ANNUAL REPORT 1982

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WISCONSIN POWER

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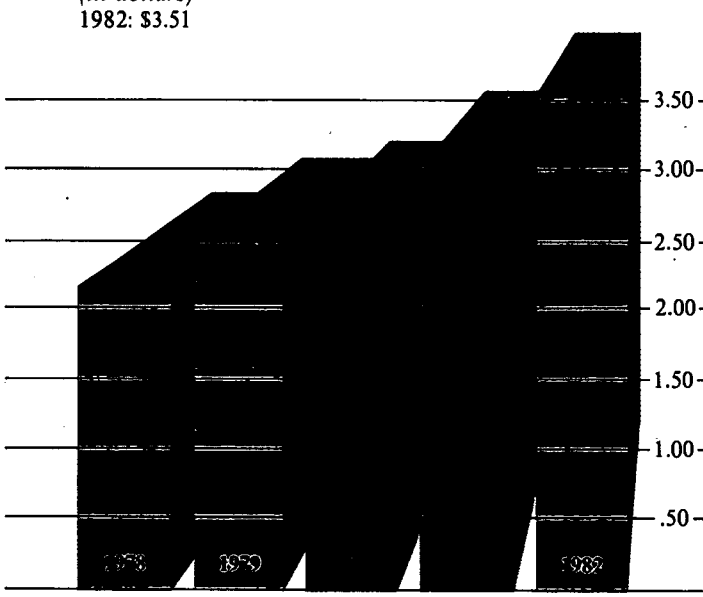
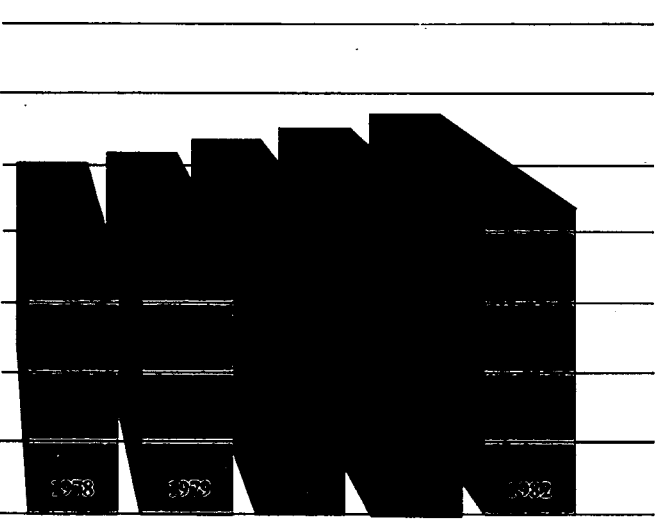
1982 FINANCIAL HIGHLIGHTS

	1982	1981
Operating Revenues	$512,477,000	$454,516,000
Operating Expenses	$437,806,000	$386,373,000
Net Income	$ 47,355,000	$ 40,727,000
Earnings on Common Stock	$ 42,256,000	$ 35,538,000
Earnings Per Share of Common Stock	$3.51	$3.05
Dividends Per Sharc of Common Stock	$2.20	$2.04
Total Capitalization	$643,679,000	$617,159,000
Electric Salcs (Thousand Kilowatt-Hours)	6,969,875	7,121,458
Gas Sales (Thousand Therms)	259,924	257,674

Earnings Per Share of Common Stock
(in dollars)
1982: $3.51



Dividends Per Share of Common Stock
(in dollars)
1982: $2.20



A COMPANY PROFILE

Wisconsin Power and Light Company serves 38 counties, 621 cities, villages and towns and more than 317,000 electric, gas and water customers in a 16,000-square-mile area. The Company employs close to 2,400 people in field locations, generating stations and in the Company's corporate offices in Madison.

The service territory is organized into three regions, creating a network of 14 district offices. Engineering and warehousing facilities are centrally located in Fond du Lac and near Beloit to serve the northern and southern sections of the territory.

The fuel mix of WP&L's major generating stations includes coal, nuclear and hydro. The five coal-fired generating stations account for over 70 percent of the Company's capacity. The Columbia Energy Center, located near Portage in south-central Wisconsin, is currently the Company's largest coal plant. Owned jointly with several utilities, the plant's two units have a combined capacity of over 1,000 megawatts. Edgewater is a multi-unit coal plant at Sheboygan on the shores of Lake Michigan with a capacity of close to 430 megawatts. One unit at Edgewater is owned jointly with another utility. An additional unit, now under construction at this point, should be in operation in 1985. Smaller coal-fired generating stations in the WP&L system include: Rock River and Blackhawk, both located in southern Wisconsin on the Rock River near Janesville and in Beloit, and Nelson Dewey, located in southwestern Wisconsin at Cassville on the Mississippi River.

Nuclear energy contributes to the WP&L system through the Kewaunee generating station that WP&L owns jointly with several utilities. Located on the shores of Lake Michigan in eastern Wisconsin, the unit has been in service since 1974 and has a capacity of about 535 megawatts.

Hydroelectric generating stations on the Wisconsin River at Prairie du Sac and Wisconsin Dells contribute close to 40 megawatts to WP&L's system capacity. Additional peaking units and small hydro facilities bring the Company's system capacity to over 1,600 megawatts.

An equally important component of WP&L's business is natural gas distribution. A network of more than 2,000 miles of gas distribution lines serves approximately 100,000 customers in 184 cities, villages and towns. A water utility, serving residents of Beloit, Ripon and South Beloit, Illinois, is also a component of the WP&L business.

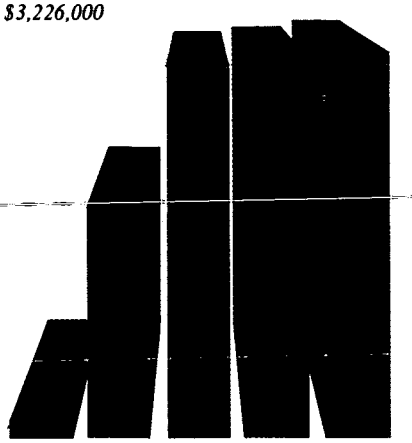
In 1982 WP&L acquired a majority interest in Windworks, Inc., a leading manufacturer of wind energy machines and power conditioning equipment. As a subsidiary of WP&L, Windworks adds technological and assembly capability to WP&L's ongoing interest in renewable energy systems.

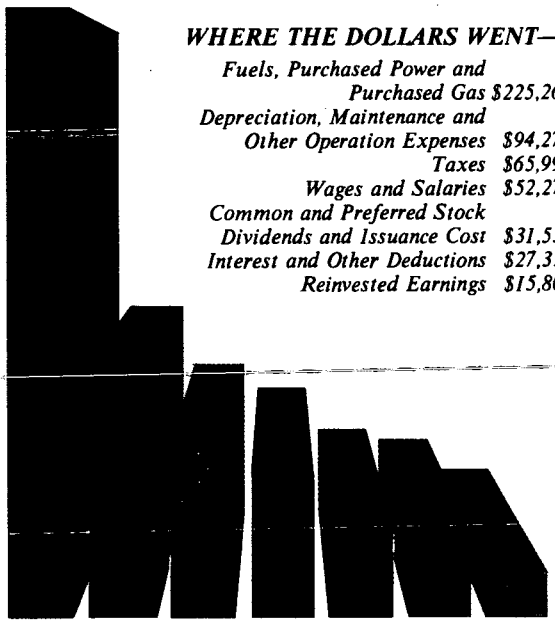
Ownership of WP&L is shared by over 50,000 shareowners. While the shareowners include individuals from every state and several foreign countries, the greatest number of shareowners are Wisconsin residents. Approximately 57 percent of the common and 80 percent of the preferred shareowners are Wisconsin residents.

The average common stock holding is 286 shares, a number that includes both individual and institutional shareowners. Holdings by individual investors represent about 58 percent of the total.

WHERE THE DOLLARS CAME FROM—1982

- *Residential and Rural Electric $143,236,000*
- *Commercial and Other Electric $141,505,000*
- *Natural Gas $138,388,000*
- *Industrial Electric $86,122,000*
- *Water $3,226,000*





WHERE THE DOLLARS WENT—1982

Fuels, Purchased Power and Purchased Gas	*$225,263,000*
Depreciation, Maintenance and Other Operation Expenses	*$94,279,000*
Taxes	*$65,990,000*
Wages and Salaries	*$52,274,000*
Common and Preferred Stock Dividends and Issuance Cost	*$31,550,000*
Interest and Other Deductions	*$27,316,000*
Reinvested Earnings	*$15,805,000*

THE CHAIRMAN'S COMMENTS

While 1982 was a year of strong financial performance for WP&L, I believe that the economic problems and uncertainties that have dominated the state and nation will lead to more management challenges for us in 1983. Here in Wisconsin, the recession has created significant unemployment, leaving many unable to meet their financial obligations and presenting the state with the largest deficit in its history.

In his inaugural address in January 1983, Wisconsin Governor Anthony Earl declared that one of the primary goals of his administration was to restore the state's economic health. I agree with that. And, as I have previously stressed, an essential ingredient in any plan for economic growth is adequate, reliable and competitively priced energy.

But, while the effects of the recession are deep in Wisconsin and while the state faces serious financial problems, our government leaders must resist the temptation to look to short-term, popular solutions at the expense of long-term progress. The imposition of unrealistic tax and regulatory burdens on business and industry would be a short-term solution that would merely restrict our resources and impair our ability—as key participants in the state's economy—to attract, develop and expand the industry that will put the unemployed back to work.

Federal, state and local governments must also become more realistic about reducing their own levels of spending. Many businesses, including WP&L, have seriously re-examined their operations throughout the past year and achieved substantial reductions in operating costs. Government also must recognize that the solutions to our economic problems cannot simply focus on proposals to generate more income. Economic recovery also is dependent upon reduced government spending and a re-examination of government services.

Nevertheless, I am optimistic about 1983. I believe we will slowly begin to experience an improvement in the economy and, ultimately, a recovery from the depressed economic conditions of 1982.

A return of consumer confidence will be a key factor in that recovery, just as investor confidence has been a key to WP&L's strong financial performance in 1982. Investor confidence in your Company's ability to remain profitable in these difficult times was evident in the market price of WP&L's common stock, which closed the year at $24 per share, a gain of $4.75 over the previous year.

1982 year-end earnings per share for common shareowners were $3.51, 21 cents over the 1982 target of $3.30 and a 15.1 percent increase over 1981 earnings. 1982 dividends paid on common stock were $2.20 per share, a 7.8 percent increase over 1981 dividends. The Company maintained its favorable AA bond rating and its other financial ratios continue to be among the best in the industry.

This strong performance is consistent with the reputation that Wisconsin Power and Light has earned over the years for financial leadership. This reputation has been built through a combination of high-quality earnings, a strong balance sheet and a competitive return on equity.

But there were several additional factors

contributing to 1982's financial performance. The Company's commitment to achieving measurable results in internal cost containment and improvements in productivity and operating efficiency were major factors. The winter of 1981-82 was also one of the coldest in Wisconsin history and it must be credited with producing a significant increase in WP&L's electricity and natural gas sales in the early months of 1982. The impact of this early sales volume was offset to some degree late in the year as the effects of the recession began to show—producing a record low number of new electricity and natural gas customers and a substantial reduction in sales of electricity and natural gas to large industrial customers.

The recovery and eventual growth of the Wisconsin economy will have a major influence on WP&L's operations and planning for the foreseeable future. Our forecasts predict availability and reliability of both natural gas and electricity to meet the needs of all our customers, to fuel the state's economic recovery and to accommodate needed economic growth.

A major factor that should serve to strengthen WP&L financially over the next 10 to 15 years is a minimal need for additional generating capacity, and as a result, a reduced need for additional capital. We are presently in a position to meet our customers' anticipated electrical requirements with only a moderate amount of outside borrowing. We expect to maintain a 70 percent or greater level of internal funds generation for the foreseeable future. Reduced financing costs are clearly in the best interest of both our shareowners and customers.

Your Company has been able to develop a consistent record of earnings progress, has aggressively pursued rates of return that are in line with costs of capital, has maximized the internal generation of funds and minimized capital requirements, and has achieved cost reductions and cost controls through improved productivity. The resulting financial health has been recognized by the financial community, but as important, we are in a position to serve the needs of our customers, shareowners and employees as we move forward into the future.

Our successful efforts in 1982 to cut costs internally and the severe winter weather early in the year with the resulting increase in sales, coupled with lower than expected rates of inflation, allowed WP&L to defer a request for a rate increase. During this period, however, WP&L continued to make substantial dollar investments in the business on behalf of its customers, and the need to earn a return on these investments continues. There is also a limit to how far our cost-cutting efforts could take us without a rate increase.

As a result, in January 1983, the Company filed an application for an increase in gas and electric rates—the first since June of 1981, when our last increase in base rates went into effect. The requested increase of 2.5 percent for electric and 2.4 percent for natural gas, overall, is well below the cumulative rate of inflation for the last two years. We are sensitive to the financial burden that the current economic environment has placed on our customers and we will continue to look for ways to minimize the cost of energy services to them. And, while we will continue in our commitment to provide service to our customers at reasonable and competitive prices, we also will strive to provide a fair and equitable return to our shareowners. We cannot ignore the need to maintain our own financial strength, especially if we are to contribute to the state's economic recovery.

New developments in the Company's efforts to diversify and form a holding company occurred in 1982. Legislative hearings, an attorney general's opinion and administrative rule proceedings by the Wisconsin Public Service Commission have added uncertainty to our plans to form a holding company. These developments will not, however, derail the

"WP&L will continue in its commitment to provide service to our customers at reasonable and competitive prices, while also providing a fair and equitable return to our shareowners."

Company from its plans to make the transition from an energy supplier to a total energy service company. In spite of the lingering uncertainty surrounding the issue of the holding company, WP&L will continue to explore opportunities for diversification within the corporation's present structure.

