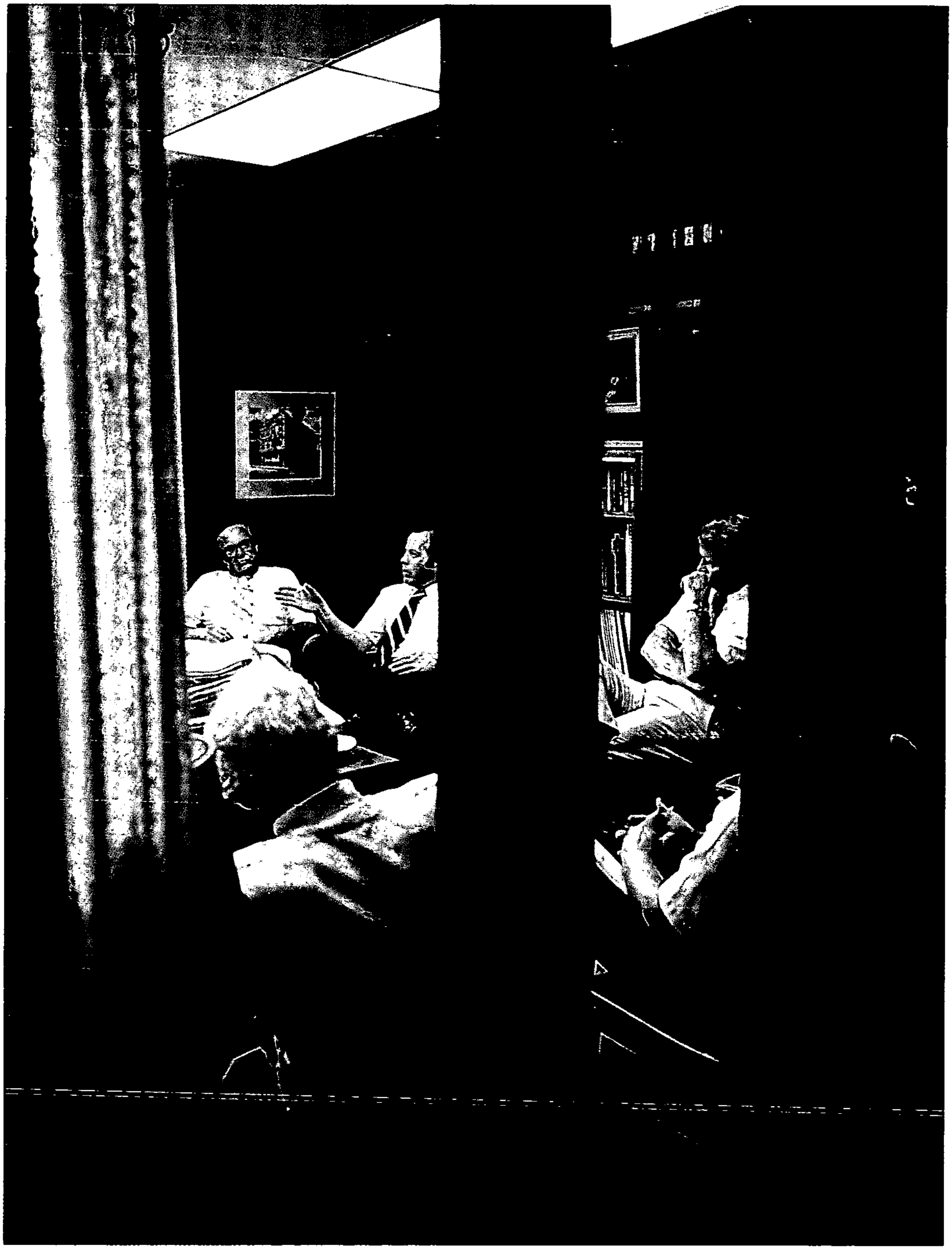
WP&L is marketing solar water heaters to determine if there are customers for these systems and if there is consumer acceptance of a utility participating in solar development in this way.

For some customers, solar water heating may be both

"It bridges the gap..."

economical and efficient. Clearly, however, it is not the only solution to a growing energy-resource problem.

Wisconsin Power and Light



and people like Terry J. Kohler know that every resource must be tapped to meet present and especially future energy demands.

Kohler is president of a Wisconsin company that employs 1,250 people. Six hundred fifty of them manufacture stainless steel food service utensils at a plant located within four miles of a proposed nuclear plant site jointly owned by WP&L and two other Wisconsin utilities.

"There is a strong work ethic in our community and among our employees," Kohler said. "But the work ethic doesn't mean much if you don't have the tools to put it to use—tools such as technology and energy."

Kohler believes it is critical for business leaders and utility managers to join together in support of nuclear power as a part of the energy solution.

He is working to help educate his employees about energy economics and alternatives. He has toured the Kewaunee nuclear generating station, owned in part by WP&L, and is working with the utility owners to arrange voluntary tours, on his company's time, for his employees.

No topic was off limits when WP&L executives met with editors and reporters of daily newspapers in the Company's service area. The shirt-sleeve sessions, initiated by WP&L, provided an opportunity for the candid exchange of information and opinions.

"People are concerned about jobs. This fact is fundamental to energy discussion and to nuclear development," Kohler argues. "Business leaders know this but too few see that we're down to survival strategies. Without increased electrical energy, no more jobs," Kohler said. "So unless some unforeseen and dramatic breakthrough occurs, clearly, nuclear is the way. It may not be 50 years from now, but between now and 2030, business and industry will survive only with nuclear power."

Nuclear generation currently supplies about 30 percent of Wisconsin's electrical demand needs. Coal-fired generators account for about 60 percent, with other fuels adding about 10 percent.

Wisconsin Power and Light remains committed to a balanced mix of generating sources and to providing reliable service at the least possible cost to its customers. A fifth unit at the Company's Edgewater coal-fired plant in Sheboygan, Wis., will help assure that demand forecasted for the mid-1980s will be met.

The Wisconsin Public Service Commission granted a construction order for Edgewater 5 more than four years after first application was filed. But the Company can look to two significant accomplishments during those four years.

In Sheboygan, local residents and Company officials joined forces to support a once-through water cooling method that eliminates the need for cooling towers. Area governmental bodies, citizen groups and individuals scrutinized the environmental impact and then went to work to convince the Wisconsin Department of Natural Resources that it, too, should be satisfied that once-through cooling was the best choice.

In Madison, the state capitol, WP&L management worked with state agencies to have them accept federal Environmental Protection Agency rulings that the new unit could meet air quality standards without coal-scrubbing equipment.

Both were accomplished—at a savings of millions of dollars to Company and customers and in compliance with community-established norms as well as federal and state regulations.

The union representing Company employees also recognizes what's needed to get the job done.

When a measure was introduced in the Wisconsin legislature to create a board to represent residential customers before the Public Service Commission, and to include the solicitation for participation in utility bill mailings, union leadership took the issue to the state AFL-CIO.

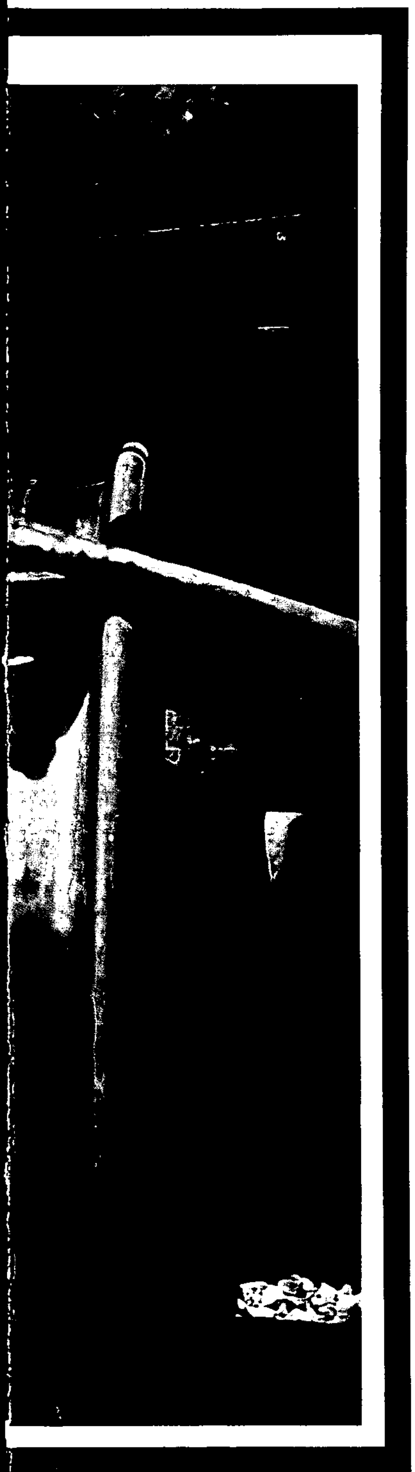
"We pushed the AFL-CIO to go on record against the proposal," said Larry Lenhardt, president of Local 965 of the International Brotherhood of Electrical Workers. "Proponents were arguing that the legislation would reduce customers' bills. We believe that, in the long run, it would delay rate cases and construction permits and that this would mean higher costs to customers."

Lenhardt and Business Manager Gene Samuelson were successful in gaining the support of the union leadership and the Wisconsin AFL-CIO opposed the legislation. Although the bill ultimately passed the legislature, the two leaders believe their efforts were important.

"Negotiating the best coal contracts..."

"Pressure is being put on the utility industry. It's being seen as the scapegoat for a lot of the nation's problems and, as a result, utility employees have a very high profile," Lenhardt said.

"It's time for individuals to take on some of these issues. We're urging our members



It created its Farm Advisory Council to facilitate a continuing exchange of information that would benefit both the utility and the farm community in Wisconsin.

"The idea behind the council is excellent," said Donald Haldeman, president of the Wisconsin Farm Bureau and council member.

"It bridges the gap between the supplier of energy and the farm consumer."

Haldeman said that the council enables him to gain greater insight into "the economics of producing power, the problems associated with it and the types of things that are needed to help shape public opinion to meet future needs.

"WP&L's Farm Advisory Council is quite unique," Haldeman said. "This approach may be needed in more areas."

Coal for the Columbia Energy Center as well as WP&L's other plants is one of several Wisconsin transportation needs met by railroads. During 1979, shipping was threatened by the bankruptcy of the Milwaukee Road. Power and Light led Wisconsin utilities with vigorous support for a reorganization plan that would continue rail transport so critical to the citizens and commerce of the state.

The desire to "bridge the gap" between energy supplier and user also led Wisconsin Power and Light to meet with the editorial staffs of most of the daily newspapers in the Company's service area during 1979.

Each session, held at the newspaper's office, had an open agenda with no topic off limits. A WP&L vice president, along with a field manager, responded to questions and brought the newspaper representatives up-to-date on what WP&L was doing in their locality.

The principal purpose was to provide editors and reporters with a better understanding of energy-related issues and how they affect their readers. The sessions complement the Company's program of annual regional meetings with groups of news media people.

Wisconsin Power and Light has taken its message of energy awareness into local communities in yet another way.

Educators from more than 90 school districts have participated in WP&L-sponsored workshops to learn how to integrate energy-related topics into already established curricula.

Through this education program, teachers and young people in private and public schools are exposed to numerous energy issues from all points of view.

"Wisconsin Power and Light, rather than the Department of Public Instruction or the state legislature, has been the necessary catalyst in starting an operational program in Wisconsin schools in energy education," said Melvin Bollom, an administrator representing 31 public school districts.

"The results of this energy education program will benefit all of society as the energy crunch becomes more severe," he said.

