choices

1995 Annual Report

Informed
customers
making
intelligent
decisions

WPL Holdings, Inc.

ABOUT WPL HOLDINGS, INC.

WPL Holdings, Inc.

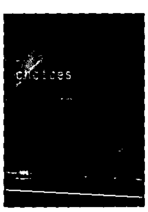
WPL Holdings, Inc. is the parent company of Wisconsin Power and Light Co. and Heartland Development Corp. Formed in 1988 as the result of a corporate restructuring, the company has its headquarters in Madison, Wis. and has assets of $1.87 billion.

Wisconsin Power and Light Co., WPLH's utility subsidiary, provides electric energy to 376,510 customers and natural gas to 146,093 customers throughout a south-central Wisconsin service territory that spans roughly one-third of the state. WP&L and its subsidiary, South Beloit Water, Gas and Electric Co., also provides water service to 33,218 customers in three communities.

Through the Heartland Development Corp. companies, WPLH offers environmental, energy and affordable housing services nationally and internationally. HDC companies are located in 25 cities, including one location in Finland.

Together, WP&L and the HDC companies provide WPL Holdings, Inc. with a unique combination of expertise and market potential. The WPLH family of companies is very favorably positioned to seek competitive advantage in the ever-changing markets it serves.

ABOUT THE COVER



Several colorful spheres represent the array of choices energy customers will have as the electric utility industry becomes increasingly competitive.

Supplementing the picture are two WPL Holdings guiding principles as stated by President and CEO Erroll B. Davis Jr.

"First, we believe that customers are quite capable, in a competitive marketplace, of making intelligent and informed choices of energy products and services. And second, we believe that we should earn the right each and every day to serve customers. If we can't provide the most responsive and cost-effective service to customers, then we should forfeit the right to serve them."

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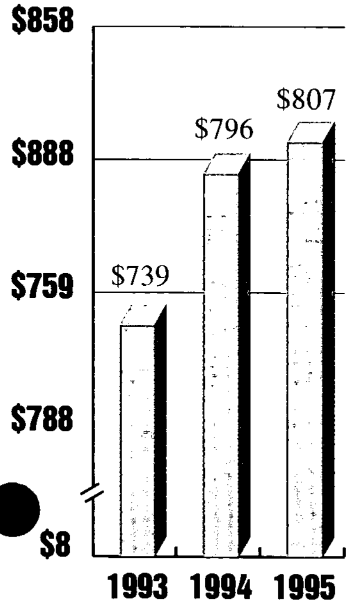
FINANCIAL HIGHLIGHTS

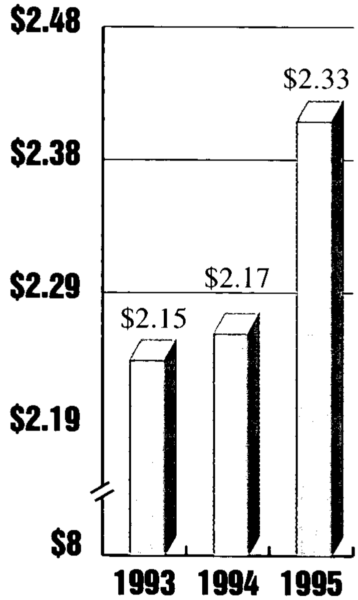
1995

	1995	1994	1985	1 Year	10 Years
FINANCIAL					
(Dollars in thousands except for per-share data)					
Operating revenues	**$807,255**	$795,717	$588,931	1.5%	37.1%
Income from continuing operations	**71,618**	66,424	56,368	7.8%	27.1%
Per share	**2.33**	2.17	2.13	7.4%	9.4%
Discontinued operations	**(13,186)**	(1,174)	—	—	—
Per share	**(0.43)**	(0.04)	—	—	—
Net income	**58,432**	65,250	56,368	(10.4%)	3.7%
Per share	**1.90**	2.13	2.13	(10.8%)	(10.8%)
Total assets (at December 31)	**1,872,414**	1,805,901	1,096,162	3.7%	70.8%
Cash dividends paid per share	**1.94**	1.92	1.35	1.0%	43.7%
OPERATIONS					
Electric sales (thousand kWhs)	**11,747,178**	10,858,836	8,791,896	8.2%	33.6%
Electric customers	**376,510**	368,791	319,397	2.1%	17.9%
Gas sales (thousand therms)	**399,488**	374,110	269,153	6.8%	48.4%
Gas customers	**146,093**	140,981	109,432	3.6%	33.5%

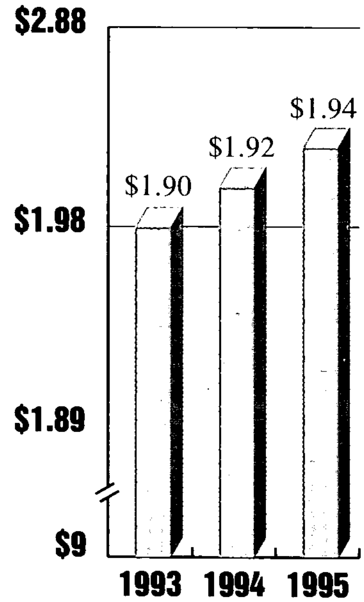
OPERATING REVENUES
(in millions)