The purchase in June 1982 of Windworks, Inc., demonstrates our commitment to establish our presence in new areas where we can apply our unique skills and expertise. As a leading manufacturer of wind-power machines and power conditioning/converting equipment, Windworks brings technological design and assembly capability to WP&L's extensive experience in experimental applications of windmills and other renewable energy systems. The Windworks machine is one of the best in the industry, and we feel that our involvement in experimentation, demonstration and sales will enable us to make this quality equipment more widely available.

1982 was also a year in which the dividend reinvestment plan provisions of the 1981 Economic Recovery Tax Act were threatened with repeal. The overwhelming response by you, the shareowners of WP&L, along with other utility shareowners around the country, in contacting members of Congress and expressing your opposition was a key factor in the defeat of this legislation. Without the active participation of shareowners, it is likely that we would have lost this effective vehicle for attracting investors to the capital-intensive utility industry. Participants in qualified dividend reinvestment plans now will continue to receive favorable tax treatment on reinvested dividends through 1985—good news for the 11,000 participants in WP&L's Dividend Reinvestment and Stock Purchase Plan.

One of the most significant accomplishments of WP&L's management in 1982 was the thorough re-examination of the corporation's priorities and the setting of strategic goals and objectives for 1983 and beyond. I have chaired this strategic planning activity and I can report to you that as a direct result of the affirmation of corporate priorities through this process, I am confident that we are plotting the correct path for WP&L's future. A discussion of the established priorities and the process by which they were refined follows in the next section of this report.

Throughout 1983, it will continue to be a top priority of the management and employees of WP&L to translate these strategic objectives into operational plans, action plans and measurable results. I am enthusiastic about the process and the results that have been achieved.

This year's annual report focuses on the changes that have influenced the Company's decision-making in the past and that will continue to shape its operations and planning in the future. In today's business environment, a corporation must be capable of anticipating and managing change. It is not enough to merely make refinements in usual business activities.

As the activities of the past year demonstrate, WP&L has a corporate philosophy of looking ahead, recognizing opportunities and planning accordingly. In 1982, as in years past, that has meant an acceptance of the challenges and opportunities presented by change at all levels of the organization. Developing technologies have put new tools at our disposal and management has been challenged to find more creative applications of the available human and material resources.

As we move into 1983, we are committed to a strategic action plan so that WP&L will continue to produce a profit for its shareowners, provide reliable and affordable products and services for its customers with a rewarding and stimulating environment for its employees.

James R. Underkofler

Chairman, President and Chief Executive Officer

Managing today and planning for tomorrow

No corporation can assume that tomorrow's business will be a continuation of today's. Change is an unavoidable consequence of the dramatic technological and social developments of 20th-century society, placing many demands on today's corporations.

Nowhere has change been more dramatic than in the utility industry, where in little more than 100 years a collection of small local private and public companies providing street lighting and gas distribution has evolved into an industry of large centralized producers of energy and related services. New technologies, new sources and supplies of fuels and periods of economic uncertainty and social change have altered both the industry's products and the way in which they are delivered. The sophistication of the technology, its applications and a variety of demands for energy services have changed dramatically, and there is every indication that the future will be no different.

Wisconsin Power and Light Company has earned a reputation for innovative and aggressive management of this changing environment. What has made WP&L innovative?

It has not simply been a commitment to use the latest in research and technology. Innovation is a recognition that the Company cannot live in the past, that tomorrow is not likely to be an extension of yesterday and that there must be ongoing attempts to identify and anticipate opportunities for better operations and more extensive markets.

Rather, it is a willingness to look objectively at the business and seek out better technologies, processes and markets. It is an eagerness to put new information and technologies into practice at the earliest opportunities. And it is the sensitivity to the needs and wants of the Company's existing and potential markets and an ability to translate that perspective into new business opportunities.

This attitude has already produced a solid record of performance and earned WP&L a reputation within the industry for aggressive leadership. Among its distinctions, WP&L has implemented creative rate structures, progressive accounting procedures, sophisticated load forecasting methods, system reliability planning, computerized management of system-wide operations and exploration of alternative technologies for improved energy efficiency.

One of the tools that has been used by management at WP&L to evaluate the Company's business today and its opportunities for the future has been strategic planning. The intensive review of policy, program and budget alternatives, which is chaired by WP&L Chairman James R. Underkofler, includes the board of directors, the WP&L vice presidents and selected teams of WP&L employees. In the past year, task forces chaired by the vice presidents have examined such areas as

Board of Directors

Carol T. Toassaint *Eugene O. Gehl*

Henry C. Prange

Gerard E. Veneman

Shirley B. Thompson

customer service, energy supply and demand, and internal productivity and cost containment, and similar analyses are in progress for financial and diversification priorities for the Company.

The strategic planning process has helped the Company to identify additional ways to contain operating costs and achieve greater productivity. But, most importantly, through this many-phased process, the Company has linked specific near-term operating budget priorities with long-term goals and objectives for the business. WP&L's management knows that a business does not evolve magically according to a predetermined plan. Rather, the business of tomorrow is shaped through extensive planning and daily management of programs, people and resources to achieve incremental steps in improved performance and more effective allocation of resources.

Strategic planning begins with a long look into the future by management, but it comes back to budget and operating decisions in every cost center and work location in the Company. The financial health of Wisconsin Power and Light is evident in the financial statement and statistics of this report. The character of the Company, the commitment of its management and employees to a progressive agenda to carry the Company into the future, is evident in the broad priorities for the future that have been shaped through the strategic planning process this past year. Wisconsin Power and Light's goals and objectives for the foreseeable future include:

- A financial goal to produce an investor return that is competitive with other superior investment opportunities.
- A commitment to strengthen the core utility business through the fullest possible use of present facilities and those under construction, as well as evaluation and development of new technologies that could be profitable to the Company.
- An increasing commitment of financial and human resources to business opportunities in the unregulated competitive business arena in recognition of our belief that the mature core utility business offers diminishing opportunities for profitable investments and new market development.
- An expectation that, based upon continued strong financial performance and efficient operations, WP&L will continue to be one of the five top-ranked utilities in the country.
- Productivity and cost management will be cornerstones of the Company's operations, with near-term priority placed on management of fuel costs and more productive use of people throughout the Company's operations.
- A commitment to develop a strong internal marketing capability and an identification of new customer groups and markets for the Company's diverse line of energy products and services.
- A commitment to meet our service mandates in the least capital-intensive manner.

These and other corporate strategies for the future provide direction for the management of today's business and create a framework for setting annual program priorities. WP&L's management team will continue to examine these priorities and adjust them as necessary to accommodate the ambiguities, the uncertainties and the opportunities of a changing environment. These corporate strategies and others will guide the Company in its efforts to continue to exhibit strong financial performance and to be receptive to the interests of shareowners, the needs of customers and the concerns of employees.

. Bernard S. Adams

Rockne G. Flowers

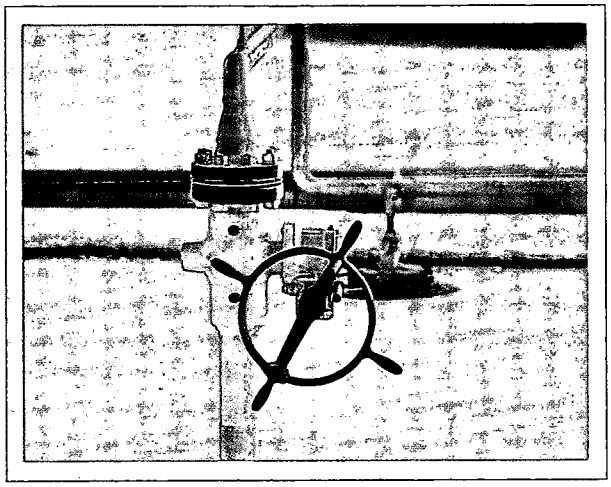
Henry F. Scheig

James R. Underkofler

In today's business environment, a company must be capable of anticipating and managing change.

1982 was another year of strong performance for Wisconsin Power and Light Company, a year in which the Company effectively managed the uncertainties and the opportunities of its changing business climate.

Change is nothing new and different to WP&L. New technologies have changed our products as well as the way they are delivered. The Company may have had its beginnings in the area of local streetlighting, gas distribution and transportation, but it has since evolved to be a producer of diverse energy products and services, serving more than 317,000 electric, gas and water customers in a 16,000-square-mile area. New technologies have created their share of uncertainties, requiring investments in new equipment, retooling of the existing equipment and retraining of the work force. But, they have also put new tools at our disposal for delivery of better products, while allowing us to make more creative applications of human and material resources.

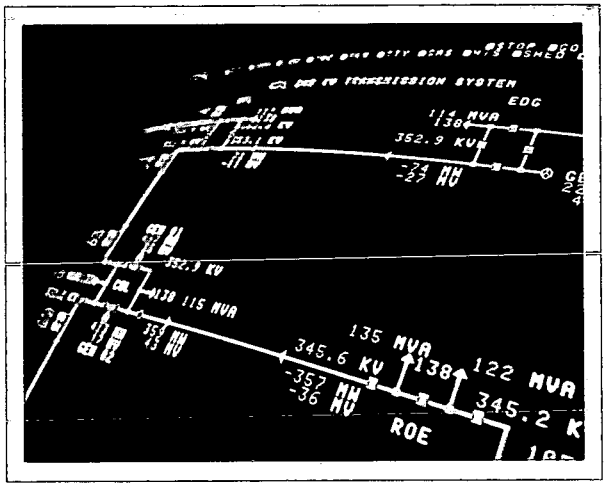


Piping and a control valve at one of the gas gate stations where the pipeline supplier delivers natural gas to WP&L.

The computer is an example of the technology that has brought significant change to WP&L. Current applications of the computer include information storage and analysis, power plant operation, construction management, customer billing, and energy supply and demand forecasting. The potential for additional applications is substantial as we move into an era of desk-top mini-computers.

The Company's System Operations Control (SOC) Center is a dramatic example of the computer's ability to improve the efficiency and effectiveness of technical operations. Since it began operation in 1978, the SOC Center has increased the operating efficiency and coordination of the Company's system of power plants to the point that electricity is normally furnished using the lowest-cost source available, even if that source is not owned by WP&L. Reserve capacity, not needed each day by WP&L customers, is available for resale to interconnected utilities. The savings resulting from the sale of this reserve capacity benefits WP&L customers by reducing their electricity bills through the fuel adjustment clause.

The passage of time also has brought many changes in social values, public expectations and



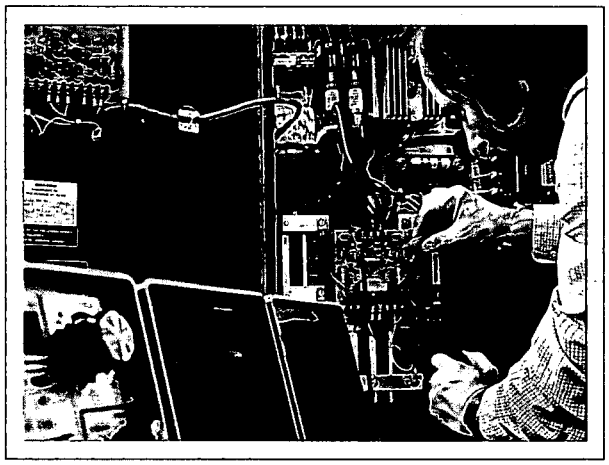
Monitoring and control of generating plants and the transmission system is facilitated through modern computer technology.

Sub-surface water quality surveillance is part of an extensive environmental monitoring program.

energy audits, solar-powered agricultural conservation programs, and experimental applications of renewable energy technologies for residential and industrial customers were among the specific programs implemented by the Company. WP&L's interest in renewable energy systems expanded in 1982 with its purchase of Windworks, Inc., a respected designer and manufacturer of windmills and power conversion equipment.

WP&L believes that one of the most effective ways to read the signals of change in the business environment is to establish channels of direct communication with individuals and interest groups in the mainstream of economic and social activity. The concerns of women, the clergy, ethnic minorities, the business community, senior citizens and the farm community are among the topics given public forums for

At Windworks, Inc., a subsidiary of WP&L, power conversion equipment is tested before shipment.



economic realities to which WP&L has been responsive. Only a few years ago, a prosperous economy and stable energy prices produced an environment of rapid economic growth that significantly impacted growth in the use of WP&L's primary product—electricity. But the economy began to change dramatically in the mid-1970s, at the same time that oil-supply problems and inflation caused higher energy prices.

Perceiving this rapidly changing economic climate and a growing concern for energy conservation, WP&L launched innovative and aggressive plans to develop conservation programs and non-traditional energy technologies. Home

discussion by WP&L in the past year. Company sponsorship of such events as conferences on interest groups' concerns about energy issues, workshops on community and economic development techniques, and an electric power and farm equipment show attracting nearly 60,000 people from the Midwest demonstrate the Company's commitment to be a responsible citizen in the communities it serves.

In addition, several consumer advisory councils and a farm advisory council have been established to provide the Company with the benefit of outside perspectives on energy-related topics and an opportunity for dialogue and early

reactions to new program and policy alternatives. The broad agenda of the Farm Advisory Council—to work with leaders of the state's farming community to identify their major energy concerns and to get their reactions to Company plans to assist farmers in increasing the energy efficiency of agricultural operations—is typical of the dialogue WP&L seeks to maintain with all its major customer groups.