Through some of the above nontraditional activities, Wisconsin Power and Light is attempting to create awareness and prompt responsible decision making for the state and the nation's energy future.

It has not, however, abandoned its well-established role in the communities it serves.

Beth Supernaw, mayor of Delavan, Wis., credits WP&L's community development program with stimulating business people in her town to undertake some needed redevelopment.

"Paul Bergmann (WP&L Area Development manager) helped develop an awareness

1979 Financial Review

Report on the Financial Information

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

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

The Board of Directors participates in the financial information reporting process through its Audit Committee, whose composition and duties are described on page 41 of this annual report.

Discussion and Analysis of the Consolidated Statements of Income

Net Income for 1979 was substantially higher than the depressed 1978 level. 1979 results reflect a full year's impact of an interim retail rate order received in the final days of 1978. This rate increase, plus the concerted efforts on the part of the Company's management and employees to hold costs down, resulted in the improved earnings for 1979. While significantly higher than last year, this year's earnings are in line with the Company's earnings growth history prior to 1978. Earnings per share of common stock were $2.50 in 1979, up 16.3 percent, or 35 cents, from the $2.15 earned in 1978. Return on equity increased from 11.4 percent in 1978 to 12.8 percent in 1979, compared with the 13.0 percent return authorized for the Company by the Wisconsin Public Service Commission (PSC) in 1976. Book value per share of common stock changed to $19.89 per share in 1979 from $19.22 per share in 1978, while dividends paid to our common shareowners were increased to $1.80 per share in 1979 from $1.72 per share in 1978. At year-end, dividends were being paid at a $1.84 annual rate.

The following factors have had a substantial effect upon the Company's results of operations during the years 1979 and 1978.

OPERATING REVENUES

Operating revenues have increased substantially in each period primarily as a result of recovery of increased fuel costs through the electric fuel adjustment clauses, recovery of increased purchased gas costs through the purchased gas adjustment clause, interim rate relief granted late in 1978, and increases in both the number of electric and gas customers as well as increases in average consumption for electric customers.

The following table sets forth the major factors which caused the Company's electric and gas revenues during each of the last two years to exceed the revenues for the preceding years.

	Increase From Prior Year (Millions of Dollars) 1979	1978
Electric Revenues:		
Fuel adjustment clauses and rate changes	$21.1	$ 8.1
Sales volume	21.1	11.7
Net Increase	$42.2	$19.8
Gas Revenues:		
Purchased gas adjustment clauses and rate changes	$12.6	$ 7.9
Sales volume	.5	7.3
Net Increase	$13.1	$15.2

OPERATING EXPENSES

The increases and decreases in operating expenses during 1979 and 1978 were as follows:

	Increase (Decrease) From Prior Year (Millions of Dollars) 1979	1978
Electric production fuels	$20.2	$10.0
Purchased power	(4.3)	(.1)
Purchased gas	10.4	10.7
Depreciation	2.2	4.8
Maintenance	4.2	1.1
Other operating expenses	10.7	7.0
Income taxes	5.8	(2.6)
Payroll, property and other taxes	(.4)	.8
	$48.8	$31.7

The expense of fuel used in electric production increased in both 1979 and 1978, consistent with the greater quantities of electricity generated. Higher prices charged by suppliers of coal, together with greater freight costs, compounded the increase. The cost of nuclear fuel increased in 1979 reflecting an upward revision in the estimated costs of transportation and storage of spent nuclear fuel for the Kewaunee nuclear plant and higher nuclear fuel costs.

Purchased power expense was greater in 1978 than 1979 for two major reasons. Because of the coal strike in early 1978, purchased power was unusually high. In addition, prior to placing

Unit 2 of the Columbia Energy Center (Columbia 2) in service in April 1978, $2.2 million of test generation expense was classified as purchased power. The decrease in volume purchased in 1979 compared to 1978 was partially offset by an increase in cost.

The increase in purchased gas in 1979 over 1978 is primarily due to higher prices while the increase in 1978 over the preceding year is due to both higher prices and larger volumes. The increase in the quantity purchased in 1978 occurred because of colder weather and because of the need to use natural gas as fuel for electric generation during the coal miners' strike early in 1978.

Depreciation increased in 1979 over 1978 because Columbia 2 was included in depreciable "Plant in Service" for the entire year in 1979. Also contributing to the increase in straight-line depreciation charges were upward revisions in depreciation rates approved by the PSC for nuclear production facilities effective July 1, 1978. This is the result of an increase in the estimate of the decommissioning costs and an adjustment in the estimated service life of the Kewaunee nuclear plant.

Because of the addition of Columbia 2 in 1978, both straight-line depreciation expense and additional depreciation expense increased significantly in 1978 over 1977. The Company's depreciation rates and practices are further discussed in Note 1 of "Notes to Consolidated Financial Statements."

The addition of Columbia 2 in 1978 and increased maintenance requirements of older plants caused maintenance expense to increase in both years. Higher costs of labor, employee benefits and materials compounded the increase. The relatively small increase in 1978 is primarily the result of the timing of work performed. Three of the plants which had major maintenance projects in 1979 had no similar projects in 1978.

Additional service-related programs and the steadily increasing costs of labor and materials have contributed to the increases in other operating expenses for both years. An increased expenditure for research and development projects, the write-off of Koshkonong-related expenditures in 1979 and other generally higher costs of employee benefits have compounded the increase in other operating expenses for 1979.

Fluctuations in federal and state income taxes are due to fluctuations in pre-tax income in 1979 and 1978 and adjustments recorded to prior year's tax expenses. A downward revision in the federal tax rate from 48 percent to 46 percent limited the federal tax increase in 1979. The availability of the investment tax credit relating to new construction also affects income tax expenses and varies with the levels of construction on which the credit is allowed.

OTHER INCOME AND INTEREST EXPENSE

The significant changes in other income and interest expense for 1979 and 1978 are set forth in the table below:

	Increase (Decrease) From Prior Year (Millions of Dollars) 1979	1978
Allowance for funds used during construction:		
Borrowed funds	$(.3)	$(1.4)
Equity funds	(.2)	(1.1)
Interest on bonds	1.2	1.6
Other interest expense	1.0	.3

The most significant factor causing the decrease in allowance for funds used during construction in 1978 and 1979 was the transfer of Columbia 2 from "Construction Work in Progress" to "Plant in Service" in April 1978.

The 1979 increase in interest on bonds reflects a full year's interest on Series R bonds which were issued in May 1978.

Rising interest rates during 1978 and the need for additional short term borrowing during the first half of the year caused a slight increase in other interest expense in 1978. Although short term borrowing decreased in 1979, higher short term rates and other miscellaneous interest accruals caused other interest expense to increase during the period.

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

We have examined the consolidated balance sheets and statements of capitalization of WISCONSIN POWER AND LIGHT COMPANY (a Wisconsin corporation) and subsidiaries as of December 31, 1979 and December 31, 1978, and the related consolidated statements of income, reinvested earnings and sources of funds used for construction expenditures for each of the five years in the period ended December 31, 1979. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Wisconsin Power and Light Company and subsidiaries as of December 31, 1979 and December 31, 1978 and the results of their operations and their sources of funds used for construction expenditures for each of the five years in the period ended December 31, 1979, in conformity with generally accepted accounting principles which, except for the change in 1977 (with which we concur) in the method of accounting for revenue as discussed in Note 4, were applied on a consistent basis.

Milwaukee, Wisconsin, February 8, 1980. ARTHUR ANDERSEN & CO.

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,				
	1979	1978	1977	1976	1975
	(In Thousands Except For Per Share Data)				
OPERATING REVENUES (Notes 1 and 4):					
Electric	**$272,488**	$230,320	$210,541	$189,198	$155,329
Gas	**87,588**	74,504	59,257	53,080	39,659
Water	**2,202**	2,011	2,008	2,003	1,580
	362,278	306,835	271,806	244,281	196,568
OPERATING EXPENSES:					
Electric production fuels	**86,793**	66,613	56,617	47,470	39,741
Purchased power	**7,551**	11,830	11,927	7,849	5,009
Purchased gas	**63,221**	52,849	42,145	37,243	26,656
Other operation	**53,518**	42,826	35,814	31,154	26,002
Maintenance	**20,475**	16,249	15,156	12,452	10,073
Depreciation (Note 1)—					
Straight-line	**26,980**	24,242	20,978	19,915	18,152
Additional depreciation	**8,078**	8,592	7,078	7,907	7,801
Taxes (Note 1)—					
Current Federal income	**18,860**	9,292	15,569	17,614	9,568
Investment tax credit—					
Deferred	**4,813**	9,871	6,205	4,168	5,176
Restored (credit)	**(1,427)**	(1,068)	(660)	(497)	(328)
Current State income	**4,609**	2,965	2,580	2,952	635
Property, payroll and other	**14,485**	14,941	14,089	12,447	11,214
	307,956	259,202	227,498	200,674	159,699
NET OPERATING INCOME	**54,322**	47,633	44,308	43,607	36,869
OTHER INCOME AND (DEDUCTIONS):					
Allowance for funds used during construction (Note 1)—					
All funds—prior to January 1, 1977	**—**	—	—	742	—
Equity funds—since January 1, 1977	**84**	277	1,417	—	—
Discount on reacquired bonds	**431**	708	544	902	798
Other, net	**274**	133	582	637	(113)
INCOME BEFORE INTEREST EXPENSE	**55,111**	48,751	46,851	45,888	37,554
INTEREST EXPENSE:					
Interest on bonds	**20,233**	19,055	17,430	16,179	13,158
Allowance for borrowed funds used during construction—since January 1, 1977 (credit) (Note 1)	**(116)**	(382)	(1,782)	—	—
Other	**1,973**	985	704	1,336	3,278
	22,090	19,658	16,352	17,515	16,436
NET INCOME (Note 4)	**33,021**	29,093	30,499	28,373	21,118
CASH DIVIDENDS ON PREFERRED STOCK	**5,358**	5,613	5,613	5,613	5,613
EARNINGS ON COMMON STOCK (Note 4)	**$ 27,663**	$ 23,480	$ 24,886	$ 22,760	$ 15,505
EARNINGS PER SHARE OF COMMON STOCK (Notes 1 and 4)	**$2.50**	$2.15	$2.30	$2.24	$1.93
CASH DIVIDENDS PER SHARE OF COMMON STOCK	**$1.80**	$1.72	$1.62	$1.56	$1.52
PRO FORMA ASSUMING APPLICATION OF CHANGE IN RECORDING REVENUE TO PERIODS PRIOR TO JANUARY 1, 1977 (Note 4):					
EARNINGS ON COMMON STOCK				$ 23,429	$ 16,894
EARNINGS PER SHARE OF COMMON STOCK				$2.30	$2.10

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

CONSOLIDATED BALANCE SHEETS

	December 31, 1979	December 31, 1978
ASSETS	*(In Thousands)*	
UTILITY PLANT (Notes 1, 3 and 11):		
Plant in service—		
Electric	**$706,440**	$679,808
Gas	**79,201**	73,656
Water	**10,476**	9,900
General	**23,272**	20,689
	819,389	784,053
Less—Accumulated provision for depreciation	**299,220**	267,036
	520,169	517,017
Construction work in progress—		
Jointly owned electric power production facilities	**7,459**	3,678
Other	**29,894**	15,103
	37,353	18,781
Nuclear fuel, net	**16,748**	14,698
Total utility plant	**574,270**	550,496
INVESTMENTS, at cost or less (Note 1)	**10,599**	9,780
CURRENT ASSETS:		
Cash and special deposits (Note 7)	**3,200**	3,399
Accounts receivable, less allowance for doubtful accounts of $375 thousand and $283 thousand, respectively	**34,838**	30,049
Unbilled revenue (Note 4)	**22,660**	19,902
Fossil fuel, at average cost	**27,815**	19,097
Materials and supplies, at average cost	**9,352**	8,140
Prepayments	**711**	535
	98,576	81,122
DEFERRED CHARGES:		
Koshkonong project expenditures (Note 2)	**625**	6,913
Other	**2,696**	2,802
	3,321	9,715
	$686,766	$651,113

CAPITALIZATION AND LIABILITIES	1979	1978
CAPITALIZATION (see statement on page 21):		
Common shareowners' investment	**$223,007**	$211,710
Preferred stock without mandatory redemption	**60,000**	60,000
Preferred stock with mandatory redemption	**12,000**	14,250
First mortgage bonds, net	**257,419**	264,808
Total capitalization	**552,426**	550,768
CURRENT LIABILITIES:		
Maturing first mortgage bonds (Note 5)	**5,902**	—
Sinking fund requirement on preferred stock (Note 6)	**—**	750
Commercial paper (Note 7)	**7,321**	6,000
Accounts payable	**32,196**	23,954
Accrued payroll and vacations	**4,947**	3,952
Accrued taxes	**22,895**	8,989
Accrued interest	**4,706**	4,902
Dividends payable or accrued	**438**	468
Other	**7,766**	5,642
	86,173	54,657
OTHER CREDITS:		
Accumulated deferred investment tax credits (Note 1)	**29,374**	26,848
Unamortized unbilled revenue (Note 4)	**8,975**	10,266
Other	**9,818**	8,574
	48,167	45,688
CONSTRUCTION COMMITMENTS AND PENDING LEGAL MATTER (Notes 3 and 8)		
	$686,766	$651,113

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

CONSOLIDATED STATEMENTS OF SOURCES OF FUNDS USED FOR CONSTRUCTION

	Year Ended December 31,				
	1979	1978	1977	1976	1975
	(In Thousands)				
FUNDS GENERATED INTERNALLY:					
Net income	**$ 33,021**	$ 29,093	$ 30,499	$ 28,373	$ 21,118
Depreciation	**35,058**	32,834	28,056	27,822	25,953
Investment tax credit deferred, net	**2,733**	7,362	4,933	2,889	4,848
Amortization of nuclear fuel	**7,006**	5,902	4,936	4,204	3,555
Other	**2,135**	1,194	1,035	852	1,110
Common equity component of the allowance for funds used during construction (Note 1)	**(56)**	(191)	(1,005)	(175)	—
Funds provided from operations	**79,897**	76,194	68,454	63,965	56,584
Less—					
Cash dividends on stock	**25,317**	24,382	23,149	21,314	17,462
Bond sinking fund retirements	**1,528**	2,430	2,322	3,074	2,335
Preferred stock redemptions	**3,000**	—	—	—	—
Net funds generated internally	**50,052**	49,382	42,983	39,577	36,787
FUNDS PROVIDED FROM FINANCING:					
Sale of first mortgage bonds	**—**	35,000	—	52,875	—
Sale of common stock	**3,661**	2,701	1,822	26,062	23,250
Increase (decrease) in short-term borrowings, net	**1,321**	(25,440)	31,440	(38,375)	(2,105)
Net funds provided from financing	**4,982**	12,261	33,262	40,562	21,145
BOND MATURITY PAYMENTS	**—**	(3,195)	(1,889)	—	—
(INCREASE) DECREASE IN CONSTRUCTION FUND HELD BY TRUSTEE	**—**	2,828	5,040	(7,868)	—
CHANGES IN OTHER NET CURRENT ASSETS (a)	**7,589**	5,139	(16,593)	(6,641)	(994)
UNAMORTIZED UNBILLED REVENUE, NET	**(1,291)**	(1,284)	11,549	—	—
OTHER—NET (b)	**1,052**	1,259	(815)	477	(404)
TOTAL FUNDS USED FOR CONSTRUCTION EXPENDITURES AND NUCLEAR FUEL	**$62,384**	$ 66,390	$ 73,537	$ 66,107	$ 56,534
(a) (INCREASE) DECREASE IN OTHER NET CURRENT ASSETS IS ACCOUNTED FOR BY:					
Cash and special deposits	**$ 199**	$ 967	$ (1,341)	$ 958	$ (699)
Temporary cash investments	**—**	1,500	15,423	(16,923)	—
Accounts receivable	**(4,789)**	(8,010)	40	(5,602)	(4,787)
Unbilled revenue	**(2,758)**	(1,863)	(18,039)	—	—
Fossil fuel	**(8,718)**	(3,144)	256	(669)	(6,367)
Accounts payable	**8,242**	8,568	(2,034)	6,151	3,597
Accrued taxes	**13,906**	3,096	(9,267)	7,523	6,942
Other changes, net	**1,507**	4,025	(1,631)	1,921	320
Total	**$ 7,589**	$ 5,139	$(16,593)	$ (6,641)	$ (994)

(b) Includes common equity component of the allowance for funds used during construction.

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

CONSOLIDATED STATEMENTS OF CAPITALIZATION

	December 31, 1979		1978	
	(In Thousands)			
COMMON SHAREOWNERS' INVESTMENT (Note 5):				
Common stock, $5 par value, authorized 18,000,000 shares; issued and outstanding, 11,209,750 and 11,014,018, respectively	**$ 56,049**		$ 55,070	
Premium on capital stock	**77,984**		75,302	
Capital surplus	**1,747**		1,747	
Reinvested earnings	**87,227**		79,591	
	223,007	**40.4%**	211,710	38.4%
PREFERRED STOCK:				
Cumulative, without par value, authorized 3,750,000 shares, maximum aggregate stated value $150,000,000; issued and outstanding 720,000 shares and 750,000 shares respectively, $100 stated value.				
Preferred stock without mandatory redemption (Note 5)				
4.50% series, 100,000 shares outstanding	**10,000**		10,000	
4.80% series, 75,000 shares outstanding	**7,500**		7,500	
4.96% series, 65,000 shares outstanding	**6,500**		6,500	
4.40% series, 30,000 shares outstanding	**3,000**		3,000	
4.76% series, 30,000 shares outstanding	**3,000**		3,000	
8.48% series, 150,000 shares outstanding	**15,000**		15,000	
7.56% series, 150,000 shares outstanding	**15,000**		15,000	
	60,000	**10.8**	60,000	10.9
Preferred stock with mandatory redemption (Note 6)				
12% series, 120,000 shares and 150,000 shares outstanding respectively	**12,000**		15,000	
Sinking fund requirement	**—**		(750)	
	12,000	**2.2**	14,250	2.6
FIRST MORTGAGE BONDS (Note 5):				
Series D, 2⅞%, due 1980	**5,902**		5,902	
Series E, 3⅜%, due 1981	**2,859**		2,859	
Series F, 3¼%, due 1982	**5,086**		5,213	
Series H, 3¼%, due 1984	**13,062**		13,182	
Series J, 4⅝%, due 1989	**8,056**		8,761	
Series K, 4¼%, due 1992	**4,446**		4,946	
Series L, 6¼%, due 1998	**22,779**		22,877	
Series M, 8%, due 1999	**24,515**		24,515	
Series N, 8⅞%, due 2000	**24,900**		24,900	
Series O, 8%, due 2001	**29,995**		29,995	
Series P, 8⅞%, due 2004	**35,000**		35,000	
1975 Series A, 7¾%, due 1991-2005	**16,000**		16,000	
1975 Series B, 7¾%, due 2000	**875**		875	
1975 Series C, 7¾%, due 2000	**1,000**		1,000	
Series Q, 8⅞%, due 2006	**35,000**		35,000	
Series R, 9⅛%, due 2008	**35,000**		35,000	
	264,497		266,025	
Unamortized discount and premium, net	**(1,176)**		(1,217)	
Maturing first mortgage bonds	**(5,902)**		—	
Total first mortgage bonds, net	**257,419**	**46.6**	264,808	48.1
TOTAL CAPITALIZATION	**$552,426**	**100.0%**	$550,768	100.0%

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

CONSOLIDATED STATEMENTS OF REINVESTED EARNINGS *(In Thousands)*

For the year ended December 31,	**1979**	1978	1977	1976	1975
REINVESTED EARNINGS					
Balance At Beginning Of Year	**$79,591**	$74,903	$67,694	$61,615	$59,026
Add—Net income	**33,021**	29,093	30,499	28,373	21,118
	112,612	103,996	98,193	89,988	80,144
Deduct—					
Cash dividends on preferred stock	**5,358**	5,613	5,613	5,613	5,613
Cash dividends on common stock	**19,959**	18,769	17,536	15,701	11,849
Expense of issuing common stock and other	**68**	23	141	980	1,067
	25,385	24,405	23,290	22,294	18,529
Balance At End Of Year	**$87,227**	$79,591	$74,903	$67,694	$61,615

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements reflect the application of certain accounting policies described in this note.

Utility Plant—As prescribed by the Public Service Commission of Wisconsin (PSC) and the Federal Energy Regulatory Commission (FERC), utility plant is stated at the original costs of construction which include material, labor, certain indirect costs and an allowance for funds used during construction (discussed below). Substantially all of the Company's utility plant is subject to a first mortgage lien.

Property Additions, Retirements and Maintenance—The cost of renewals and betterments of units of property is charged to utility plant accounts, whereas normal repairs and the cost of minor items of property are charged to maintenance expense. Property units retired or otherwise disposed of in the normal course of business are removed from utility plant and, together with removal costs less any salvage, are charged to accumulated depreciation; thus no profit or loss is recognized in connection with ordinary retirements of depreciable property.

Allowance for Funds Used During Construction (AFUDC)—Pursuant to applicable regulatory directives, the Company records as part of the cost of utility plant an allowance for funds used during construction at the rate of 7 percent, as prescribed by the PSC. AFUDC is a non-cash item and does not contribute to current cash flow of the Company.

The Company records AFUDC only on that portion of applicable construction work in progress which exceeds 10 percent of applicable net investment rate base. Additional revenue to offset the effect of this computation has been included in revenue increases approved by the PSC.

Effective January 1, 1977, the FERC prescribed a formula for computing separately the equity (preferred and common) and borrowed funds components of the AFUDC rates, the sum of which is the maximum rate at which AFUDC may be capitalized. This maximum rate exceeds the 7 percent rate allowed by the PSC. The FERC further provided that the equity funds portion be reported as Other Income and that the borrowed funds portion be reported as a reduction of Interest Expense. This separation of AFUDC has no effect on the total amount of AFUDC reported or on Net Income.

Nuclear Fuel—The cost of nuclear fuel is amortized to fuel expense based on the quantity of heat produced for the generation of electric energy by the Kewaunee Nuclear Plant. Amortization of $25,803,000 and $20,182,000 including the income tax effect from the use of liberalized depreciation of the fuel have been deducted from the original cost of nuclear fuel at December 31, 1979 and 1978, respectively. Rates charged for electric service recognize, as a cost of nuclear fuel, amounts necessary for the estimated future storage costs of spent nuclear fuel. No plutonium or uranium residual values have been assumed in determining the cost of nuclear fuel amortized to fuel expense.

Revenue Recognition—See Note 4.

Research and Development Costs—Research and development costs are normally charged to the appropriate operating expense on a current basis. However, those costs which are related to a construction project are capitalized as part of the cost of utility plant. Total research and development costs were $2,738,000, $2,739,000, $2,392,000, $1,839,000 and $1,422,000 for the years 1979 through 1975, respectively. Of these amounts, $160,000, $1,102,000, $1,330,000, $782,000 and $422,000 were charged to utility plant accounts in 1979 through 1975, respectively.