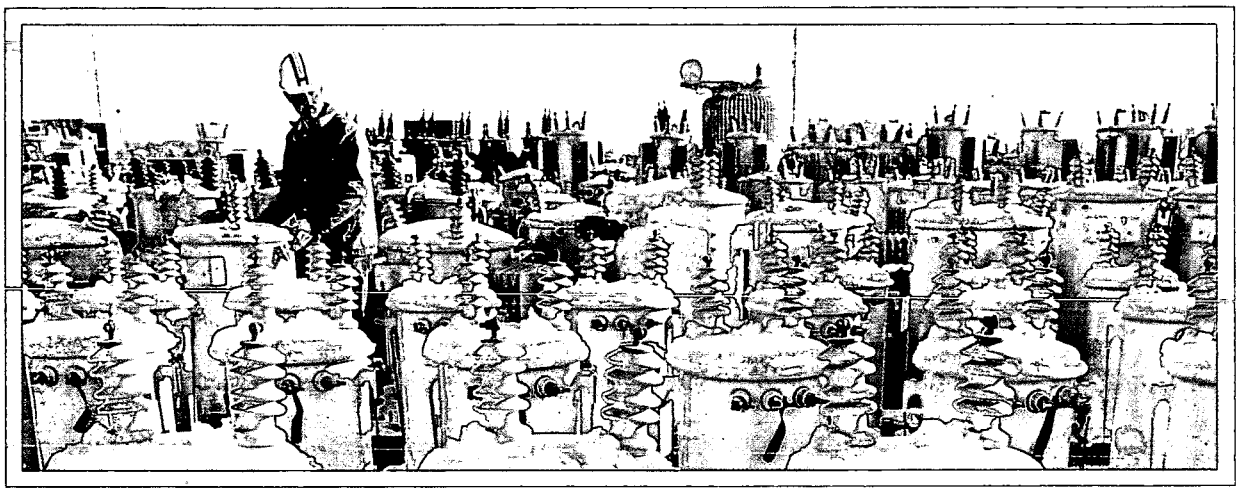
We often speak of change sweeping an industry or a company. But it is not exclusively organizations that change. It is also the people in them. WP&L's employees have always been key factors in the utility's ability to supply energy reliably and economically and the continued success of WP&L depends on their commitment, creative talents and adaptive skills.

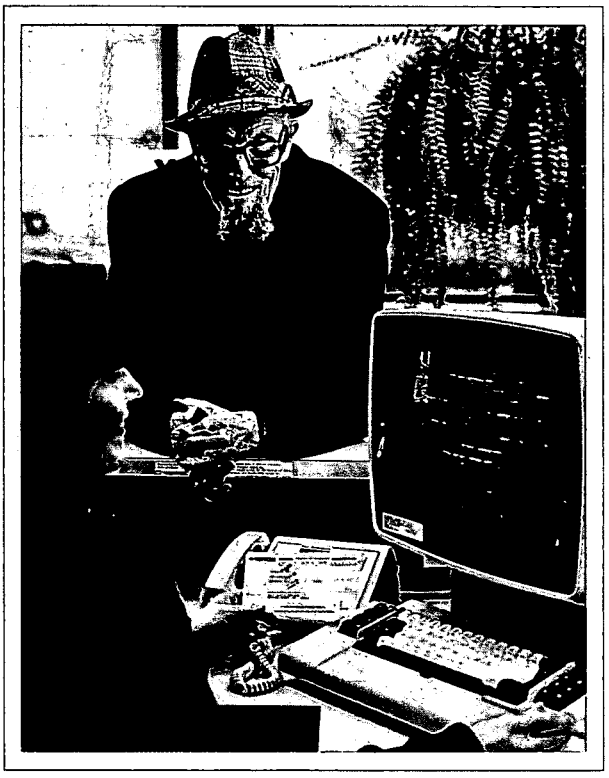
WP&L employees are not waiting for change to happen. They have already made it happen and will continue to make it happen: in finding wider applications for the Company's computer systems, in testing experimental designs and applications for renewable energy technologies, in working with commercial and residential customers to find more efficient uses of energy, in providing more information and services to the Company's shareowners, in monitoring environmental impacts of the Company's operations and looking for ways to lessen the impacts, in finding ways to adapt existing equipment and procedures to new and more efficient uses, in training WP&L's own work force to deal with changing job requirements, in shaping the Company's goals and objectives through the strategic planning process, in representing the Company's interests in legislative and regulatory proceedings, and in working with communities and a wide variety of public groups and individuals to establish better channels of communications.

WP&L anticipates tomorrow, supported by proven planning skills, a foundation of experience and a history of innovation. These factors make Wisconsin Power and Light an uncommon utility.

In 1982, WP&L conducted business as usual while bringing about yet more change. The following is a small sample of some of the year's activities.

TRANSFORMER DE-GASIFICATION— Transformers are the workhorses of the electric power system, and the oil used in them as an insulator and cooling agent must, periodically, be purified and cleared of combustible gases and other impurities. The average utility-pole-sized transformer is serviced routinely in the Company's Area workshops. But larger transformers, containing thousands of gallons of oil, are kept in service by WP&L's custom-designed mobile oil purification unit. In service throughout 1982, the unit is based at WP&L's Northern Area office and, when not in use by WP&L, is available for rental to other utilities. It is expected that the unit will pay for itself in four years.





UTILITY POLES—Maintenance of the thousands of utility poles in the WP&L system is tracked through a centralized computer system in which each pole is identified by number, age and location. The stately steel tubular poles, a major component of the Company's electrical transmission system, are relatively low-maintenance pieces of equipment. However, maintenance of the Company's wooden poles, the backbone of the electrical distribution system, is a time-consuming process. Each pole must be periodically checked for decay or damage, followed by repair or replacement, if necessary. As an experimental alternative to wooden poles, in 1982 WP&L purchased and installed 90 maintenance-free hollow concrete poles. While the concrete poles are heavier and require custom design, they do not need wires for external support and they are immune to decay and the attacks of woodpeckers, both common causes for replacement of wooden poles.

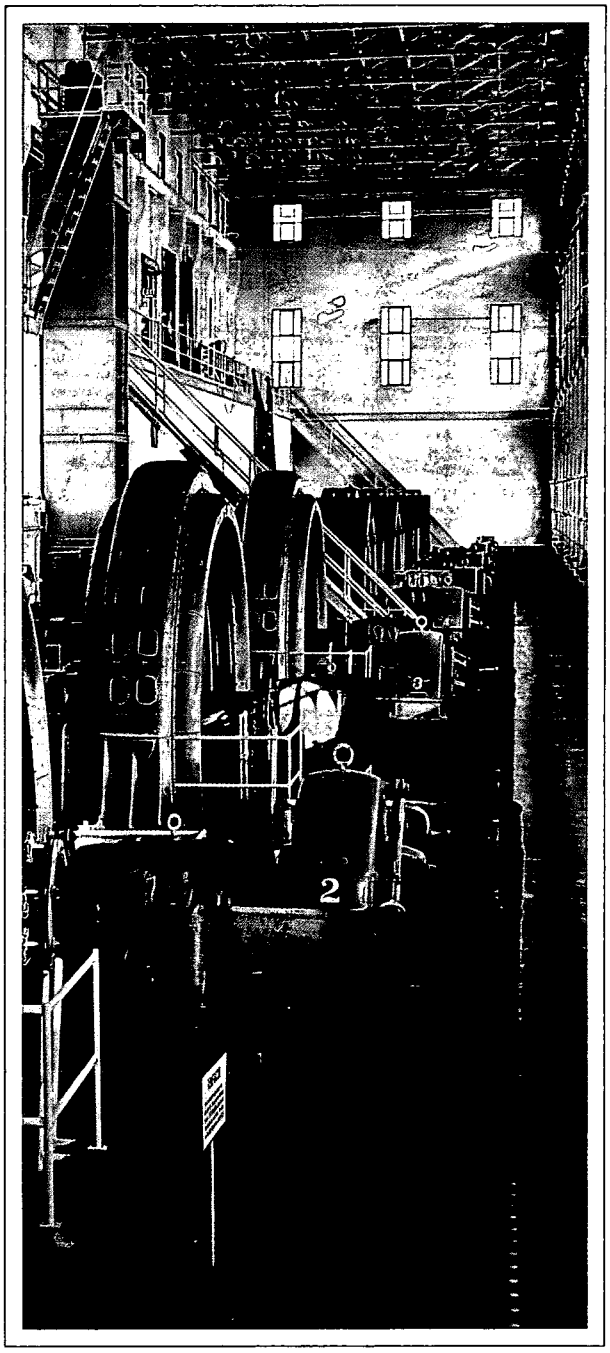
EDGEWATER 5 MODEL—Construction continues on the coal-fired Edgewater 5 Generating Station, now scheduled for completion in March 1985. Construction is following the specifications of an engineering scale model of the plant that already is credited with producing a better plant layout, more convenient location of equipment and valves and, overall, a high-quality and more cost-efficient product. The $750,000 model is housed in its own 40-by-40-foot building. Once the plant is completed, the model will continue to be used for planning plant alterations and repair and replacement of equipment and will be used for training, as well.

ACCELERATED CASH RECOVERY—Computer terminals in the Company's field offices provide WP&L employees and customers with both updated information on customer billing and systematic processing and tracking of applications for new service or changes to existing service. In 1982, the computer capability of all field offices was expanded to include a computerized cash-management system. While the system is still being refined, it already has given the Company faster access to information on the total amount of funds collected from bill payments at WP&L's field collection locations. The method of bill payment has not changed, as funds are still deposited in local banks. The faster access to

information on total deposits in the Company's accounts allows WP&L's Treasury Department to make investment decisions sooner, producing thousands of additional dollars in interest earned on investments.

HYDRO AUTOMATION—In September 1982, WP&L announced its plans for automation of the Kilbourn and Prairie du Sac Hydro Stations by January 1, 1984. Engineering and design work currently is underway to provide for eventual centralized operation of the plants controlled from the Prairie du Sac plant. Mechanical, electrical and structural maintenance staff will be retained at both plants. However, staffing at the two plants will be reduced by 12 positions.

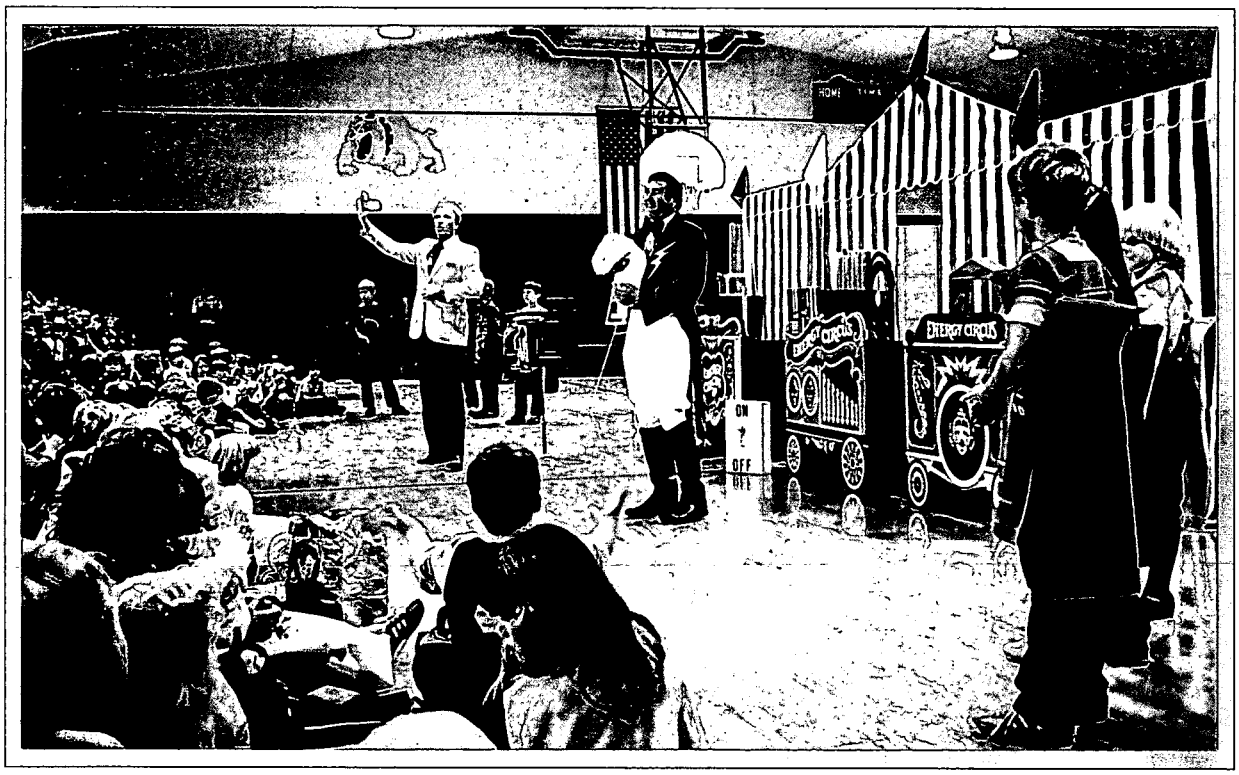
COMMERCIAL ENERGY AUDITS—Commercial customers of WP&L were the subject of a pilot project on energy efficiency improvements for small commercial businesses. The program was jointly funded by WP&L and the Wisconsin Division of State Energy. The energy usage of 150 participating businesses was audited by WP&L's industrial and commercial service representatives. Calculations based on these data were then made, the payback on various alternatives identified and recommendations for change were made. Participants were charged a nominal fee, refundable by WP&L at the time the business makes any of the recommended changes. The Wisconsin Public Service Commission is using the project as a guideline for developing commercial audit programs.



PUBLIC FORUMS ON ENERGY ISSUES—WP&L has sponsored a number of conferences to establish a dialogue with selected interest groups to reach a better two-way understanding of energy issues and their impacts. In 1982, representatives of ethnic minority interests participated in a WP&L-sponsored conference. The ethnic minority conference, which was keynoted by Dr. Benjamin Hooks, Executive Director of the National Association for the Advancement of Colored People, concentrated on energy and job creation and the effect of energy shortages on the poor and minorities.