Earnings Per Share—Earnings per share of common stock are computed on the basis of the weighted average number of shares outstanding which were 11,086,877, 10,932,266, 10,836,108, 10,170,608, and 8,045,608 shares for the years 1979 through 1975, respectively.

Interdepartmental Sales of Gas—Included in gas operating revenues and in electric production fuels are $3,270,000, $3,430,000, $1,277,000, $2,322,000, and $2,097,000 for the years 1979 through 1975, respectively, for interdepartmental sales of gas. The cost of such gas, which is used primarily as fuel for electric generation, is included in the purchased gas expense account and approximates the amounts included in gas operating revenues.

Depreciation—

a. Straight-line—Provisions for straight-line depreciation were computed on the average balance of depreciable property at individual straight-line rates applied to the various classes of property. These were substantially equivalent to annual composite rates as follows:

	Electric	Gas	Water	General
1979	3.4%	4.2%	1.7%	6.6%
1978	3.4	4.2	1.7	6.3
1977	3.3	4.1	1.6	6.4
1976	3.3	3.6	1.6	6.3
1975	3.4	3.0	1.6	6.1

All straight-line rates are based on the estimated lives of property and have been approved by the PSC. The Company's share of the currently estimated cost of decommissioning the Kewaunee Nuclear Plant at the end of its useful life is $15,100,000. Current rate-making treatment allows for the recovery of such cost through depreciation rates approved by the PSC.

b. Additional depreciation—See "Income Taxes—a." below.

Income Taxes—

a. Depreciation for Federal and State income taxes reflects the use of liberalized depreciation methods, including the Class Life Asset Depreciation Range System, the deduction of removal costs in the year incurred, the percentage repair allowance, the accelerated writeoff of waste treatment and pollution abatement facilities and nuclear fuel and other timing differences. In accordance with authorization of the PSC, the estimated reduction of income taxes due to the use of these practices is recorded as additional depreciation, which is comparable to the provision for deferred income taxes recorded by utility companies in other regulatory jurisdictions.

NOTES
(continued)

Amounts recorded as additional depreciation are as follows:

	Federal	State
1979	$7,594,000	$ 484,000
1978	7,850,000	742,000
1977	6,182,000	896,000
1976	6,903,000	1,004,000
1975	6,612,000	1,189,000

b. The Company utilizes the service life amortization method for the investment tax credit. Such credit is amortized over the average useful life of the property subject to the credit. There are included in investment tax credit deferred, with a concurrent reduction in current Federal income taxes, additional investment tax credits attributable to the Company's employee stock ownership plan of $653,000, $1,321,000, $612,000 and $790,000 in the years 1979 through 1976, respectively.

c. Certain capitalized indirect costs and certain capitalized research and development costs have been deducted for income tax purposes as incurred. The tax benefit of these items is used to reduce the income tax provision in the period the costs are incurred.

d. The total income tax expense, investment tax credit deferred and restored, and additional depreciation, as set forth in the foregoing notes and in the Consolidated Statements of Income, produced effective income tax rates as set forth below. These percentages are computed by dividing total income tax expense, investment tax credit deferred and restored, and additional depreciation by the sum of such expense and net income. The following table reconciles these effective income tax rates to the statutory Federal income tax rate:

	1979	1978	1977	1976	1975
Effective income tax rate as reported	51.8%	50.6%	50.8%	53.8%	52.3%
Allowance for funds used during construction	.1	.6	2.5	0.6	—
State income taxes and State additional depreciation, net	(4.4)	(3.9)	(3.7)	(4.2)	(3.4)
Other differences, net	(1.5)	.7	(1.6)	(2.2)	(0.9)
	46.0%	48.0%	48.0%	48.0%	48.0%

Retirement Plans—The Company has contributory and non-contributory retirement plans for substantially all of its employees. The Company's policy is to fund the retirement plans and amortize unfunded prior-service costs over a period of approximately 30 years. As of December 31, 1978, the date of the most recent actuarial report, the unfunded prior-service cost was approximately $15,203,000 and the market value of the assets in the funds exceeded the actuarial value of vested benefits. The total retirement plan provision for each of the years 1979 through 1975 was $3,160,000, $2,564,000, $2,140,00, $1,903,000 and $1,118,000, respectively.

Leases—All leases are accounted for as operating leases. The Company has no material capital leases.

Subsidiaries—The consolidated financial statements include the accounts of the Company and its wholly owned utility subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company also owns all of the common stock of NUFUS Resources, Inc., which engages as a limited partner in mining operations relating to the fuel supply for the Kewaunee Nuclear Plant; this investment ($5,914,000 as of December 31, 1979) is accounted for by the equity method. Nuclear fuel obtained from the subsidiary is recorded at cost, which includes the cost of operation of the subsidiary.

NOTE 2 NUCLEAR POWER PLANT CONSTRUCTION:

In July 1977, the Company and three other Wisconsin utility companies (the "joint applicants") withdrew their application for a Certificate of Public Convenience and Necessity (filed with the PSC in July 1974) to construct a nuclear power plant (two 900,000-kilowatt units) to be sited at Lake Koshkonong, Wisconsin ("Koshkonong"). The withdrawal of the application followed notice to the joint applicants by the Wisconsin Department of Natural Resources that, in its opinion, the Koshkonong site was environmentally unacceptable for the operation of the proposed nuclear power plant because of water related concerns. The Company and two of the joint applicants now plan to construct a single 900,000-kilowatt nuclear power plant of similar design at an alternate site near Sheboygan, Wisconsin (see "Haven" in Note 3 below).

In October 1977, the joint applicants proposed to the PSC that substantially all charges associated with the Koshkonong project be transferred to the Haven project and in January 1978, the joint applicants were directed by the PSC to reclassify Koshkonong expenditures (the Company's share being $6,913,000, including nuclear fuel) from construction work in progress and nuclear fuel to deferred charges as of December 31, 1977, pending further direction by the PSC.

The PSC issued its final order on March 9, 1979 and, as a result, the Company wrote off $734,000, (about $.07 per share) net of the estimated tax benefit to "Operation Expenses" in 1979. The amounts written off represent site selection expenditures (exluding land), Koshkonong Unit 2 expenditures and expenditures subsequent to September 30, 1977. The Company also transferred land costs ($194,000), Koshkonong Unit 1 costs ($3,996,000) and one-half of the nuclear fuel payments ($625,000) to nonutility property, Haven Unit 1 construction work in progress and nuclear fuel in progress respectively, in compliance with the order. The remaining expenditures of $625,000 will remain as a deferred charge until final disposition is determined by the PSC.

The PSC has been directed by the Circuit Court of Brown County, Wisconsin (in an action to which the Company was not a party) to review this order and to afford the plaintiff a reasonable opportunity to recover the amount written off from utility ratepayers. The PSC has appealed this decision.

See Note 12 for additional information.

NOTE 3 JOINTLY OWNED ELECTRIC UTILITY PLANTS AND CONSTRUCTION COMMITMENTS:

The Company participates with other Wisconsin utilities in the construction and operation of several jointly owned electric power production facilities as detailed in the following table. The dollar amounts shown represent the Company's share of each jointly owned plant.

Facility	Energy Source	% Ownership	Plant in Service	Accumulated Provision for Depreciation	Construction Work in Progress December 31, 1979	Construction Work in Progress December 31, 1978
			December 31, 1979			
				(In Thousands)		
Columbia Energy Center	Coal	46.2%	$147,369	$24,416	$ 1,144	$1,047
Kewaunee Nuclear Plant	Nuclear	41.0	89,320	34,179	94	923
Edgewater Unit 4	Coal	68.2	36,096	14,249	25	35
Edgewater Unit 5	Coal	100.0 (a)	407	26	14,526	5,775
Haven Project	Nuclear	19.1 (b)	—	—	6,196	1,673

(a) A Certificate of Public Convenience and Necessity for the construction of the proposed 400,000-kilowatt Unit 5 at the Edgewater Plant was issued by the PSC on January 18, 1980 and construction was begun on January 22, 1980. During 1978 the Company accepted a letter of intent from another utility to purchase up to 50 percent of the Edgewater Unit 5 Plant. Negotiation of terms and conditions is in progress.

(b) During 1978 the Company and two other joint owners requested a Certificate of Public Convenience and Necessity for the construction of a 900,000-kilowatt nuclear powered generating unit near Sheboygan, Wisconsin ("Haven"). The expenditures to date consist primarily of environmental studies and engineering. No construction has begun. See Note 12.

The Company provides its own financing during the construction period for its share of the jointly owned plants. The Company's share of direct operations and maintenance expenses are included in the appropriate expense categories appearing in the Consolidated Statements of Income.

Utility plant construction expenditures for 1980, including expenditures for the above facilities under construction, are estimated to be $93,200,000 and substantial commitments have been incurred in connection with such expenditures.

NOTE 4 CHANGE IN ACCOUNTING:

Prior to January 1, 1977, the Company recognized revenue for service at the time monthly bills were rendered to customers. Pursuant to an accounting order of the PSC, effective January 1, 1977, the Company began accruing the estimated amount of revenue relating to energy consumed but not billed at each month end. Also pursuant to this order, the amount of unbilled revenue as of January 1, 1977 ($15,416,000, before income taxes) was recorded as a deferred credit and is being amortized to income over a 10-year period beginning with 1977, with appropriate provision for income taxes. Amounts so amortized are recognized in rate proceedings for the determination of revenue requirements.

The effect of the foregoing change in accounting, including amortized amounts, was to increase Earnings On Common Stock $2,207,000 and Earnings Per Share of Common Stock $.20 for the year ended December 31, 1977.

NOTE 5 CAPITALIZATION MATTERS:

In November 1975, the Company sold 1,500,000 additional shares of its common stock for $23,250,000. In May 1976, the Company sold 1,500,000 additional shares of its common stock for $26,063,000. During 1977 the Company issued 86,781 additional shares of common stock for $1,822,000, through its Automatic Dividend Reinvestment and Stock Purchase Plan.

During 1978 and 1979 the Company issued 131,629 and 195,732 additional shares of common stock for $2,701,000 and $3,661,000 through its Automatic Dividend Reinvestment and Stock Purchase Plan, Employee Stock Ownership Plan and Employee Stock Purchase Plan.

There were no other issues of common stock or preferred stock during the five years ended December 31, 1979.

Sinking fund requirements and maturities on First Mortgage Bond issues outstanding as of December 31, 1979, are as follows:

	1980	1981	1982	1983	1984
			(In Thousands)		
Bond sinking fund requirements not satisfied as of December 31, 1979	$ 62	$ 48	$1,618	$2,540	$2,540
Bonds maturing	$5,840	$2,859	$4,970	—	$12,780

During 1980 the Company tentatively plans to issue up to 1,500,000 shares of common stock and $35,000,000 of first mortgage bonds subject to necessary regulatory approval and market conditions.

NOTE 6 PREFERRED STOCK WITH MANDATORY REDEMPTION:

The Company's 12% Series Preferred Stock is entitled to a mandatory sinking fund sufficient to redeem 7,500 shares during each 12-month period commencing with the 12 months ending August 31, 1979, at a redemption price of $100 per share plus accrued dividends. The Company has the non-cumulative option to redeem an additional 7,500 shares during each such period at such price.

During 1979 the Company redeemed 30,000 shares of the 12% Series Preferred Stock pursuant to the sinking fund. This redemption satisfies the sinking fund requirements through August 31, 1980.

The difference between the redemption price (including commissions and reacquisition expenses) and the stated value plus any premium and less any discount or expenses applicable to the shares retired is accounted for as prescribed by the PSC. Any loss on reacquisition is a reduction to the extent of previous reacquisition gains with any excess being charged to reinvested earnings and any gain is an increase in proprietary capital.