THE ENERGY SAVER HOME—A 50-year-old home in Iola, Wis., was rehabilitated and converted into an energy-efficient home through the joint efforts of WP&L and the Community Action Program of Stevens Point. Disadvantaged youths, in need of learning marketable job skills, were employed and trained in the weatherization of the home. Features of the home include super-insulation producing an R factor of 40-60, a solar water heating system, a passive solar sunspace for the home's primary heat source, a high-efficiency natural gas furnace as backup for the solar system, triple-glazed windows and an automatic set-back thermostat. The energy usage of the occupants will be monitored by WP&L for five years.

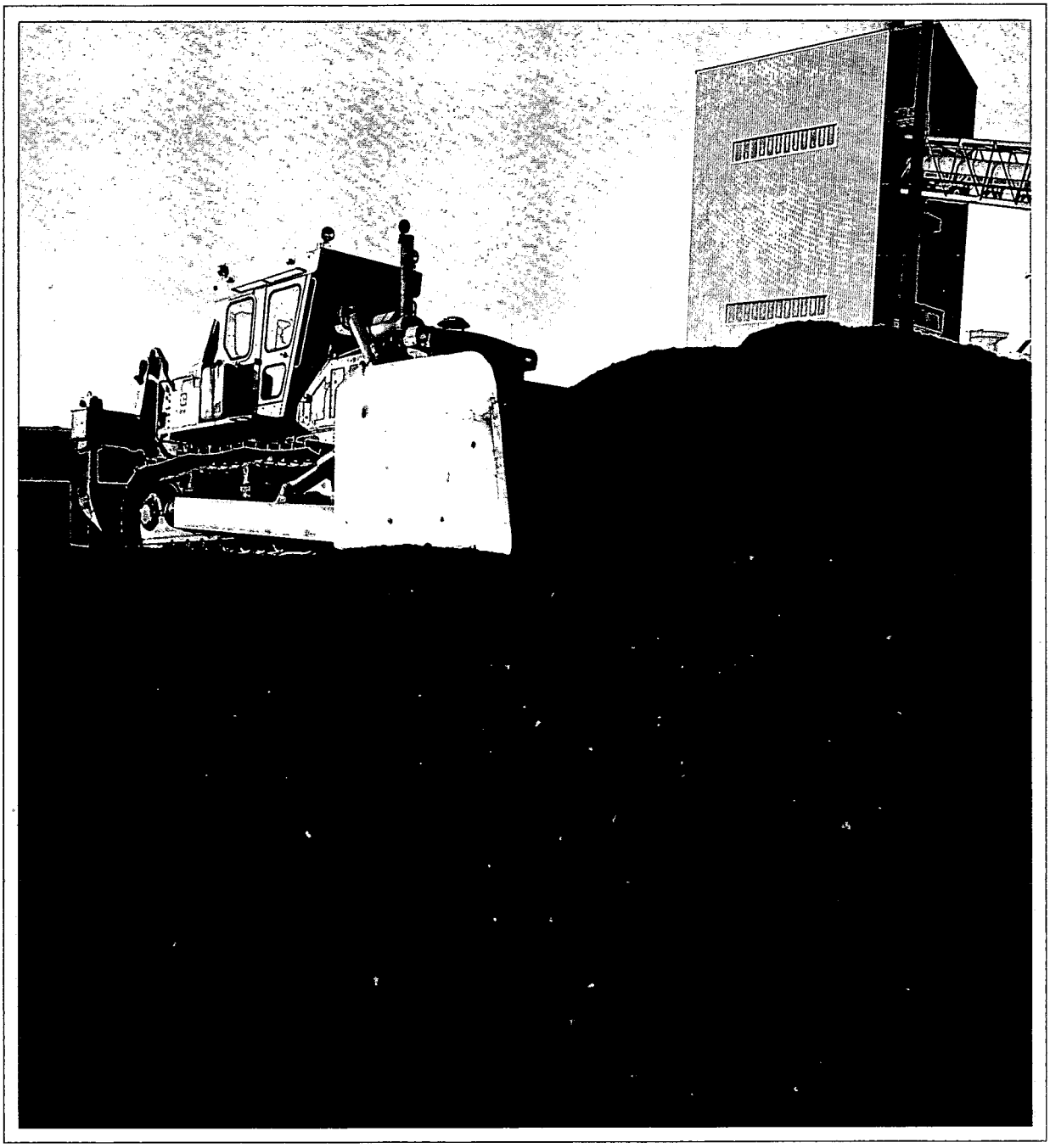
ON-SITE TRAINING—1982 Company training programs included sessions on technical skills as well as professional and personal development. While WP&L conducts most training in its own training facilities, an on-site program was developed and implemented in 1982 by the Company's Safety Department. With the intent of providing effective technical training with a minimal amount of time lost from the job, the work location became the classroom for that particular day and the back of a Company truck served as podium, blackboard and audio-visual center for instruction in safety techniques.



THE ENERGY CIRCUS—WP&L's energy education activities include the Energy Circus, an entertaining program on wise and safe energy use for children. The program, featuring Mr. Voltage as ringmaster, was presented before 18,500 children and teachers in 65 elementary schools in 1982. In August, the show was exhibited at the National Conference of Utility Educators held in conjunction with the World's Fair in Knoxville, Tenn.

FLY ASH DISPOSAL—Air-quality standards instituted in 1970 require utilities to install precipitators on coal-fired power plants to trap fly ash discharges. Disposal of the nearly 233,000 tons produced annually by WP&L plants has always been a problem, but WP&L has found a growing market for its fly ash as an ingredient in cement. Close to 3,000 tons of fly ash is being used for cement in the construction of WP&L's Edgewater 5 Generating Station in Sheboygan.

The market is particularly good for fly ash produced from western coal, such as that used at Columbia 1 and 2. Expanding markets, mainly in the Midwest, have brought WP&L's 1982 fly ash sales close to one-quarter of a million dollars and there is every indication that the market will grow with the revival of the construction business. WP&L has been a participant in



industry research on further commercial applications of fly ash and it has directly sponsored research on agricultural applications at the University of Wisconsin.

In 1982, WP&L also was asked to participate in a U.S. Department of Energy study of coal combustion and ash disposal alternatives and technologies. The Columbia Energy Center was one of 21 coal-fired power plants in the United States designated as voluntary test sites. The results of this study will be used by the Environmental Protection Agency in considering revisions of regulations of solid waste disposal.

WP&L RENEGOTIATES FOR COAL—In January 1982, WP&L successfully renegotiated the 1.5-million-ton coal contract for the Columbia Energy Center. The Company took advantage of the weak coal market and the flexible terms of its contract to produce a savings of $4.3 million for the partners in the Columbia Energy Center and a savings of more than $2 million for WP&L directly. The Company now is in federal court fighting an attempt by the railroads to impose freight increases for hauling coal from Montana. The increases, which would be in violation of an existing agreement on prices in effect through 1994, would add an estimated $3.9 million annually to hauling costs for the partner companies.

WISCONSIN POWER & LIGHT COMPANY ANNUAL REPORT 1982

FINANCIAL SECTION

SELECTED FINANCIAL DATA

	1982	1981	1980	1979	1978
	(In Millions Except for Per Share Data)				
Operating revenues	**$ 512**	$ 455	$ 404	$ 362	$ 307
Net income	**$ 47**	$ 41	$ 35	$ 33	$ 29
Earnings per share of common stock	**$3.51**	$3.05	$2.64	$2.50	$2.15
Total assets	**$ 834**	$ 786	$ 730	$ 687	$ 651
Long-term obligations and preferred stock with mandatory redemption	**$ 304**	$ 303	$ 304	$ 269	$ 279
Cash dividends declared per share of common stock	**$2.20**	$2.04	$1.88	$1.80	$1.72

Report on the Financial Information

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

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

The Board of Directors participates in the financial information reporting process through its Audit Committee, whose composition and duties are described on page 37 of this annual report.

James R. Underkofler
Chairman, President and Chief Executive Officer

Erroll B. Davis, Jr.
Vice President—Finance & Public Affairs

1982 FINANCIAL REVIEW

Discussion and Analysis of Financial Condition and Results of Operations

FINANCIAL CONDITION

The financial position of the Company is reflected in its Consolidated Balance Sheets. Significant changes in that financial position are shown in the Consolidated Statements of Net Changes in Cash and Special Deposits. These financial statements should be viewed in terms of what they reveal about the Company's capital resources and liquidity. As the term is used here, liquidity refers to the ability of the Company to generate adequate amounts of cash to meet its needs. This concept is very important to the Company since our needs for cash include expenditures for construction, taxes, research and development, environmental programs, dividends and other operating expenses. Since the Company is required to invest large amounts of capital in long-lived assets, long-term liquidity tends to be a more important consideration than short-term liquidity. Many of the measures of short-term liquidity that are important in other industries, such as the amount of working capital or the ratio of current assets to current liabilities, are less important in evaluating the financial condition of a public utility.

The Company has achieved a high degree of long-term liquidity by maintaining strong bond ratings, aggressively pursuing rate increases to keep pace with rising expenses and obtaining adequate depreciation rates. In recognition of the need to continue to perform well in the long-term future, the Company increased its commitment to strategic planning and productivity through organizational changes during 1981 and 1982.

The Company has maintained excellent bond ratings by Standard & Poor's Corp. and by Moody's Investors Service over the last five years, enabling it to take advantage of the lower interest rates afforded high-quality debt issues.

The ratio of earnings to fixed charges and preferred dividend requirements after taxes has consistently been 2 to 1 over the last five years, while the common dividend coverage ratio has been between 3.9 and 3.8 to 1. Both of these ratios indicate that the Company has maintained a solid financial condition and is able to pay preferred and common stock dividends out of current earnings.

With the high cost of construction, uncertainties in the capital markets and high interest rates still being experienced, an important measure of financial strength is the percentage of a company's construction expenditures financed by internal sources. In addition to paying dividends, the Company has generated internal funds accounting for 74 percent of construction expenditures for the years 1978 through 1982. The Company expects to be able to continue financing a high percentage of construction expenditures internally over the next few years.

The Edgewater 5 project is the only major construction project the Company currently has planned. If the Company maintains its 75 percent ownership of the unit, the project would require about $228 million of capital through its projected completion date, of which about $130 million had been spent as of December 31, 1982. Construction that took place during 1982 was financed primarily from internal sources, as noted above.

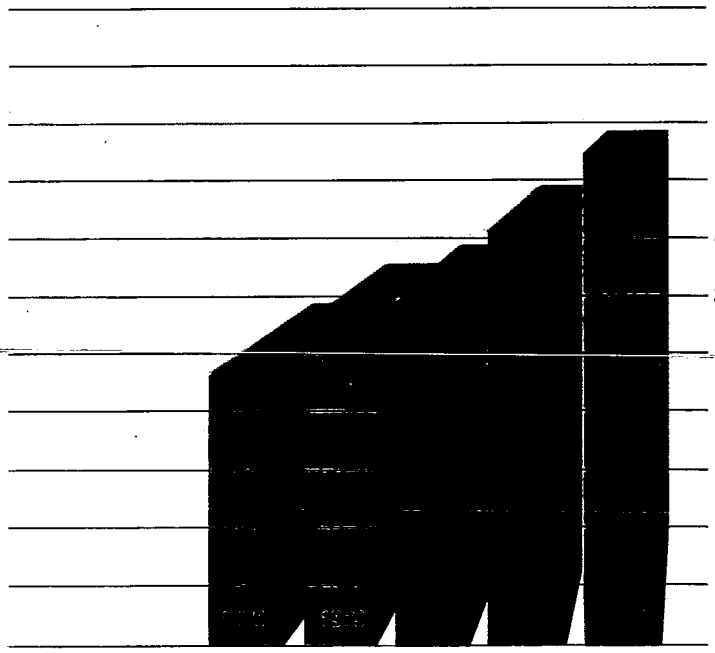
RESULTS OF OPERATIONS

The results of operations of the Company are reflected in the attached Consolidated Statements of Income. The Company has achieved earnings growth in each year since 1978, and has been able to increase dividends in each of the last five years, with current annualized dividends of $2.32 per share. Other significant trends over the period have been the steady rise in electric and gas operating revenues, electric production costs and purchased gas costs. 1982 and 1981 saw a reversal of the trend of the previous three years, as total sales in kilowatt-hours decreased, despite the fact that our number of customers rose slightly each year. This trend reflects the effects of a sluggish economy, customers' reactions to higher prices and conservation efforts by the Company and its customers. Electric revenues, however, continued to rise due to increasing rates per kilowatt-hour. Electric price increases fall into two categories—those related to base rate increases and those related to recovery of increased fuel costs.

Earnings On Common Stock

(in millions of dollars)

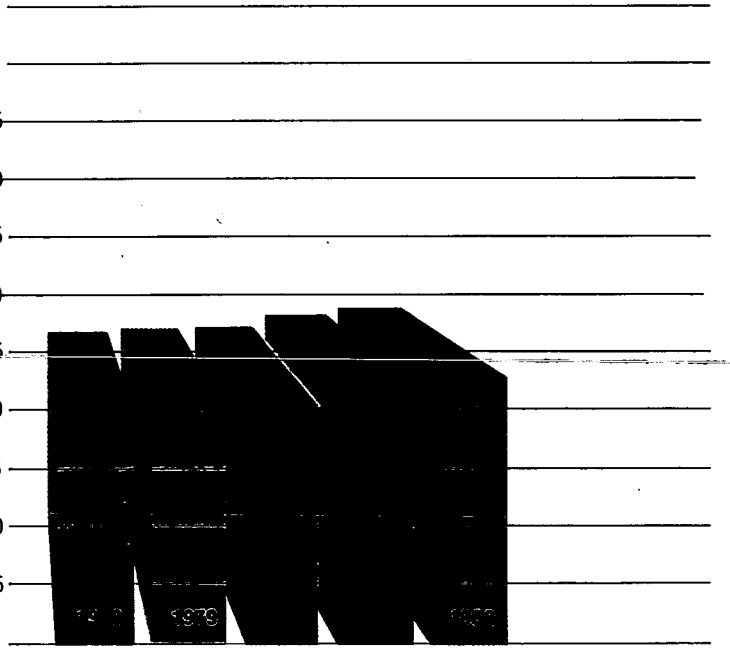
1982: $42,256,000



Book Value Per Share of Common Stock

(in dollars)

1982: $22.77



Major retail rate increases during the five-year period include a $19 million annual increase in December 1978, a $2 million annual increase in February 1980, a $20 million annual increase in July 1980 and a $37 million annual increase in June 1981. Settlements were reached in March 1982 and in February 1981 with the Company's wholesale customers providing for annual increases of $4,600,000 and $650,000 in rates, respectively.