NOTE 7 COMMERCIAL PAPER AND LINES OF CREDIT:

Commercial paper outstanding during the respective years was issued at prevailing commercial paper discount rates.

	1979	1978
As of end of year—		
Weighted average discount rate on outstanding commercial paper	13.51%	10.32%
Unused lines of credit	$45,200,000	$45,200,000
Compensating balance requirement	$ 3,040,000	$ 4,520,000
For the year ended—		
Maximum month-end amount of short-term borrowings	$ 7,321,000	$24,236,000
Average amount of short-term borrowings (based on daily outstanding balances)	$ 1,522,000	$ 9,246,000
Weighted average interest rate on short-term borrowings	12.84%	7.14%

The weighted average interest rate was computed by dividing interest expense on commercial paper by the average amount of such borrowings for the year.

In connection with certain bank lines of credit, the Company is required to maintain as compensating balances average bank deposits equivalent to 10 percent of the line or pay fees in lieu of a portion of the balance requirement and, for certain banks, an additional 5 percent or 10 percent of borrowings. There are no legal restrictions on withdrawal of these funds. In accordance with normal banking practice, such unused lines of credit may be withdrawn at the discretion of the lenders.

NOTE 8 PENDING LEGAL MATTER:

In June 1977, certain of the Company's municipal wholesale electric customers filed a suit against the Company alleging violations of antitrust laws and the Wisconsin Public Utility Law and requesting up to $22,500,000 in damages and other relief. Certain of the Company's other municipal wholesale electric customers have joined in the complaint.

Although the ultimate outcome cannot be predicted with certainty at this time, the Company's management, based upon the facts known to it at this time and the opinion of its counsel, believes that the Company will not, as a result of this action, incur a liability which would adversely and materially affect its financial statements.

NOTE 9
SEGMENTS
OF BUSINESS:

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

	Year Ended December 31,				
	1979	1978	1977	1976	1975
	(In Thousands)				
OPERATION INFORMATION:					
Customer sales—					
Electric	$271,938	$229,756	$209,880	$188,676	$154,504
Gas	84,318	71,074	57,980	50,758	37,562
Water	2,198	2,008	2,005	2,001	1,578
Interdepartmental sales—					
Electric	550	564	661	522	825
Gas	3,270	3,430	1,277	2,322	2,097
Water	4	3	3	2	2
Total operating revenues	$362,278	$306,835	$271,806	$244,281	$196,568
Operating profit—					
Electric	$ 80,397	$ 69,074	$ 68,933	$ 68,794	$ 54,475
Gas	8,197	7,484	5,398	5,987	4,620
Water	661	727	749	970	626
Income taxes including additional depreciation (a)	(34,933)	(29,653)	(30,772)	(32,144)	(22,852)
Other income and deductions, net	789	1,119	2,543	2,281	685
Interest expense, net	(22,090)	(19,658)	(16,352)	(17,515)	(16,436)
Net income per consolidated statements of income	$ 33,021	$ 29,093	$ 30,499	$ 28,373	$ 21,118
INVESTMENT INFORMATION:					
Identifiable assets at Dec. 31 (b)—					
Electric	$595,561	$567,688	$533,958	$485,346	$441,791
Gas	72,439	64,825	61,495	53,655	50,002
Water	8,674	8,806	7,619	7,096	6,853
Assets not allocated (c)	10,092	9,794	12,416	27,202	10,573
Total assets	$686,766	$651,113	$615,488	$573,299	$509,219
OTHER INFORMATION:					
Construction and nuclear fuel expenditures—					
Electric	$ 53,350	$ 59,799	$ 68,283	$ 61,545	$ 52,511
Gas	8,208	5,899	4,535	4,122	3,777
Water	826	692	719	440	246
Total construction and nuclear fuel expenditures	$ 62,384	$ 66,390	$ 73,537	$ 66,107	$ 56,534
Provision for straight-line depreciation—					
Electric	$ 23,501	$ 21,042	$ 17,975	$ 17,399	$ 16,132
Gas	3,295	3,036	2,854	2,375	1,885
Water	184	164	149	141	135
Total provision for straight-line depreciation	$ 26,980	$ 24,242	$ 20,978	$ 19,915	$ 18,152

(a) See Note 1 for information with respect to amounts recorded as additional depreciation.

(b) Includes allocated general plant and is net of the respective accumulated provisions for depreciation.

(c) Includes cash and special deposits, prepayments and other deferred charges.

NOTE 10 CONSOLIDATED QUARTERLY FINANCIAL DATA (Unaudited):

Since seasonal factors significantly affect utilities, the following quarterly financial data are not comparable between periods and are not necessarily indicative of the results which may be expected for an annual period. The following amounts, not examined by independent public accountants, reflect, in the opinion of the Company, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial data for the respective quarters. Reflected in the financial data for the quarter ended December 31, 1979, are additional income tax provisions recorded to reflect the estimated effect of settlements of various pending income tax matters.

	Quarter Ended			
1979	**March 31**	**June 30**	**September 30**	**December 31**
	(In Thousands Except For Per Share Data)			
Operating revenues	$106,136	$75,526	$80,944	$99,672
Net operating income	17,208	9,754	12,644	14,716
Net income	12,180	4,679	7,913	8,249
Earnings on Common Stock	10,837	3,321	6,570	6,936
Earnings Per Share of Common Stock	$.98	$.30	$.59	$.62
1978				
Operating revenues	$87,584	$66,876	$70,181	$82,194
Net operating income	13,873	9,053	11,485	13,222
Net income	9,267	4,837	6,417	8,572
Earnings on Common Stock	7,864	3,433	5,014	7,169
Earnings Per Share of Common Stock	$.72	$.32	$.46	$.65

NOTE 11 REPLACEMENT COSTS (Unaudited):

The rate of inflation experienced in recent years has resulted in estimated replacement costs of productive capacity that are significantly greater than the original costs of construction of such assets reported in the Company's consolidated financial statements. In compliance with reporting requirements of the Securities and Exchange Commission (SEC), quantitative estimated replacement cost information is disclosed in the Company's annual report to the SEC on Form 10-K. Estimated replacement costs are not currently considered in the rate-making processes to which the Company is subject; however, as existing utility property is replaced, the actual replacement cost has been and will continue to be included in the rate base.

NOTE 12 EVENTS SUBSEQUENT TO DATE OF AUDITORS' REPORT:

In an order dated February 14, 1980, the PSC ordered the companies involved in the Haven project to transfer substantially all precertification expenditures currently carried in construction work in progress and nuclear fuel expenditures to a deferred charge. The Company's share of such amounts is $7,025,300. These amounts are to be amortized over three years, commencing with each company's next rate proceeding. Further, the PSC would allow each company to include the unamortized portion of the deferred charge in its rate base if it withdraws the Haven application and abandons the project. On February 29, 1980, the Company announced its decision to withdraw its application and abandon its participation in the project, provided the order remains in effect and is not subsequently revised.

Supplementary Information to Disclose the Effects of Changing Prices (Unaudited)

The following supplementary information is presented in accordance with the requirements of the Financial Accounting Standards Board's Statement No. 33, "Financial Reporting and Changing Prices," for the purpose of providing certain information about the effects of changing prices. It should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure.

Constant dollar amounts represent historical costs stated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for All Urban Consumers.

The current year's provision for depreciation, amortization of nuclear fuel and additional depreciation on the constant dollar amounts of property, plant and equipment was determined by applying the Company's depreciation or amortization rates to the indexed plant and nuclear fuel amounts.

As prescribed in Statement 33, income taxes were not adjusted.

Fuel inventories, the cost of fuel used in generation (except nuclear fuel amortization) and gas purchased for resale have not been restated from their historical cost in nominal dollars. Regulations limit the recovery of fuel and purchased gas costs through the operation of adjustment clauses or adjustments in basic rate schedules to actual costs. For this reason fuel inventories (excluding nuclear fuel) are effectively monetary assets.

Under the rate making prescribed by the Wisconsin Public Service Commission (PSC), only the historical cost of plant is recoverable in revenues as depreciation. Therefore, the excess of the cost of plant stated in terms of constant dollars over the historical cost of plant is not presently recoverable in rates as depreciation, and is reflected as a reduction to net recoverable cost. While the PSC gives no recognition to the indexed values of property, plant and equipment, based on past practices, the Company is of the opinion that it will be allowed to earn on the increased cost of its net investment in plant when replacement of facilities actually occurs.

To properly reflect the economics of rate regulation in the "Statement of Income from Continuing Operations," the reduction of net property, plant and equipment should be offset by the gain from the decline in purchasing power of net amounts owed.

During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial amount of debt which has been used to finance property, plant and equipment. Since the depreciation on this plant is limited to the recovery of historical cost, the Company does not have the opportunity to realize a holding gain on debt and is limited to recovery only of the embedded cost of debt capital.

The impact on shareowners' equity because of changing prices may be summarized from the supplementary presentation in terms of general inflation as follows:

	Stated in average 1979 dollars in terms of General Inflation
	(In thousands)
Increase in provision for depreciation	$ 22,736
Write-down in plant because only historical cost depreciation is specifically recoverable in utility rates	47,829
Reduction in purchasing power loss through debt financing	(39,734)
Total reduction of shareowners' equity because of inflation	$ 30,831

Statement of Income From Continuing Operations Adjusted for Changing Prices For the Year Ended December 31, 1979

	Conventional Historical Cost	Constant Dollar Average 1979 Dollars
	(In Thousands)	
Operating revenues	$362,278	$362,278
Electric production fuels (less amortization of nuclear fuel)	78,616	78,616
Purchased power	7,551	7,551
Purchased gas	63,221	63,221
Other operation	53,518	53,518
Maintenance	20,475	20,475
Depreciation and amortization of nuclear fuel	43,235	65,971
Taxes—income, ITC net and other	41,340	41,340
Interest expense	22,090	22,090
Other income and deductions—net	(789)	(789)
	329,257	351,993
Net income (excluding reduction to net recoverable costs)	$ 33,021	$ 10,285
Reduction to net recoverable cost		(47,829)
Reduction of purchasing power loss through debt financing		39,734
Net		$ 2,190

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices

(In Thousands of Average 1979 Dollars)

	Years Ended December 31,				
	1979	1978	1977	1976	1975
Operating revenues	$362,278	$341,381	$325,568	$311,476	$265,099
Historical cost information adjusted for general inflation					
Net income (excluding reduction to net recoverable cost)	$10,285	$12,520	$17,884	$20,147	$12,435
Earnings per common share (after dividends on preferred stock and excluding reduction to net recoverable cost)	$.44	$.57	$1.03	$1.28	$.60
Net assets at year-end at net recoverable cost	$278,967	$306,396	$326,300	$337,126	$311,325
General Information					
Reduction of purchasing power loss through debt financing	$39,734	$29,572	$22,919	$17,124	$26,573
Cash dividends declared per common share	$1.80	$1.90	$1.93	$1.99	$2.06
Market price per common share at year-end	$16.78	$20.36	$24.82	$27.75	$22.22
Average consumer price index	217.4	195.4	181.5	170.5	161.2