Fuel costs per kilowatt-hour generated have risen steadily throughout the period. However, the Company was able to minimize the impact on its customers during 1982 by economical purchases of power, efficient use of generating units and conservation efforts.

The rise in gas revenues over the five-year period ended December 31, 1982, is primarily attributable to cost increases. During that time the Company added a relatively small number of new gas customers, but the increased sales volume due to these new customers was offset by a decrease in average usage per customer as higher prices and economic conditions spurred conservation efforts. As with electric, gas price increases can be broken into those related to recovery of increased purchased gas costs and those related to base rate increases. Most of the increase in gas revenues is attributable to recovery of dramatically rising purchased gas expense through the purchased gas adjustment clause. Base rate increases during the five-year period included an annual increase of about $5 million in July 1980, and an annual increase of $4.3 million in June 1981.

Other significant trends in results of operations include steadily increasing maintenance, other operation, straight-line depreciation and interest expense. Both maintenance and other operation expenses are strongly affected by increases in labor costs, employee benefits and material costs, along with increased environmental and safety requirements at power plants. However, during 1981 the Company initiated a program to reduce the total number of employees by 4 percent over the next two years. During 1982 the total number of employees decreased 1.1 percent, but the Company was able to maintain the level of service our customers demand. The upward trend in straight-line depreciation expense reflects the rising amount of plant in service and shorter economic lives for certain categories of plant in service. The increasing interest expense is primarily attributable to first mortgage bond issuances of $45,000,000 in 1981, and $35,000,000 in 1978, at relatively higher interest rates in comparison to earlier series.

The rate of inflation has a significant impact upon costs such as electric production fuels and purchased gas (along with the related electric and gas revenue increases), labor, employee benefits and materials. For a more detailed discussion of the effects of inflation on the Company, see the "Supplementary Information to Disclose the Effects of Changing Prices," page 31.

AUDITORS' REPORT

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, 1982 and 1981, and the related consolidated statements of income, reinvested earnings and net changes in cash and special deposits for each of the five years in the period ended December 31, 1982. 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, 1982 and 1981, and the results of their operations and their net changes in cash and special deposits for each of the five years in the period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

ARTHUR ANDERSEN & CO.

Milwaukee, Wisconsin,
February 4, 1983 (except with respect to the matter discussed in Note 7, as to which the date is February 14, 1983).

Total Operating Revenue
(in millions of dollars)
1982: $512,477,000

Total Net Utility Plant
(in millions of dollars)
1982: $695,140,000

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,				
	1982	1981	1979	1978	1977
	(In Thousands Except For Per Share Data)				
OPERATING REVENUES:					
Electric	**$370,863**	$336,260	$298,271	$272,488	$230,320
Gas	**138,388**	115,222	103,374	87,588	74,504
Water	**3,226**	3,034	2,504	2,202	2,011
	512,477	454,516	404,149	362,278	306,835
OPERATING EXPENSES:					
Electric production fuels	**107,283**	91,397	95,608	86,793	66,613
Purchased power	**13,934**	15,864	7,469	7,551	11,830
Purchased gas	**104,046**	89,674	77,495	63,221	52,849
Other operation	**81,420**	72,963	62,805	53,518	42,826
Maintenance	**28,005**	25,205	24,160	20,475	16,249
Depreciation (Note 1)—					
Straight-line	**36,145**	31,368	29,502	26,980	24,242
Deferred income taxes	**983**	6,520	7,402	8,078	8,592
Taxes (Note 1)—					
Current federal income	**32,331**	22,100	14,941	18,860	9,292
Investment tax credit—					
Deferred	**9,711**	10,951	9,181	4,813	9,871
Restored	**(2,500)**	(1,938)	(1,742)	(1,427)	(1,068)
Current state income	**8,875**	6,082	4,350	4,609	2,965
Property, payroll and other	**17,573**	16,187	13,818	14,485	14,941
	437,806	386,373	344,989	307,956	259,202
NET OPERATING INCOME	**74,671**	68,143	59,160	54,322	47,633
OTHER INCOME AND (DEDUCTIONS):					
Allowance for equity funds used during construction (Note 1)	**1,601**	515	8	84	277
Discount on reacquired bonds	**2**	1	903	431	708
Taxes on other income	**(477)**	(1,891)	(980)	(524)	(190)
Other, net	**(205)**	2,919	187	798	323
INCOME BEFORE INTEREST EXPENSE	**75,592**	69,637	59,278	55,111	48,751
INTEREST EXPENSE:					
Interest on bonds	**26,967**	26,580	20,540	20,233	19,055
Allowance for borrowed funds used during construction (Note 1)	**(2,401)**	(683)	(164)	(116)	(382)
Other	**3,871**	3,063	3,718	1,973	985
	28,237	28,960	24,094	22,090	19,658
NET INCOME	**47,355**	40,727	35,184	33,021	29,093
CASH DIVIDENDS ON PREFERRED STOCK	**5,099**	5,189	5,253	5,358	5,613
EARNINGS ON COMMON STOCK (Note 1)	**$ 42,256**	$ 35,538	$ 29,931	$ 27,663	$ 23,480
EARNINGS PER SHARE OF COMMON STOCK (Note 1)	**$3.51**	$3.05	$2.64	$2.50	$2.15
CASH DIVIDENDS PER SHARE OF COMMON STOCK	**$2.20**	$2.04	$1.88	$1.80	$1.72

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

CONSOLIDATED BALANCE SHEETS

	December 31, 1982	December 31, 1981
ASSETS	*(In Thousands)*	
UTILITY PLANT (Notes 1 and 3):		
Plant in service—		
Electric	**$794,298**	$765,658
Gas	**99,123**	91,860
Water	**12,513**	11,663
Common	**36,905**	32,354
	942,839	901,535
Less—Accumulated provision for depreciation	**405,926**	366,528
	536,913	535,007
Construction work in progress—		
Jointly owned electric power production facilities	**131,726**	88,459
Other	**9,501**	8,033
	141,227	96,492
Nuclear fuel, net	**17,000**	16,257
Total utility plant	**695,140**	647,756
INVESTMENTS, at cost (Note 1)	**14,324**	14,177
CURRENT ASSETS:		
Cash and special deposits (Note 6)	**849**	706
Temporary cash investments, at cost which approximates market	**1,665**	11
Accounts receivable, less allowance for doubtful accounts of $1,238,000 and $846,000, respectively	**43,104**	37,299
Unbilled revenue	**34,469**	35,285
Fossil fuel, at average cost	**26,995**	31,490
Materials and supplies, at average cost	**11,755**	11,714
Prepayments	**736**	524
	119,573	117,029
DEFERRED CHARGES:		
Unamortized project expenditures (Note 2)	**2,181**	3,986
Other	**2,728**	2,674
	4,909	6,660
	$833,946	$785,622
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION (see statement on page 21):		
Common shareowners' investment	**$279,697**	$254,107
Preferred stock without mandatory redemption	**60,000**	60,000
Preferred stock with mandatory redemption	**9,706**	10,342
First mortgage bonds, net	**294,276**	292,710
Total capitalization	**643,679**	617,159
CURRENT LIABILITIES:		
Maturing first mortgage bonds and sinking fund requirements	**108**	5,024
Sinking fund requirement on preferred stock (Note 5)	**750**	750
Notes payable to banks (Note 6)	**5,000**	—
Accounts payable	**58,140**	39,830
Accrued payroll and vacations	**5,192**	4,669
Accrued taxes	**30,446**	27,412
Accrued interest	**9,703**	9,829
Dividends payable or accrued	**422**	429
Pipeline refunds due customers	**594**	5,369
Other	**11,277**	12,803
	121,632	106,115
OTHER CREDITS:		
Accumulated deferred investment tax credits (Note 1)	**48,672**	42,758
Unamortized unbilled revenue (Note 1)	**5,103**	6,394
Other	**14,680**	13,196
	68,635	62,348
CONSTRUCTION COMMITMENTS AND PENDING LEGAL MATTER (Notes 3 and 7)		
	$833,946	$785,622

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

CONSOLIDATED STATEMENTS OF NET CHANGES IN CASH AND SPECIAL DEPOSITS (Note 1)

	Year Ended December 31,				
	1982	1981	1980	1979	1978
	(In Thousands)				
OPERATING ACTIVITIES:					
Net income	**$47,355**	$40,727	$35,184	$33,021	$29,093
Items not affecting working capital:					
Depreciation	**37,128**	37,888	36,904	35,058	32,834
Investment tax credit deferred, net	**5,948**	7,639	6,252	2,733	7,362
Amortization of nuclear fuel	**16,766**	10,173	8,053	7,006	5,902
Amortization of unbilled revenue	**(1,291)**	(1,291)	(1,290)	(1,291)	(1,284)
Equity component of allowance for funds used during construction (AFUDC)	**(1,601)**	(515)	(8)	(84)	(277)
Other	**2,826**	2,873	2,329	2,135	1,194
Working capital provided by operations	**107,151**	97,494	87,424	78,578	74,824
Cash dividends on stock	**(31,518)**	(28,891)	(26,505)	(25,317)	(24,382)
Working capital generated internally	**75,633**	63,603	60,919	53,261	50,442
Changes in working capital other than cash:					
Temporary cash investments	**(1,654)**	(11)	—	—	1,500
Accounts receivable	**(5,805)**	(2,445)	(16)	(4,789)	(8,010)
Unbilled revenue	**616**	(6,383)	(6,242)	(2,753)	(1,863)
Fossil fuel	**4,495**	(666)	(3,009)	(8,718)	(3,144)
Accounts payable	**18,310**	289	7,345	8,242	8,568
Accrued taxes	**3,034**	16,198	(11,681)	13,906	3,096
Accrued interest	**(126)**	4,265	658	(196)	1,424
Pipeline refunds due customers	**(4,775)**	4,794	428	79	(71)
Other, net	**(1,263)**	4,525	(1,805)	1,624	2,672
Cash generated internally	**66,665**	89,169	46,797	60,651	54,614
FINANCING ACTIVITIES:					
Sale of first mortgage bonds	**—**	45,000	16,000	—	35,000
Sale of common stock	**9,760**	6,078	4,556	3,661	2,701
Net change in short-term borrowings	**5,000**	(39,150)	31,829	1,321	(25,440)
Bond maturities and sinking fund retirements	**(5,030)**	(2,898)	(8,540)	(1,528)	(5,625)
Preferred stock redemptions	**(638)**	(896)	(12)	(3,000)	—
Net change in pollution control construction fund	**1,592**	(188)	(14,484)	—	2,828
	10,706	7,946	29,349	454	9,464
CONSTRUCTION ACTIVITIES:					
Additions to utility plant, exluding AFUDC	**(67,388)**	(86,165)	(79,245)	(55,138)	(59,379)
Additions to nuclear fuel	**(12,645)**	(8,704)	(6,863)	(7,046)	(6,352)
AFUDC	**(4,002)**	(1,198)	(172)	(200)	(659)
Total construction and nuclear fuel expenditures	**(104,035)**	(96,067)	(86,280)	(62,384)	(66,390)
SALE OF SHARE IN JOINT PLANT	**—**	—	5,252	—	—
OTHER ACTIVITIES, NET	**4,607**	(1,778)	3,118	1,080	1,345
NET CHANGES IN CASH AND SPECIAL DEPOSITS	**$ 143**	$ (730)	$ (1,764)	$ (199)	$ (967)

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

CONSOLIDATED STATEMENTS OF CAPITALIZATION

	December 31, 1982	December 31, 1981
	(In Thousands)	
COMMON SHAREOWNERS' INVESTMENT (Note 4):		
Common stock, $5 par value, authorized 18,000,000 shares; issued and outstanding 12,283,496 and 11,835,383, respectively	**$ 61,418**	$ 59,177
Premium on capital stock	**91,222**	83,678
Capital surplus	**1,747**	1,747
Reinvested earnings	**125,310**	109,505
	279,697	254,107
PREFERRED STOCK (Note 4):		
Cumulative, without par value, authorized 3,750,000 shares, maximum aggregate stated value $150,000,000; issued and outstanding 704,559 and 710,918 shares, respectively, $100 stated value.		
Preferred stock without mandatory redemption—		
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	60,000
Preferred stock with mandatory redemption (Note 5)—		
12% series, 104,559 shares and 110,918 shares outstanding, respectively	**10,456**	11,092
Sinking fund requirement	**(750)**	(750)
	9,706	10,342
FIRST MORTGAGE BONDS, NET (Note 4):		
Series F, 3¼%, due 1982	**—**	5,024
Series H, 3¼%, due 1984	**13,066**	13,068
Series J, 4⅝%, due 1989	**8,007**	8,007
Series K, 4¼%, due 1992	**4,446**	4,446
Series L, 6¼%, due 1998	**20,229**	20,229
Series M, 8%, due 1999	**24,509**	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
1980 Series A, 8%, due 2900	**9,000**	9,000
1980 Series A, 8¼%, due 2907-2010	**7,000**	7,000
Series S, 13⅜%, due 1991	**45,000**	45,000
	309,029	314,059
Unamortized discount and premium, net	**(1,565)**	(1,653)
Maturing first mortgage bonds and sinking fund requirements	**(108)**	(5,024)
Pollution control construction fund held by trustee	**(13,080)**	(14,672)
Total first mortgage bonds, net	**294,276**	292,710
TOTAL CAPITALIZATION	**$643,679**	$617,159

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

CONSOLIDATED STATEMENTS OF REINVESTED EARNINGS

	Year Ended December 31,				
	1982	1981	1980	1979	1978
			(In Thousands)		
REINVESTED EARNINGS					
Balance at beginning of year	**$109,505**	$ 95,873	$87,227	$79,591	$74,903
Add—Net income	**47,355**	40,727	35,184	33,021	29,093
	156,660	136,600	122,411	112,612	103,996
Deduct—					
Cash dividends on preferred stock	**5,099**	5,189	5,253	5,358	5,613
Cash dividends on common stock	**26,419**	23,702	21,252	19,959	18,769
Expense of issuing common stock and other	**32**	19	33	68	23
Transfer from premium on capital stock (Note 4)	**—**	(1,815)	—	—	—
	31,550	27,095	26,538	25,385	24,405
Balance at end of year	**$125,310**	$109,505	$95,873	$87,227	$79,591

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES:

Regulation—Our business is regulated by many different governmental agencies. The primary agencies are the Wisconsin Public Service Commission (PSC), which must approve our retail rates, accounting records, issuance of securities and construction projects, and the Federal Energy Regulatory Commission (FERC), which has jurisdiction over the wholesale portion of our business.