FIVE-YEAR COMPARATIVE DATA

	Year Ended December 31,					Four Year Change	
	1979	1978	1977	1976	1975	Amount	Percent
CONSOLIDATED ELECTRIC STATISTICS							
Area served (end of period):							
Population—retail (estimated)	**788,000**	789,000	772,000	765,000	759,000	29,000	3.8
Cities, villages and towns served—retail	**601**	600	599	600	598	3	0.5
Customers served (end of period):							
Residential and rural	**282,679**	256,713	249,420	243,265	237,961	24,718	10.4
Industrial	**473**	710	703	706	654	(181)	(27.7)
Commercial	**32,323**	31,199	30,436	29,768	29,096	3,227	11.1
Utilities	**96**	95	89	88	84	12	14.3
Other	**919**	910	906	899	913	6	0.7
Total	**296,490**	289,627	281,554	274,726	268,708	27,782	10.3
Sales—kilowatt-hours (in thousands):							
Residential and rural	**2,052,605**	1,998,773	1,919,237	1,832,304	1,778,010	274,595	15.4
Industrial	**2,050,866**	2,099,163	2,015,014	1,840,161	1,609,349	441,517	27.4
Commercial	**1,119,412**	916,632	863,427	820,060	773,301	346,111	44.8
Utilities	**1,929,442**	1,512,231	1,341,956	1,262,674	1,077,258	852,184	79.1
Other	**89,992**	90,399	100,164	91,842	125,844	(55,852)	(44.4)
Total	**7,222,317**	6,617,198	6,239,798	5,847,041	5,363,762	1,858,555	34.7
Electric operating revenues (in thousands):							
Residential and rural	**$ 97,262**	$ 85,021	$ 80,088	$ 74,239	$ 63,575	$ 33,687	53.0
Industrial	**64,324**	57,575	53,849	47,861	37,518	26,806	71.4
Commercial	**49,953**	38,710	35,920	33,198	28,244	21,709	76.9
Utilities	**55,586**	43,156	34,500	29,116	20,543	35,043	170.6
Other	**5,363**	5,858	6,184	4,784	5,449	(86)	(1.6)
Total	**$272,488**	$230,320	$210,541	$189,198	$155,329	$117,159	75.4
System capacity—at time of system peak (Kw's):							
Company plants (including jointly-owned)	**1,644,500**	1,653,300	1,392,800	1,384,200	1,334,500	310,000	23.2
Firm purchased power	**47,700**	63,700	83,700	104,700	64,700	(17,000)	(26.3)
Total	**1,692,200**	1,717,000	1,476,500	1,488,900	1,399,200	293,000	20.9
System peak demand	**1,240,000**	1,234,000	1,189,000	1,102,000	1,052,000	188,000	17.9
Reserve margin at time of peak	**452,200**	483,000	287,500	386,900	347,200	105,000	30.2
CONSOLIDATED GAS STATISTICS							
Area served (end of period):							
Population—retail (estimated)	**348,500**	346,300	345,700	334,800	332,200	16,300	4.9
Cities, villages and towns served—retail	**181**	181	181	181	181	—	—
Customers served (end of period):							
Residential	**87,490**	85,124	83,336	81,848	80,293	7,197	9.0
Commercial firm	**9,473**	9,135	9,011	8,848	8,736	737	8.4
Industrial firm	**375**	361	360	349	342	33	9.6
Interruptible	**124**	121	125	127	123	1	0.8
Total	**97,462**	94,741	92,832	91,172	89,494	7,968	8.9
Sales-therms (in thousands):							
Residential	**115,208**	115,562	110,043	117,167	110,330	4,878	4.4
Commercial firm	**63,706**	64,088	59,357	64,686	61,070	2,636	4.3
Industrial firm	**29,914**	27,832	25,338	30,021	25,451	4,463	17.5
Interruptible	**82,699**	80,491	69,014	85,499	80,622	2,077	2.6
Interdepartmental sales	**11,500**	12,336	5,152	15,083	24,848	(13,348)	(53.7)
Total	**303,027**	300,309	268,904	312,456	302,321	706	0.2
Gas operating revenues (in thousands):							
Residential	**$ 35,188**	$ 30,887	$ 27,268	$ 23,886	$ 17,854	$ 17,334	97.1
Commercial firm	**18,655**	15,537	13,108	11,455	8,134	10,521	129.3
Industrial firm	**8,649**	6,618	5,222	4,765	3,112	5,537	177.9
Interruptible	**20,026**	16,203	11,574	10,463	8,319	11,707	140.7
Interdepartmental sales and other	**5,070**	5,259	2,085	2,511	2,240	2,830	126.3
Total	**$ 87,588**	$ 74,504	$ 59,257	$ 53,080	$ 39,659	$ 47,929	120.9
Maximum daily sendout—therms (in thousands)	**1,995**	2,216	2,069	1,959	2,055	(60)	(2.9)

OTHER INFORMATION FOR SHAREOWNERS

MARKET INFORMATION

The common stock of the Company has been traded on the New York Stock Exchange (symbol: WPL) since March 30, 1976. Prior to that date, the common stock was traded in the over-the-counter market and the prices were reported on NASDAQ (the National Association of Securities Dealers Automated Quotation System) under the symbol WPWR. The 4½ percent preferred stock is traded on the American Stock Exchange; the other series of preferred stock are traded in the over-the-counter market, but prices are not reported on NASDAQ. The following table represents the high and low sales prices for common stock as reported by the New York Stock Exchange and the 4½ percent preferred stock as reported by the American Stock Exchange. The high and low bid prices for the additional series of preferred stock were obtained from one of several broker-dealers who make a market in these inactively traded securities.

	Common Stock	Preferred Stock							
1979		4½%	4.80%	4.96%	4.40%	4.76%	8.48%	7.56%	12%
1st Quarter	19¾ - 18⅞	48⅞ - 46	50 - 45	51¼ - 51	45 - 43½	49¼ - 47	86 - 85	78½ - 77	*
2nd Quarter	19½ - 17¾	47¾ - 44⅛	49 - 45	51 - 48	45 - 42½	48½ - 45½	85 - 82¼	75 - 75	*
3rd Quarter	20¾ - 18⅜	48 - 43½	47½ - 47	48½ - 48½	43 - 43	46½ - 46½	82½ - 82	*	*
4th Quarter	19¼ - 16⅞	46 - 41¾	46 - 40½	45 - 41½	40½ - 37	45½ - 40	82 - 69½	73½ - 65	*
1978									
1st Quarter	21¼ - 19⅝	53⅞ - 51¼	56 - 54½	58 - 56	50½ - 49	55½ - 53	95½ - 95	*	*
2nd Quarter	21½ - 18⅜	53 - 48	55¾ - 50	57½ - 52	49 - 46½	55¼ - 50	95 - 89½	87¼ - 83	*
3rd Quarter	21⅞ - 20⅜	50¾ - 47½	52⅞ - 50	54½ - 51½	47¾ - 46	52⅜ - 50	89 - 88	84 - 81	*
4th Quarter	21⅜ - 19	51 - 46⅞	50½ - 48	52⅛ - 50¼	46 - 45	50 - 48	88 - 87	83½ - 79	*

*No trades reported in 1978 and 1979 during this period.

DIVIDEND INFORMATION

Cash dividends on the common stock of the Company have been paid quarterly since January 1946. Cash dividends per share paid during 1979 were $.44, $.44, $.46 and $.46 for the first, second, third and fourth quarters, respectively, for a total of $1.80 for the year. Cash dividends per share paid during 1978 were $.42, $.42, $.44 and $.44 for the first, second, third and fourth quarters, respectively, for a total of $1.72 for the year.

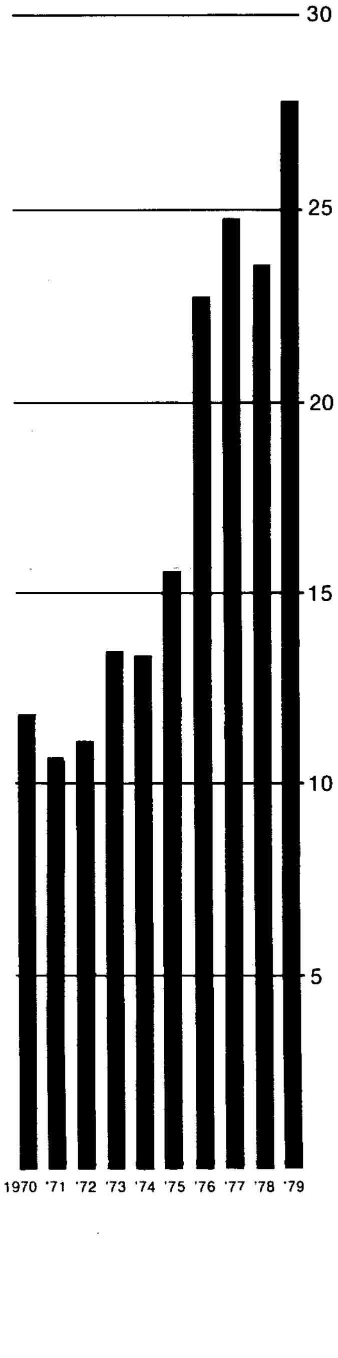
Preferred stock dividends paid per share for each quarter during 1979 and 1978 were as follows: 4½ percent, $1.125; 4.80 percent, $1.20; 4.96 percent, $1.24; 4.40 percent, $1.10; 4.76 percent, $1.19; 8.48 percent, $2.12; 7.56 percent, $1.89; and 12 percent, $3.00.

DIVIDEND REINVESTMENT

The Company has a Dividend Reinvestment and Stock Purchase Plan that enables participating shareowners to purchase common stock of the Company with their cash dividends and with optional cash payments. Participants will receive a 5 percent discount from market price on each share of WP&L common stock purchased with reinvested dividends. All other common stock purchases under the plan will be made at 100 percent of market price. You may obtain a copy of the Prospectus relating to the plan by writing or telephoning our Company at the General Office location shown on page 39.

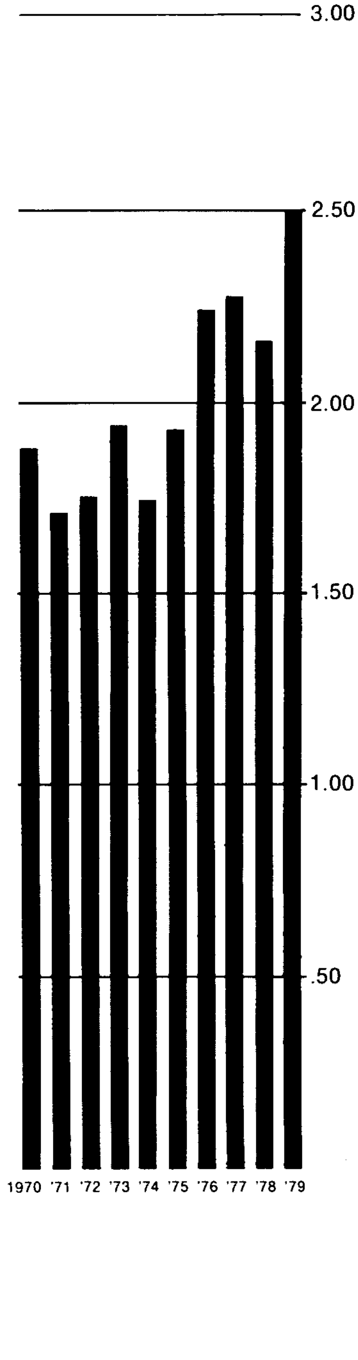
Earnings On Common Stock
(in millions of dollars)

1979: $27,663,000



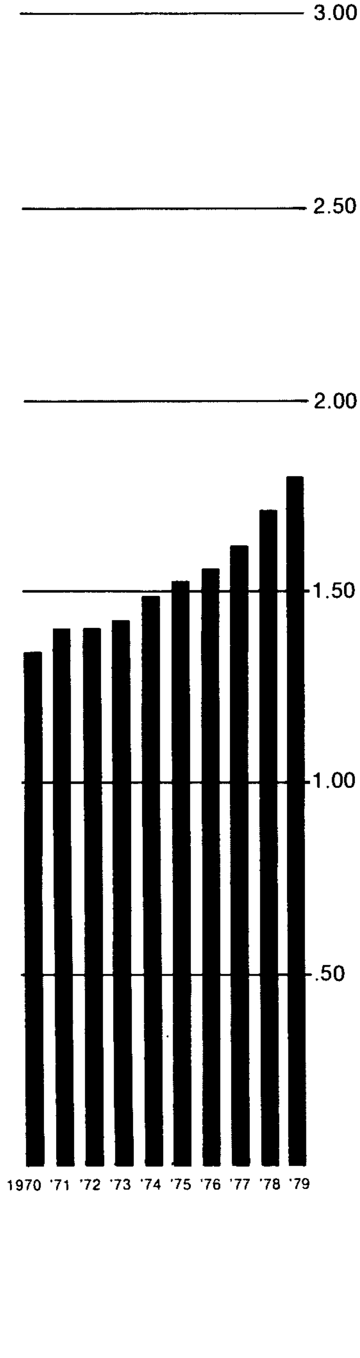
Earnings Per Share of Common Stock
(in dollars)

1979: $2.50



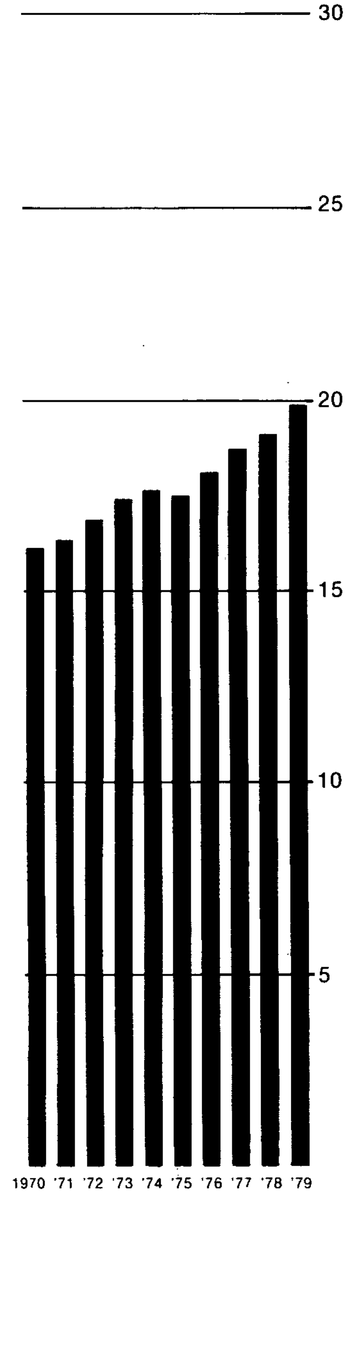
Dividends Per Share of Common Stock
(in dollars)

1979: $1.80



Book Value Per Share of Common Stock
(in dollars)

1979: $19.89



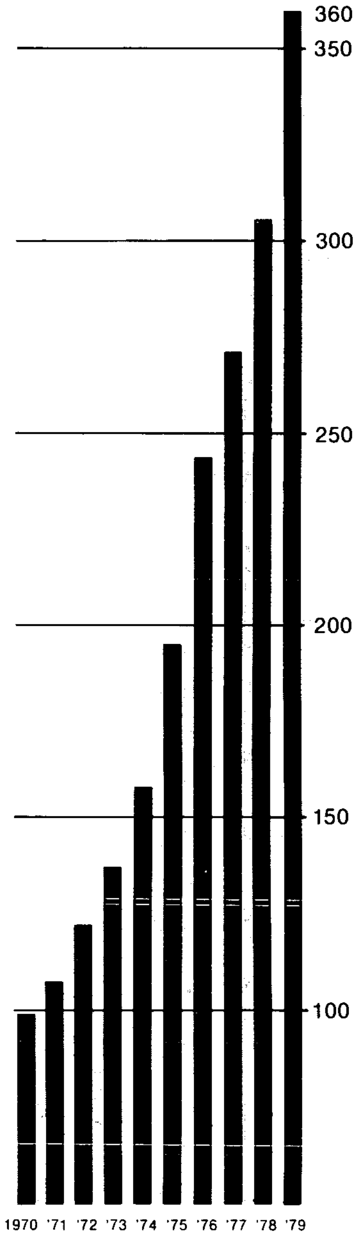
A Company Profile

Wisconsin Power and Light Company serves 38 counties, 601 cities, villages and towns and more than 300,000 electric, gas and water customers in a 16,000 square mile area. The industrial, agricultural and recreational attractions found in our service area make it a thriving region. Approximately 2,300 people work throughout our system in offices, generating plants and other locations. Our territory is divided into seven divisions with 14 district offices. We also maintain large engineering and warehouse facilities at Fond du Lac in the north and between Beloit and Janesville in the south. Our corporate offices are located in Madison.

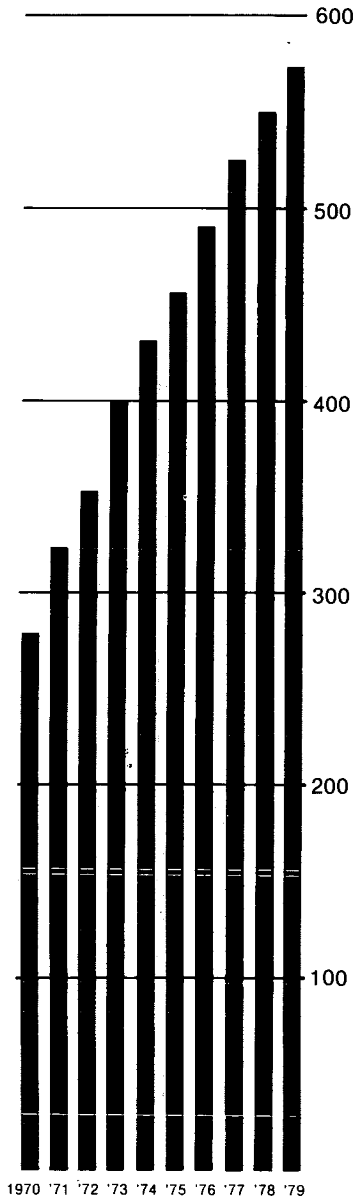
Our system includes five large generating stations fueled by coal. The largest (two 527,000-kilowatt units) began operations at the Columbia site just south of Portage with the completion of the first unit in 1975. The second unit was completed and began commercial operations in 1978. The Columbia Energy Center is a joint project with two other utilities and uses low-sulfur coal shipped from mines in Montana and Wyoming. The four-unit Edgewater complex lies on the shores of Lake Michigan at Sheboygan. (An additional unit in the intermediate load range will be built at Edgewater for 1984 operation, while two of the smaller present units will be retired.) Two other plants are located on the Rock River —one at Beloit and one a few miles north. Another major facility is situated in the southwest corner of the state on the Mississippi River at Cassville.

In addition, the first nuclear plant contributing to our system began commercial operation on the Lake Michigan shoreline near Kewaunee in 1974. The 535,000-kilowatt unit is owned by the same utilities involved in Columbia. WP&L also has joined two other Wisconsin utilities in

Total Operating Revenue
(in millions of dollars)
1979: $362,278,000



Total Net Utility Plant
(in millions of dollars)
1979: $574,270,000



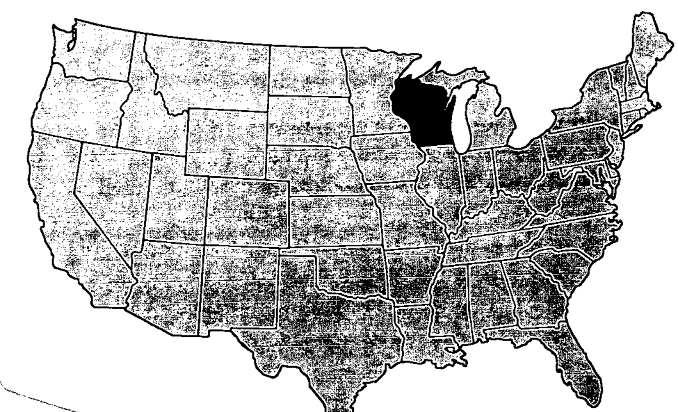
planning a large nuclear center with a 900,000-kilowatt generator near Haven in Sheboygan County. The unit is scheduled for operation in the late 1980s.

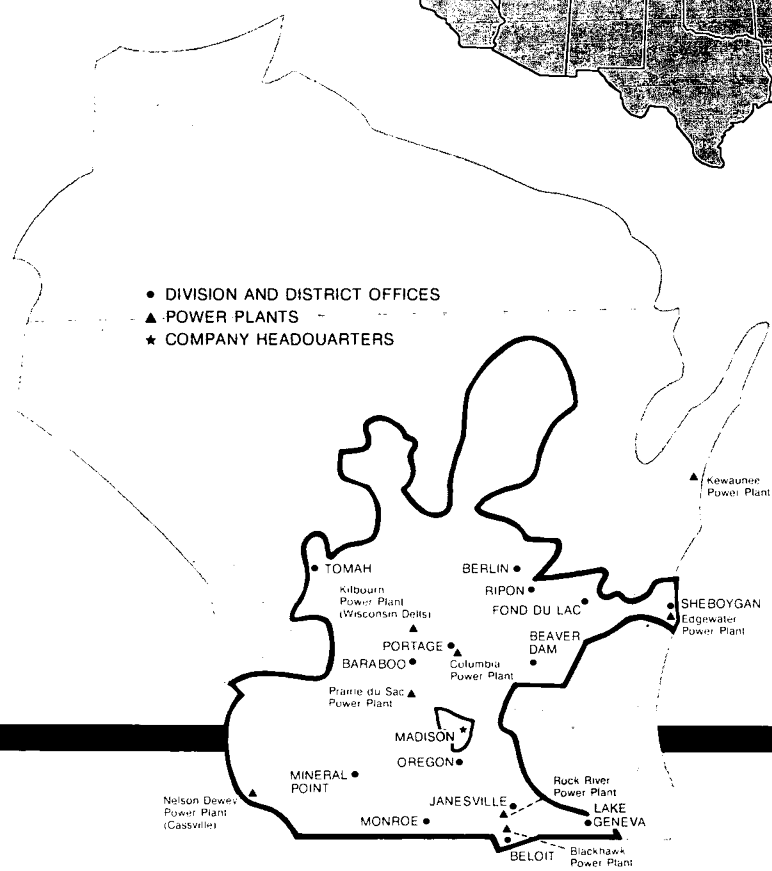
Two large hydroelectric units operate on the Wisconsin River at Prairie du Sac and Wisconsin Dells. Additional peaking units and small hydro facilities bring our combined system capacity to 1.7 million kilowatts.

Our natural gas distribution lines form a network of more than 2,000 miles. About 24 percent of our total revenues come from the sale of gas to 97,450 customers in 181 cities, villages and towns. Our gas supplies come from two sources, Michigan Wisconsin Pipe Line Company and Northern Natural Gas Company. Our water operations serve customers in three cities—Beloit, Ripon and South Beloit (Illinois).

More than 53,000 shareowners own the Company. People from every state in the nation and several foreign countries have invested in WP&L. Most of our shareowners, however, live right here. About 60 percent of the common and 80 percent of the preferred shareowners are Wisconsin residents.

Our average common stock holding amounts to 192 shares—a figure that includes both individual and institutional shareowners. Holdings by individual investors represent about 70 percent of the total, with the remainder owned by institutional and similar types of accounts.