Accounting Policies—Our books and records are maintained in accordance with the uniform system of accounts required by our regulators. The financial statements presented here are prepared from those records and are in conformity with generally accepted accounting principles (GAAP). The remainder of this note describes the significant GAAP we have applied in reporting the financial information.

Statement of Net Changes in Cash and Special Deposits—The Company has changed the format of this statement to reflect the importance of sources and uses of cash in our business. The information presented in the new format includes the same information presented in our prior format, but it is displayed in a different way to emphasize important activities involved in the utility business. These activities are identified as current operations (including changes in working capital other than cash), financing activities and construction activities. For purposes of this statement, working capital represents current assets minus current liabilities.

Basis of Consolidation—The consolidated financial statements include the accounts of the Company and its four subsidiaries. South Beloit Water, Gas and Electric Company and Wisconsin Power and Light Nuclear Fuel, Inc., wholly owned subsidiaries, are accounted for on a consolidated basis. NUFUS Resources, Inc., a wholly owned subsidiary, is accounted for on the equity method. On June 18, 1982, the Company completed the purchase of a majority (84 percent) interest in Windworks, Inc. of Mukwonago, Wisconsin. Windworks is a manufacturer of windpower machines and power conditioning/converting equipment. The Company's investment in Windworks is accounted for on the equity method and did not have a significant impact on the Company's 1982 results. The acquisition, made on behalf of shareowners, involved the cash purchase of a majority of the outstanding common shares of Windworks, as well as an investment in newly issued common shares, for a total investment of approximately $2.5 million. All significant intercompany accounts and transactions have been eliminated in these statements.

Utility Plant—Utility plant is stated at its original cost. Such cost includes material, labor, overhead and allowance for funds used during construction (discussed below). Substantially all of the Company's utility plant is pledged as collateral on the Company's first mortgage bonds.

Property Additions, Retirements and Maintenance—The cost of new construction, betterments and replacements of property is charged to the utility plant accounts. Normal repairs and the cost of minor items are charged to maintenance expense. When depreciable property is retired or disposed of in the normal course of business, its cost is removed from the

utility plant account. The original cost plus any removal cost, less any salvage, is charged to accumulated depreciation. Thus, no gain or loss is recognized in connection with the ordinary retirement of depreciable property.

Allowance for Funds Used During Construction (AFUDC)—Part of the cost of construction is the cost of money used to pay other construction costs. AFUDC represents the cost of money borrowed to finance construction and the imputed return on funds contributed by the Company's shareowners, but it is limited to 7 percent by regulation and does not reflect current market conditions.

The equity component of AFUDC is a noncash item and does not contribute to current cash flow of the Company.

The PSC and the FERC have developed different treatments for AFUDC. For the PSC, the Company records AFUDC at a 7 percent rate on that portion of construction work in progress (CWIP) that is not included in rate base. The PSC determines how much CWIP is included in rate base on a case-by-case basis.

Under FERC rules, a prescribed formula determines the maximum allowable AFUDC rate. The 7 percent rate prescribed by the PSC and also used in the FERC calculation is less than the allowable maximum rate. The formula also separates AFUDC into two components—equity funds and borrowed funds. The equity funds portion is reported on the income statement as "Other Income" and the borrowed funds portion is 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."

Research and Development—Research and development costs are normally charged to operating expense as they occur. However, those costs that relate to a construction project are capitalized as part of the cost of utility plant. The amounts expensed or capitalized during the past five years are as follows:

	Research & Dev. Expensed	Research & Dev. Capitalized	Total Research & Development
1982	$1,367,000	$ —	$1,367,000
1981	2,376,000	19,000	2,395,000
1980	1,828,000	—	1,828,000
1979	2,578,000	160,000	2,738,000
1978	1,637,000	1,102,000	2,739,000

Earnings Per Share—Earnings per share of common stock are computed by dividing net income minus preferred dividends by the weighted average number of common shares outstanding, which were as follows:

	Average Shares Outstanding
1982	12,043,051
1981	11,643,461
1980	11,325,874
1979	11,086,877
1978	10,932,266

Interdepartmental Sales of Gas—Interdepartmental sales of gas are included in gas operating revenues and in electric production fuels expenses in the amounts shown below. The cost of such gas, which is used primarily as fuel for electric generation, is included in the purchased gas expense account in the amounts shown.

1982	$ 880,000
1981	982,000
1980	2,612,000
1979	3,270,000
1978	3,430,000

Nuclear Fuel—Nuclear fuel is recorded as an asset at its original cost. This cost, plus estimated removal and storage costs for the fuel, is amortized to fuel expense based on the quantity of heat produced for the generation of electric energy over the period that the fuel is being used in the reactor and is normally recoverable in rates charged for electric utility service. In a final rate order issued in 1931, the PSC established an annual limit on the amount of nuclear fuel expense recoverable from customers. During 1982 the Company exceeded the limit and this resulted in approximately $3.1 million of nuclear fuel expense, including anticipated storage costs, not being recovered from customers. The Company has petitioned the PSC to remove the limit, which it has done for other Wisconsin utilities, and anticipates this will take place concurrent

NOTES (continued)

with rate relief in 1983. Net nuclear fuel on the balance sheet consists of:

	December 31, 1982	December 31, 1981
Original cost of nuclear fuel	$70,131,000	$57,487,000
Accumulated amortization	53,131,000	41,230,000
Net nuclear fuel	$17,000,000	$16,257,000

Accumulated amortization includes the income tax effects of using liberalized depreciation methods and assumes that plutonium and uranium in the spent fuel will have no residual value.

Retirement Plans—The Company has retirement plans for substantially all of its employees. Some employees participate in plans completely paid for by the Company, while other employees participate in plans in which they share the cost with the Company.

The Company's policy is to fund the retirement plans and to amortize the unfunded prior service costs over a period of approximately 30 years.

Information related to the plans is presented below:

	For the Year Ended December 31,				
	1982	1981	1980	1979	1978
			(In Thousands)		
Actuarial value of accumulated plan benefits:					
Vested	$34,444	$30,066	$33,052	$28,298	$25,000
Nonvested	1,308	1,218	1,542	1,281	316
Total	$35,752	$31,284	$34,594	$29,579	$25,316
Net assets available for benefits	$55,464	$51,351	$39,701	$32,621	$29,300
Total provision for pension expense	$ 4,248	$ 4,333	$ 4,088	$ 3,160	$ 2,564
Date that benefit information was determined	1-1-82	1-1-81	1-1-80	1-1-79	1-1-78

Prior to 1981, a 6.5 percent rate of return and an average retirement age of 62 were used in determining the actuarial value of accumulated plan benefits. These assumptions were changed to 7.5 percent and age 63.5, respectively, in 1981. The present value of accumulated benefits would have totaled $39,924,000 as of January 1, 1981, if these assumptions had not been changed.

Revenue Recognition—

Prior to 1977, the Company recognized revenue for service at the time monthly bills were sent to customers. In response to a Public Service Com-

mission accounting order effective for 1977, the Company also began recognizing the estimated amount of revenue from energy consumed but not billed at the end of each month (referred to as unbilled revenue). As of January 1, 1977, the amount of unbilled revenue was $15,416,000 before income taxes. This amount was recorded as a deferred credit and is being recognized in income over a 10-year period beginning with 1977. The amounts being recognized in this manner are used in rate proceedings for the determination of revenue requirements.

Depreciation—

a. Straight-line—The Company allocates the cost of utility plant over the useful life of such plant through depreciation expense. Straight-line depreciation is computed on the average balance of depreciable property at individual straight-line rates applied to various classes of property. Following are the annual composite rates:

	Electric	Gas	Water	General
1982	3.8%	4.2%	1.9%	5.8%
1981	3.8	4.2	1.9	6.3
1980	3.6	4.2	1.8	6.9
1979	3.4	4.2	1.7	6.6
1978	3.4	4.2	1.7	6.3

Straight-line rates have been approved by the PSC.

Depreciation expense related to the Kewaunee nuclear plant includes a provision for decommissioning the plant at the end of its useful life. The PSC has decided on a method to be used by all Wisconsin utilities to provide for nuclear plant decommissioning costs using an end-of-life estimated cost. The Company's share of this cost is currently estimated to be $108,085,000. The Company has pending with the PSC a request for depreciation rates to cover the increased decommissioning costs.

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

Income Taxes—

a. Depreciation expenses computed for tax purposes reflect the use of various available liberalized depreciation methods including the Accelerated Cost Recovery System and other timing differences. Under PSC rules, the estimated reduction of income taxes due to the use of these practices is recorded as additional depreciation, which we have described as deferred income taxes in the "Consolidated Statements of Income," as this item is recorded by utilities in other regulatory jurisdictions. For 1982, the reduction of income taxes was significantly less due to increased straight-line depreciation expense and increased amortization of nuclear fuel. The amounts recorded as additional depreciation are presented below:

	Federal	State	Total
1982	$ 843,000	$140,000	$ 983,000
1981	5,880,000	640,000	6,520,000
1980	6,926,000	476,000	7,402,000
1979	7,594,000	484,000	8,078,000
1978	7,850,000	742,000	8,592,000

b. The Company receives tax credits from the federal government for investing in certain types of property. The benefits of these investment tax credits are spread over the useful lives of the property.

Federal tax laws also allow additional investment tax credits because the Company has an Employee Stock Ownership Plan (ESOP).

The following amounts of investment tax credit were attributable to the Company's ESOP.

1982	$1,263,000
1981	1,374,000
1980	1,187,000
1979	653,000
1978	1,321,000

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

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

NOTES (continued)

	1982	1981	1980	1979	1978
Effective income tax rate as reported	51.3%	52.8%	49.9%	51.8%	50.6%
Allowance for funds used during construction which does not constitute current taxable income	1.9	0.6	0.1	0.1	0.6
State income taxes and state additional depreciation, net	(5.1)	(4.7)	(4.1)	(4.4)	(3.9)
Reversals of various plant-related timing differences for which deferred taxes had not been provided	(2.0)	(2.3)	(2.7)	(2.5)	(3.1)
Investment tax credits restored	2.6	2.3	2.5	2.1	1.8
Other differences, net	(2.7)	(2.7)	0.3	(1.1)	2.0
Statutory federal income tax rate	46.0%	46.0%	46.0%	46.0%	48.0%

NOTE 2 UNAMORTIZED PROJECT EXPENDITURES:

In May 1981, a settlement agreement was reached to terminate a nuclear fuel contract with the Getty Oil Co. The fuel was originally intended to be used for the proposed Koshkonong/Haven nuclear project. The Company's share of the settlement was $2,335,000. In an accounting order dated July 2, 1981, the Public Service Commission (PSC) has approved the deferral and amortization of this cost over three years commencing with the Company's next rate increase. In June 1981, the Company reached a settlement with the Westinghouse Electric Corp. concerning the Koshkonong/Haven project's plant design and licensing. The Company's share of the settlement was $762,000 and that amount has been deferred, net of related tax effects. It is anticipated that this cost will receive ratemaking treatment similar to the Getty settlement, although a PSC accounting order has not yet been received.

In August 1980, the Company began amortizing its share ($6,814,000 less related tax effects) of the abandoned Haven nuclear project to "other operation expenses" over a three-year period. The unamortized amount is included in the Company's rate base and current rates cover the amortization expenses.

Pursuant to a PSC order dated March 9, 1979, the Company had written off $734,000 (currently $.06 per share net of the estimated tax benefit) to "Operating Expenses." The write-off related to the Company's previously proposed nuclear plant site at Lake Koshkonong, Wis. The Supreme Court of Wisconsin reversed this decision in November 1982. No reversal of the write-off will be made until the PSC provides for recovery of those previously written-off costs.

NOTE 3 JOINTLY OWNED UTILITY PLANTS AND CONSTRUCTION COMMITMENTS:

The Company participates with other Wisconsin utilities in the construction and operation of several jointly owned electric utility plants. The chart below represents the Company's proportionate share of such plants as of December 31, 1982.