Company Personnel

OFFICERS

(as of December 31, 1979)

James R. Underkofler
President and Chief Executive Officer

Edward A. Wiegner
Senior Vice President—Consumer, Public and Financial Affairs

Peter S. Van Nort
Senior Vice President—Division and System Operations

John C. Acomb
Vice President, Corporate Communications

Burton C. Peters
Vice President, Division Operations—Northern

Robert A. Carlsen
Vice President, Division Operations—Southern

Edward F. Killeen
Vice President, Employee Relations

Charles G. Kerndt
Vice President, Engineering and Procurement

Erroll B. Davis, Jr.
Vice President, Finance

William L. Keepers
Vice President, Power Production

Homer J. Vick
Vice President, Rates and Consumer Services

Thomas L. Consigny
Assistant Vice President, Public Affairs

George A. Goff
Controller

Duaine L. Mossman
Secretary and Director of Financial and Revenue Requirements Planning

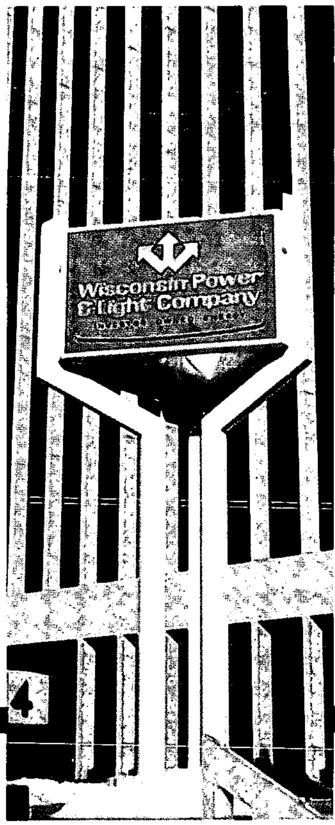
Frederick A. Remeschatis
Treasurer

***Thomas A. Landgraf**
Assistant Controller

Donald L. Van Brunt
Assistant Secretary

Edward M. Gleason
Assistant Treasurer

**Joined WP&L in this position during 1979.*



MANAGEMENT

GENERAL OFFICE DEPARTMENT HEADS

Donald L. Brown
Director of Generation and System Planning

George R. Byington
Director of Electrical Operations

James H. Dudley
Director of Hydro Operations

David E. Ellestad
Director of Electrical Engineering

John G. Fabie
Director of Safety

George E. Gibert
Director of Gas Operations and Real Estate

Daniel A. Gomez-Ibanez
Director of Customer Accounting and Rates

Richard M. Gregory
Director of Purchases and Stores

Frank A. Hansen
Director of Generating Station Operations

Merlin E. Horn
Director of Environmental Affairs

Theodore J. Iltis
Director of Advanced Technology and Nuclear Affairs

John W. Laub
Director of Information Systems and Services

Robert G. Lindenau
Director of Community Relations and Development

Dale G. Moody
Director of Consumer Services

Donald R. Piepenburg
Director of Public Information

William C. Register
Director of System Operations and Planning

George L. Richardson
Director of Generating Station Engineering and Construction

Marjatta Strandell
Director of Human Resources Planning and Development

Jack E. Zwettler
Director of Internal Audits

DIVISION MANAGERS

Richard E. Barry
Northern Division (Berlin)

Daniel L. Bartel
Northeast Division (Fond du Lac)

Philip E. Crawford
Southwest Division (Mineral Point)

Lyle R. Coates
Northwest Division (Baraboo)

Donald P. Goiffon
Southern Division (Beloit)

James G. Miller
Central Division (Janesville)

George E. Wennerlyn
Eastern Division (Sheboygan)

DISTRICT MANAGERS

Roger L. Baumann
Lake Geneva

James E. Johnson
Dane County (Oregon)

Felix J. Matarrese
Portage

Stephen F. Stanul
Beaver Dam

GENERATING STATION MANAGERS

William D. Engel
Columbia (Portage)

Henry R. Hosterman
Edgewater (Sheboygan)

Bernard Latakas
Nelson Dewey (Cassville)

David W. Thompson
Blackhawk and Rock River (Beloit)

New Director Named

Rockne G. Flowers was elected to the Board of Directors in April. He is President of Nelson Industries, Inc. of Stoughton, Wis.

Management Changes

William C. Register was named Director of System Operations and Planning in October. He previously served as Director of Transmission and Distribution Engineering.

Donald L. Brown was named Director of Generation and System Planning in October. He had been Manager of System Planning.

George R. Byington was named Director of Electrical Operations in October. He previously served as Southwest Division Manager.

David E. Ellestad was named Director of Electrical Engineering in October. He had been Manager of Electrical Engineering.

Philip E. Crawford was named Southwest Division Manager in October. He had been District Manager at Lake Geneva.

David W. Thompson was named Generating Station Manager—Blackhawk and Rock River in December. He previously served as Central Division Manager at Janesville.

James H. Dudley was named Director of Hydro Operations in December. He had been Generating Station Manager—Blackhawk and Rock River.

James G. Miller was named Central Division and Janesville District Manager in December. He previously served as Director of Customer Accounting and Rates.

Daniel A. Gomez-Ibanez was named Director of Customer Accounting and Rates in December. He had been Manager of Customer Energy Planning and Analysis.

SHAREOWNERS' CALENDAR

Common	Preferred
1979	
February 15	March 15
May 15	June 15
August 15	September 15
November 15	December 15
1980	
February 15	March 15
May 15	June 15
August 15	September 15
November 15	December 15

ANNUAL MEETING

All shareowners are cordially invited to attend the corporate annual meeting at 10 a.m. local time, Wednesday, April 23, 1980, at the Holiday Inn-Southeast, located in Madison, Wisconsin, at the intersection of Interstate 90 and Highways 12 and 18. If you are unable to attend, please sign and mail your proxy vote as soon as it is received. Proxy vote forms will be mailed to shareowners on or about March 21, 1980.

FINANCIAL INFORMATION

Two additional financial and statistical reports are available to shareowners without charge. The Company's Form 10-K, as filed with the Securities and Exchange Commission, and a statistical supplement to this Annual Report, may be obtained through the Treasury Department, Wisconsin Power and Light Company, P.O. Box 192, Madison, Wisconsin 53701.

TRANSFER AGENTS

Illinois Stock Transfer Company
223 West Jackson Boulevard
Chicago, IL 60606

Irving Trust Company
One Wall Street
New York, NY 10015

REGISTRANTS

Continental Illinois National Bank & Trust Company of Chicago
231 South LaSalle Street
Chicago, IL 60693

Irving Trust Company
One Wall Street
New York, NY 10015

GENERAL OFFICES

Wisconsin Power and Light Company
222 West Washington Avenue
Madison, WI

P.O. Box 192
Madison, WI 53701
Telephone (Treasury Dept.)
608/252-3108

This Annual Report to shareowners is published primarily for their use by Wisconsin Power and Light Company, Public Information Department. It is not submitted in connection with the sale, offer to sell or offer to buy any security.

Board of Directors

Allan W. Adams
Attorney-at-law and Corporate Secretary, Regal-Beloit Corporation (a cutting tool company), South Beloit, Illinois
A WP&L director since 1963

Dr. Bernard S. Adams
President, Ripon College, Ripon, Wisconsin
A WP&L director since 1970

Rockne G. Flowers
President, Nelson Industries, Inc. (a muffler and filter manufacturing firm), Stoughton, Wisconsin
A WP&L director since April 1979

Eugene O. Gehl
Corporate Counsel for Wisconsin Power and Light Company and partner in the firm of Brynelson, Herrick, Gehl & Bucaida, Madison, Wisconsin
WP&L director since 1977

George F. Kasten
Member of the Board of Directors and former Chairman of the Board, First Wisconsin Corporation (a bank holding company), Milwaukee, Wisconsin
A WP&L director since 1967

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

Shirley B. Thompson
Co-owner and Manager of Family Farm, Mt. Horeb, Wisconsin and Staff Executive Assistant for the Wisconsin Advisory Council on Vocational Education, Madison, Wisconsin
A WP&L director since 1978

Carol T. Toussaint
Citizen member of several governmental boards and committees, including Consumer Representative on the Wisconsin State Board of Agriculture, Trade and Consumer Protection, Madison, Wisconsin
A WP&L director since 1976

James R. Underkofler
President and Chief Executive Officer, Wisconsin Power and Light Company
A WP&L director since 1965

Peter S. Van Nort
Senior Vice President, Wisconsin Power and Light Company
A WP&L director since 1978

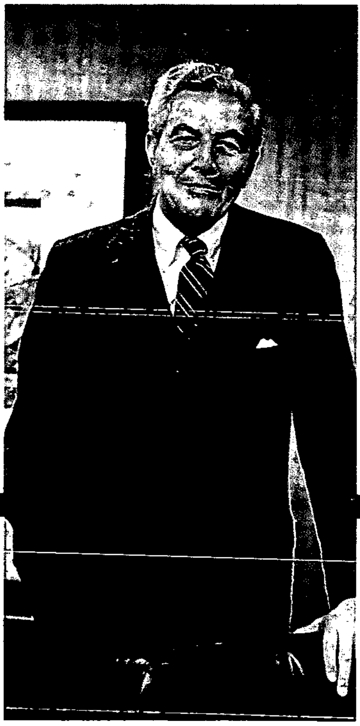
Edward A. Wiegner
Senior Vice President, Wisconsin Power and Light Company
A WP&L director since 1974


Rockne G. Flowers


Carol T. Toussaint

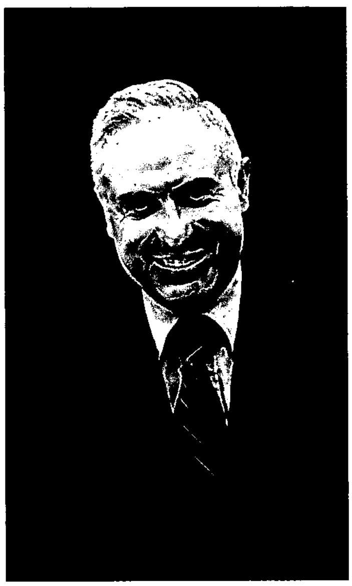

Eugene O. Gehl


Allan W. Adams


George F. Kasten

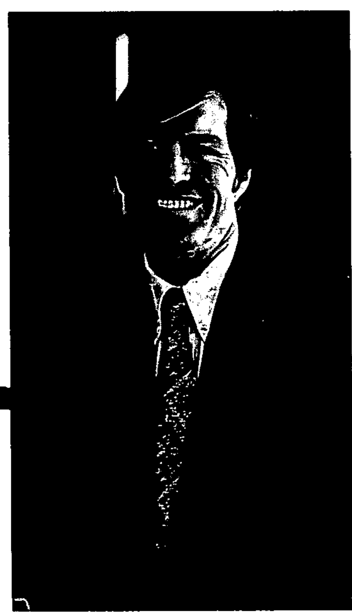
James R. Underkofler

The Audit Committee coordinates the review of Company operations and results. It recommends the independent auditors to be selected by the shareowners at the annual meeting and determines with the auditors the scope of the audit to be conducted. The committee discusses with the independent auditors and Company management the accounting and reporting principles, policies and practices to be used. The committee consists of board members who are not employees or officers of the Company.



Henry C. Prange

Dr. Bernard S. Adams



Peter S. Van Nort

The Corporate Planning and Performance Committee examines corporate planning and performance, including the review of such items as sales and load forecasts, operating and construction budgets, financing programs and rate matters. The committee consists of all members of the Board of Directors.

Edward A. Wiegner

The Personnel Committee functions as an executive review group, evaluating overall management performance and efficiency. The committee also reviews resource development programs, benefit plans and changes and major provisions of negotiated employment contracts. It reviews and approves salaries of officers and upper echelon management positions. The committee consists of board members who are not employees or officers of the Company and the president as a non-voting member.

Shirley B. Thompson

Wisconsin Power
& Light Company
P.O. Box 192
Madison, Wisconsin 53701