	Ownership Interest	Plant in Service	Accumulated Provision For Depreciation	Construction Work in Progress
			(In Thousands)	
Coal:				
Columbia Energy Center	46.2%	$146,764	$47,087	$ 2,908
Edgewater Unit 4	68.2	35,543	17,667	700
Edgewater Unit 5	75.0(a)	4,820	366	125,346
Nuclear:				
Kewaunee Nuclear Plant	41.0	96,997	49,638	2,772

a. A Certificate of Public Convenience and Necessity for the construction of the 380,000-kilowatt Unit 5 at the Edgewater plant was issued by the Public Service Commission on January 18, 1980, and construction began on January 22, 1980. The Company has sold a 25 percent interest in Edgewater 5 to Wisconsin Electric Power Co.

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

Utility plant construction expenditures for 1983, including expenditures for the above facilities under construction, are estimated to be $111,473,000, and substantial commitments have been incurred in connection with such expenditures.

NOTE 4 CAPITALIZATION:

Common Stock—During the past five years the Company has issued new shares of common stock through its Dividend Reinvestment and Stock Purchase Plan and an Employee Stock Ownership Plan. Issues were as follows:

	Number of Shares	Proceeds
1982	448,113	$9,780,000
1981	349,769	6,078,000
1980	275,864	4,556,000
1979	195,732	3,661,000
1978	131,629	2,701,000

Premium on Capital Stock—In 1981, the Company transferred $1,815,000 from "Premium on Capital Stock" to "Reinvested Earnings," pursuant to regulatory requirements.

Preferred Stock—There were no issues of preferred stock during the five years ended December 31, 1982.

Bonds—On February 3, 1981, the Company issued $45,000,000 of first mortgage bonds due February 1, 1991. The proceeds of the issuance were used primarily to repay short-term borrowings. The Company issued $16,000,000 of first mortgage bonds in August 1980 as security for a pollution control revenue bond issue and deposited the proceeds in a pollution control construction fund. The proceeds are disbursed to the Company as qualified pollution control facilities are constructed. The balance in the fund is shown as a reduction of net first mortgage bonds outstanding in the "Consolidated Statements of Capitalization."

The sinking fund requirements and maturities on first mortgage bond issues outstanding as of December 31, 1982, are as follows:

	1983	1984	1985	1986	1987
			(In Thousands)		
Bond sinking fund requirements not satisfied as of December 31, 1982	$ 108	$ 180	$ —	$ —	$9,000
Bonds maturing	—	12,780	—	—	—

NOTE 5 PREFERRED STOCK WITH MANDATORY REDEMPTION:

The Company is required to maintain a sinking fund sufficient to redeem 7,500 shares of its 12 percent Series Preferred Stock during each 12-month period ending August 31, at a redemption price of $100 per share plus accrued dividends. The Company also may redeem an additional 7,500 shares during each such period at a price determined in the same fashion.

NOTE 6 SHORT-TERM DEBT AND LINES OF CREDIT:

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

NOTES (continued)

computed by dividing total short-term interest expense for the period by the average amount of such borrowings outstanding.

	1982	1981
As of end of year—		
Average interest rate on outstanding short-term borrowings	8.93%	None
Unused lines of credit	$55,200,000	$65,200,000
For the year ended—		
Maximum month-end amount of short-term borrowings	$ 5,000,000	$34,878,000
Average amount of short-term borrowings (based on daily outstanding balances)	$ 309,589	$ 4,810,000
Average interest rate on short-term borrowings	9.13%	17.58%

Accounts payable includes the amount of checks issued to discharge liabilities of the Company but not yet cleared through our general fund bank account, less the deposit balance in this account. As of December 31, 1982 and 1981, such net amounts were $7.6 million and $3.7 million, respectively.

NOTE 7 PENDING LEGAL MATTER:

In June 1977, certain of the Company's municipal wholesale electric customers filed a suit against the Company in the U.S. District Court for the Western District of Wisconsin alleging violations of the antitrust laws and the Wisconsin Public Utility Law. Certain of the Company's other municipal wholesale electric customers have joined in the complaint. The plaintiffs have requested up to $22,500,000 in damages and other relief. The plaintiffs allege that the Company has engaged in various monopolistic and anti-competitive practices including, among other things, the maintenance of a rate structure under which plaintiffs are required to pay for electricity at rates higher than those applicable to the Company's retail customers, thereby effecting a "price squeeze," which prevents plaintiffs from reselling electricity purchased from the Company at competitive rates. The complaint also alleges that the Company's wholesale rate filings have been discriminatory and designed to injure and eliminate plaintiffs as retail competitors of the Company.

On May 2, 1977, the Company filed an application with the FPC (now FERC) for increases in wholesale electric rates designed to produce about $5,422,000 in additional annual revenues based on a 1977-1978 test year. The FERC allowed the proposed rates to be put into effect on December 1, 1977. Amounts collected under the proposed rates from December 1, 1977, to October 1, 1980, are subject to refund of any amount not finally allowed. In June 1981, the Company refunded to its municipal wholesale customers the amount, plus accrued interest, the Company then estimated had been collected but would not be finally allowed by the FERC. In connection with its consideration of the Company's application, the FERC is inquiring into certain so-called "price squeeze" and discriminatory practices. On June 23, 1982, the Company received an order from the FERC addressing cost of service issues and some of the "price squeeze" aspects of the case. On August 12, 1982, the Company made a compliance filing, required by FERC in its June 23, 1982, order, that included a revised cost of service study. The FERC accepted the filing and in early 1983 the Company made another refund to wholesale customers. The only unsettled remaining issue is the "price squeeze" aspect of the case that the Company is currently negotiating with wholesale customers. Intervenors in this rate case have appealed certain aspects of the Commission's order to the United States Court of Appeals for the District of Columbia Circuit.

On February 14, 1983, the Company reached a settlement with the plaintiffs that resulted in the dismissal of the pending anti-trust lawsuit and the dismissal of appeals made by intervenors on the "price-squeeze" aspects of the pending FERC rate case. The settlement will have no adverse impact upon the Company's financial statements.

NOTE 8 SEGMENT INFORMATION: The following table sets forth certain information relating to the Company's consolidated operations.

	Year Ended December 31,				
	1982	1981	1980	1979	1978
			(In Thousands)		
OPERATION INFORMATION:					
Customer sales—					
Electric	$370,074	$335,593	$297,707	$271,938	$229,756
Gas	137,508	114,240	100,762	84,318	71,074
Water	3,223	3,030	2,501	2,198	2,008
Interdepartmental sales—					
Electric	789	667	564	550	564
Gas	880	982	2,612	3,270	3,430
Water	3	4	3	4	3
Total operating revenues	$512,477	$454,516	$404,149	$362,278	$306,835
Operating profit—					
Electric	$113,068	$106,225	$ 85,916	$ 80,397	$ 69,074
Gas	9,942	4,679	6,684	8,197	7,484
Water	1,061	954	692	661	727
Income taxes, current and deferred (a)	(49,400)	(43,715)	(34,132)	(34,938)	(29,653)
Other income and deductions, net	921	1,544	118	789	1,119
Interest expense, net	(28,237)	(28,960)	(24,094)	(22,090)	(19,658)
Net income per consolidated statements of income	$ 47,355	$ 40,727	$ 35,184	$ 38,021	$ 29,093
INVESTMENT INFORMATION:					
Identifiable assets at Dec. 31 (b)—					
Electric	$720,180	$682,679	$630,408	$595,561	$567,688
Gas	90,777	86,922	81,777	72,439	64,825
Water	10,208	9,764	9,356	8,674	8,806
Assets not allocated (c)	12,781	6,257	7,963	10,092	9,794
Total assets	$833,946	$785,622	$729,504	$686,766	$651,113
OTHER INFORMATION:					
Construction and nuclear fuel expenditures—					
Electric	$ 95,141	$ 87,060	$ 78,584	$ 53,350	$ 59,799
Gas	8,069	8,243	6,900	8,208	5,899
Water	825	759	796	826	692
Total construction and nuclear fuel expenditures	$104,035	$ 96,067	$ 86,280	$ 62,384	$ 66,390
Provision for straight-line depreciation—					
Electric	$ 31,718	$ 27,313	$ 25,733	$ 23,501	$ 21,042
Gas	4,160	3,836	3,560	3,295	3,036
Water	267	219	209	184	164
Total provision for straight-line depreciation	$ 36,145	$ 31,368	$ 29,502	$ 26,980	$ 24,242

(a) See Note 1 for information with respect to deferred income tax 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, investment in Windworks, Inc., and other deferred charges.

NOTE 9 CONSOLIDATED QUARTERLY FINANCIAL DATA (Unaudited)

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

The fourth quarter of 1982 includes an interest accrual for certain prior-year tax audit deficiencies, an increase in straight-line depreciation expense pursuant to a regulatory directive and an increase in expenses associated with the Company's conservation programs. Also, the Company was not permitted to recover, through its fuel adjustment clause, approximately $3.1 million of nuclear fuel expense, including anticipated storage costs. Principally, these items, combined with a decline in unit sales due to economic conditions and warmer-than-normal weather, resulted in a decline in fourth quarter 1982 earnings.

Quarter Ended	Operating Revenues	Net Operating Income	Net Income	Earnings on Com. Stk.	Earnings/ Share of Com. Stk.
		(In Thousands except for Per Share Data)			
1982:					
March 31	$161,413	$26,926	$20,610	$19,325	$1.63
June 30	108,598	15,334	9,163	7,880	0.66
September 30	109,609	17,808	11,867	10,605	0.88
December 31	132,858	14,603	5,714	4,447	0.36
1981:					
March 31	$124,681	$18,740	$12,582	$11,269	$0.98
June 30	94,846	12,528	6,210	4,899	0.42
September 30	107,666	19,636	12,185	10,905	0.94
December 31	127,323	17,239	9,750	8,465	0.72

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

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.

Current cost amounts reflect the changes in specific prices of plant from the date the plant was acquired to the present, and differ from constant dollar amounts to the extent that specific prices have increased more or less than prices in general.

The current cost of plant represents the estimated cost of replacing existing plant assets and was determined by indexing the surviving plant by the Handy-Whitman Index of Public Utility Construction Costs.

The current year's provision for depreciation, amortization of nuclear fuel and additional depreciation on the constant dollar and current cost 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 ratemaking prescribed by the Wisconsin Public Service Commission (PSC), only the historical cost of plant is recoverable in revenues as depreciation. Therefore, the difference between the cost of plant stated in terms of constant dollars or current costs and the historical cost of plant is not presently recoverable in rates as depreciation, and is reflected as an adjustment 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 adjustment 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 that 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.

Supplementary Financial Data Adjusted for the Effects of Changing Prices for the Year Ended December 31, 1982

(In Thousands of Average 1982 Dollars)

	1982 Constant Dollar	1982 Current Cost
Net income as reported in the primary consolidated statement of income	$ 47,355	$ 47,355
Increase in provision for depreciation	(35,240)	(42,775)
Net income (excluding adjustment to net recoverable cost)	12,115	4,580
Adjustment to net recoverable cost	11,086	33,984
Reduction of purchasing power loss through debt financing	13,021	13,021
Increases in specific prices of utility plant held during the year	—	65,940
Less effect on net plant of increase in the general price level	—	(81,303)
Net income adjusted for the effects of changing prices	$ 36,222	$ 36,222

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

(In Thousands of Average 1967 Dollars)

	Years Ended December 31,				
	1982	1981	1980	1979	1978
Operating revenues	$177,266	$166,856	$163,756	$166,641	$157,029
Net assets at year-end at net recoverable cost	$119,495	$115,257	$118,981	$128,320	$140,936
Historical cost information adjusted for general inflation					
Net income (excluding adjustment to net recoverable cost)	$ 4,191	$ 531	$ 1,750	$ 4,731	$ 5,759
Earnings (loss) per common share (after dividends on preferred stock and excluding adjustment to net recoverable cost)	$.20	$(.12)	$(.03)	$.20	$.26
General information					
Reduction of purchasing power loss through debt financing	$ 4,504	$10,966	$15,753	$18,277	$13,603
Cash dividends declared per common share	$ .76	$ .75	$ .76	$ .88	$ .88
Market price per common share at year-end	$ 8.21	$ 6.84	$ 6.53	$ 7.72	$ 9.36
Average consumer price index	289.1	272.4	246.8	217.4	195.4
Current cost information					
Net income (loss) (excluding adjustment to net recoverable cost)	$1,504	$(1,320)	$73	$2,586	
Earnings (loss) per common share (after dividends on preferred stock and excluding adjustment to net recoverable cost)	$(.01)	$(.28)	$(.18)	$ .01	
General price level increases in excess of (less than) specific price increases	$ 5,314	$ (11,047)	$ 25,456	$ 16,331	

FIVE-YEAR COMPARATIVE DATA

	Year Ended December 31,					Four-Year Change	
	1982	1981	1980	1979	1978	Amount	Percent
CONSOLIDATED ELECTRIC STATISTICS							
Customers served (end of period):							
Residential and rural	**270,924**	269,218	266,344	262,679	256,713	14,211	5.5
Industrial	**495**	494	491	473	710	(215)	(30.3)
Commercial	**34,450**	33,765	33,112	32,323	31,199	3,251	10.4
Wholesale	**41**	41	41	41	41	—	—
Class A	**6**	6	6	4	4	2	50.0
Other	**915**	912	913	919	910	5	0.5
Total	**306,831**	304,436	300,907	296,439	289,577	17,254	6.0
Sales—kilowatt-hours (in thousands):							
Residential and rural	**2,153,905**	2,089,738	2,115,735	2,052,605	1,998,773	155,132	7.8
Industrial	**1,932,986**	2,037,912	1,974,380	2,050,866	2,099,163	(166,177)	(7.9)
Commercial	**1,171,030**	1,146,005	1,147,810	1,119,412	916,632	254,398	27.8
Wholesale	**1,286,842**	1,258,888	1,242,395	1,210,293	1,189,407	119,435	10.2
Class A	**365,671**	580,415	905,625	719,149	342,824	23,047	6.7
Other	**57,241**	58,500	60,368	69,992	90,399	(33,158)	(36.7)
Total	**6,969,675**	7,121,458	7,446,313	7,222,317	6,617,198	352,677	5.3
Electric operating revenues (in thousands):							
Residential and rural	**$143,236**	$124,750	$107,151	$ 97,262	$ 85,021	$ 58,215	68.5
Industrial	**86,122**	80,089	67,516	64,324	57,575	28,547	49.6
Commercial	**75,656**	66,223	55,460	49,958	38,710	37,146	96.0
Wholesale	**47,061**	40,053	35,586	31,383	30,788	16,278	52.9
Class A	**11,543**	17,799	25,900	24,203	12,373	(830)	(6.7)
Other	**7,045**	6,446	6,558	5,363	5,858	1,187	20.3
Total	**$370,863**	$336,260	$298,271	$272,488	$230,320	$140,543	61.0
System capacity—at time of system peak (Kw's):							
Company plants (including jointly owned)	**1,631,000**	1,622,900	1,648,400	1,644,500	1,653,300	(22,300)	(1.3)
Firm purchased power	**157,700**	25,700	40,700	47,700	63,700	94,000	47.6
Total	**1,786,700**	1,648,600	1,689,100	1,692,200	1,717,000	71,700	4.2
System peak demand	**1,252,000**	1,262,000	1,259,000	1,240,000	1,234,000	18,000	1.5
Reserve margin at time of peak	**536,700**	386,600	430,100	452,200	483,000	53,700	11.1
CONSOLIDATED GAS STATISTICS							
Customers served (end of period):							
Residential	**92,289**	91,337	89,620	87,490	85,124	7,165	8.4
Commercial firm	**10,655**	10,430	10,013	9,473	9,135	1,520	16.6
Industrial firm	**382**	383	377	375	361	21	5.8
Interruptible	**143**	140	131	124	121	22	18.2
Total	**103,469**	102,296	100,141	97,462	94,741	8,728	9.2
Sales-therms (in thousands):							
Residential	**106,587**	100,556	111,408	115,208	115,562	(8,975)	(7.8)
Commercial firm	**63,025**	57,158	61,710	68,706	64,088	(1,068)	(1.7)
Industrial firm	**23,641**	24,794	24,775	29,914	27,832	(4,191)	(15.1)
Interruptible	**65,293**	73,253	75,700	82,699	80,491	(15,108)	(18.9)
Interdepartmental sales	**1,376**	1,913	7,452	11,500	12,336	(10,958)	(88.8)
Total	**259,924**	257,674	281,045	303,027	300,309	(40,385)	(13.4)
Gas operating revenues (in thousands):							
Residential	**$ 61,680**	$ 46,545	$ 42,973	$ 35,188	$ 30,887	$ 30,773	99.6
Commercial firm	**32,576**	26,115	22,786	18,655	15,537	17,039	109.7
Industrial firm	**12,278**	10,798	9,146	8,649	6,618	5,600	85.5
Interruptible	**26,174**	27,043	23,975	20,026	16,203	11,971	73.9
Interdepartmental sales and other	**3,700**	2,721	4,494	5,070	5,259	(1,559)	(29.6)
Total	**$136,366**	$115,222	$103,374	$ 87,588	$ 74,504	$ 63,884	85.7
Maximum daily sendout—therms (in thousands)	**2,031**	2,030	1,941	1,995	2,216	(185)	(8.3)

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 these series are not actively traded and 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—Composite Transactions and for the 4½ percent preferred stock as reported by the American Stock Exchange. The prices shown for the other series of preferred stock are the high and low bid prices of Robert W. Baird & Co., Inc., a securities broker-dealer that trades these series.

	Common Stock	Preferred Stock							
1982		4.50%	4.80%	4.96%	4.40%	4.76%	8.48%	7.56%	12%
1st Quarter	22⅛-19⅛	33¼-29⅞	33½-30	33¾-31½	29 -27	32¼-30	57¾-52½	52 -47	95 -94
2nd Quarter	23¼-21	35½-32	34 -30½	34¾-31½	31 -26	32¼-30	58 -54	51 -48	100 -94½
3rd Quarter	25½-20¼	37 -32¾	35½-32	34½-33	30 -27½	34 -31¾	61 -54	54¾-50	100 -94½
4th Quarter	29½-22½	41 -35⅜	39¼-34¼	41 -35½	35½-27½	38¾-35¼	70 -62	62 -53½	98½-98½
1981									
1st Quarter	17¾-15½	36 -32⅞	34¼-32	34 -33½	30 -29½	32 -31	56¼-55	51½-50	95 -95
2nd Quarter	19 -15½	34½-30	33 -32½	33½-33	30⅛-29	32¾-32	57¼-55	51½-50	*
3rd Quarter	19½-16⅜	33½-31¼	33 -32	33½-33	29½-29	32 -31½	55¼-55	51½-51	*
4th Quarter	21½-18⅛	34 -30½	32¼-30	33½-32	29¼-28½	31½-31	55¼-53	51 -50	94 -94

*No trades reported 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 1982 were $.54, $.54, $.56 and $.56 for the first, second, third and fourth quarters, respectively, for a total of $2.20 for the year. Cash dividends per share paid during 1981 were $.50, $.50, $.52 and $.52 for the first, second, third and fourth quarters, respectively, for a total of $2.04 for the year.

Preferred stock dividends paid per share for each quarter during 1982 and 1981 were as follows: 4.50 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.

As of December 31, 1982, the Company had 42,835 common stock shareowners.

DIVIDEND REINVESTMENT

The WP&L Dividend Reinvestment and Stock Purchase Plan enables participating shareowners to purchase common stock of the Company with their cash dividends and with optional cash payments. The more than 10,700 WP&L shareowners who now participate in the plan incur no brokerage commissions, fees or service charges for purchases under the plan. The price of shares purchased with reinvested dividends is 95 percent of market value. In addition, participants in the plan may make optional cash payments of up to $3,000 per month to purchase shares at market value.

The Economic Recovery Tax Act of 1981 allows certain deferred and potentially reduced taxation for individuals who reinvest dividends in qualified public utility dividend reinvestment plans. Based on a published interpretation by the Internal Revenue Service, WP&L believes that dividends reinvested under its Dividend Reinvestment and Stock Purchase Plan qualify for this tax treatment, which is available for dividends paid between January 1, 1982, and December 31, 1985. An attempt to repeal this legislation was defeated in 1982.

The Tax Equity and Fiscal Responsibility Act of 1982 will impact WP&L shareowners who do not participate in the Company's Dividend Reinvestment and Stock Purchase Plan. This tax provision will require WP&L to withhold and pay to the U.S. Treasury Department 10 percent of all dividends paid to shareowners after June 30, 1983. Exempt from withholding will be: 1) Dividends reinvested in a qualified public utility dividend reinvestment plan, and 2) dividends of individual shareowners or organizations who meet specific criteria for exemption and who, subsequently, file an exemption form with the utility. Shareowners participating in the Company's dividend reinvestment program will not be required to file exemption certificates to avoid withholding on their reinvested dividends. Shareowners not participating in the dividend reinvestment program will receive from the Company information on the criteria for exemption and copies of forms to be filed with the utility for exemption.

More information on both the Company's Dividend Reinvestment and Stock Purchase Plan and the Company's dividend withholding procedures may be obtained by writing or telephoning the Shareowner Services Section of Wisconsin Power and Light Company.

SHAREOWNERS' DIVIDEND CALENDAR

Common	Preferred
1982	
February 13	March 15
May 15	June 15
August 14	September 15
November 15	December 15
1983	
February 15	March 15
May 14	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 20, 1983, at the Dane County Coliseum, 1881 Expo Mall, Madison, Wisconsin. If you are unable to attend, please sign and mail your proxy as soon as it is received. Proxy materials will be mailed to shareowners on or about March 8, 1983.

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 Shareowner Services, Wisconsin Power and Light Company.

TRANSFER AGENTS

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

Morgan Guaranty Trust Company
30 West Broadway
New York, NY 10015

REGISTRARS

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

Morgan Guaranty Trust Company
30 West Broadway
New York, NY 10015

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

COMPANY PERSONNEL

OFFICERS

(as of December 31, 1982)

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

Robert A. Carlsen
Vice President—Customer Service and Corporate Communications

Erroll B. Davis, Jr.
Vice President—Finance and Public Affairs

William L. Keepers
Vice President—Administration and System Planning

Charles G. Kerndt
Vice President—Electric Operations and Engineering

Edward F. Killeen
Vice President—Employee Relations

Homer J. Vick*
Vice President

Thomas L. Consigny
Assistant Vice President—Public Affairs

George A. Goff
Controller

Duaine L. Mossman
Secretary and Director of Strategic Planning Services

Frederick A. Remeschatis
Treasurer

Edward M. Gleason
Assistant Controller

Thomas A. Landgraf
Assistant Controller

Donald L. Van Brunt
Assistant Secretary

**Placed on disability leave February 1983.*

MANAGEMENT

GENERAL OFFICE DEPARTMENT HEADS

James W. Bindl
Director of Human Resource Planning and Development

Donald L. Brown
Director of Generation and System Planning

George R. Byington
Director of Electrical 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

Merlin E. Horn
Director of Environmental Affairs

Theodore J. Iltis
Director of Advanced Technology and Nuclear Affairs

John W. Laub
Director of Information and Administrative Services

Dale G. Moody
Director of Consumer Services

Donald R. Piepenburg
Director of Corporate Communications

William C. Register
Director of System Operations and Planning

George L. Richardson
Director of Generating Station Engineering and Construction

David W. Thompson
Director of Generating Station Operations

Jack E. Zwettler
Director of Internal Audits

REGIONAL MANAGERS

James E. Johnson
Western Region (Madison)

James G. Miller**
Southern Region (Janesville)

George E. Wennerlyn
Northern Region (Fond du Lac)

***Resigned January 1983.*

DISTRICT MANAGERS

Richard E. Barry
Berlin

Daniel L. Bartel
Fond du Lac

Roger L. Baumann
Lake Geneva

Ronnld L. Cowan
Baraboo

Philip E. Crawford
Mineral Point

Donald P. Goiffon
Beloit

John D. Grawe
Janesville

Robert G. Lindenan
Dane County (Oregon)

Felix J. Matarrese
Portage

Snzette M. Mullooly
Beaver Dam

Jules A. Nicolet
Sheboygan

W. Keitb Peumiston
Tomah

GENERATING STATION MANAGERS

Carl R. Diehls
Columbia (Portage)

Henry R. Hosterman
Edgewater (Sheboygan)

William A. Frederick
Nelson Dewey (Cassville)

Thomas M. Schroeder
Blackhawk and Rock River (Beloit)

Management Changes

The Company named three new Generating Station Managers in 1982 as a result of retirements. *Carl R. Diehls* was named Generating Station Manager at Columbia in February. He had been Assistant Manager at Columbia. Also in February, *Thomas M. Schroeder* was named Generating Station Manager at Blackhawk and Rock River. He had been Assistant Manager at Edgewater. *William A. Frederick* was named Generating Station Manager at Nelson Dewey in November. He had been Assistant Manager at Nelson Dewey.

Burton C. Peters, Vice President responsible for public affairs activities with customers and shareowners, retired in November.

Ronald L. Cowan was named District Manager at Baraboo in November. He had been Labor Relations Research Administrator, Labor Relations Department.

A realignment of corporate management took effect in November. *James R. Underkofler* assumed the title and responsibilities of Chairman of the Board in addition to those of President and Chief Executive Officer. All vice presidents continue to report directly to him. They are:

Robert A. Carlsen, Vice President—Customer Service and Corporate Communications. Carlsen formerly was Vice President—Customer Service Operations.

Erroll B. Davis, Jr., Vice President—Finance and Public Affairs. Davis formerly was Vice President—Finance.

William L. Keepers, Vice President—Administration and System Planning. Keepers formerly was Vice President—Power Production.

Charles G. Kerndt, Vice President—Electric Operations and Engineering. Kerndt formerly was Vice President—Engineering and Procurement.

Edward F. Killeen, Vice President—Employee Relations.

Homer J. Vick, Vice President.

David W. Thompson was named Director of Generating Station Operations in December. He had been Director of Columbia and Hydro Operations.

Seated (l to r) William Keepers - Robert Carlsen. Standing (l to r) Edward Killeen - Erroll Davis - Charles Kerndt.

BOARD OF DIRECTORS

(as of December 31, 1982)

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 1979

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

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

Henry F. Scheig
President, Aid Association for Lutherans
(a fraternal benefit society),
Appleton, Wisconsin
A WP&L director since 1980

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

Carol T. Toussaint
Consultant to the United Madison
Community Foundation, Madison, Wisconsin and
Project Director of the Wisconsin Center
for Public Policy, Madison, Wisconsin
A WP&L director since 1976

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

Gerard E. Veneman
President and Chief Executive Officer,
Nekoosa Papers, Inc.
(a subsidiary of Great Northern Nekoosa Corporation),
Port Edwards, Wisconsin, and Director
and Executive Vice President,
Great Northern Nekoosa Corporation
(a paper and pulp manufacturer and distributor),
Stamford, Connecticut
A WP&L director since 1980

Committees of the Board

The Audit Committee recommends the independent auditors to be selected by the shareowners at the annual meeting. The committee reviews with the independent auditors the scope and results of the audit and matters regarding the Company's financial reporting and internal accounting controls. It meets with the management and the independent auditors to discuss and review accounting and reporting principles, policies and practices to be used. Both the internal and the independent auditors periodically meet alone with the committee and have authority to contact it on any matters requiring its attention. The committee consists of all board members who are not employees or officers of the Company.

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

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

The Nominating Committee recommends to the board nominees for election to the board and reviews the appropriateness of present board members' continued membership on the board. The committee consists of the chief executive officer and two members of the board who are not employees or officers of the Company.

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(as of December 31, 1980)

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