EARNINGS PER SHARE
(from continuing operations)



DIVIDENDS PER SHARE



TO OUR *Shareowners*

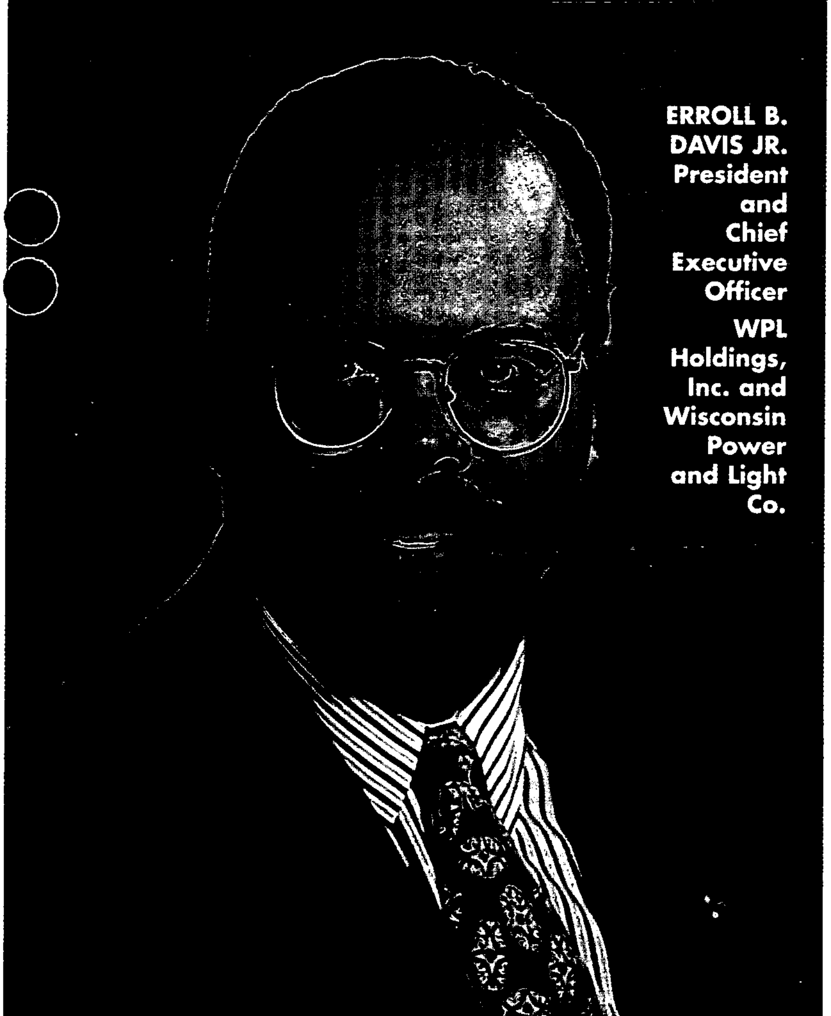
As expected, 1995 was a year of tremendous change both for WPL Holdings and the energy services industry. Driving this change are forces that will soon allow all customers to choose their energy supplier. In this report, we will share with you some of the major events of the past year and explain how these events fit into our strategic plans.

Topping the list of exciting 1995 developments was the November 11 announcement of a merger agreement between WPL Holdings and two Iowa-based utility companies: IES Industries of Cedar Rapids and Interstate Power Co. of Dubuque. With more tban 1 million electric and natural gas customers in Wisconsin, Iowa, Minnesota and Illinois, the newly combined Interstate Energy Corp. will enjoy a customer base large enough to develop and market a much wider range of innovative energy products and services in an increasingly competitive marketplace. The merger, which is expected to save

UTILITY STOCKS WITH LOTS OF SPARK

Company Ticker symbol	Current price	P.E. ratio Yield (last 12 Mos.)	Success story
■ *CMS ENERGY* CMS	$27.25	11.4 3.5%	Morgan Stanley's Kit Konolige likes this Michigan outfit's oil and gas business, which will help profits flow.
■ *FPL GROUP* FPL	$41.38	12.5 4.3%	This Florida utility does only 4% of its business with industrial customers, the ones most likely to bolt.
■ *ILLINOVA* ILN	$28.13	11.2 3.6%	An unregulated subsidiary that makes power stations is winning major international contracts for this Decatur company.
■ *NIPSCO INDUSTRIES* NI	$36.25	13.4 4.4%	Edward Tirello at NatWest likes Nipsco because low costs keep big customers happy and its 4.5% earnings growth secure.
■ *PACIFICORP* PPW	$19.11	12.7 5.7%	Jeanne Rosengren at Piper Jatfray sees a potential free-market winner in its distribution system, low costs, and trading savvy.
■ *PUBLIC SERVICE OF COLORADO* PSR	$34.13	12.4 6.0%	A growing customer base—how rare! Also, a recent merger will open the door to big savings.
■ *SCECORP* SCE	$17.25	10.3 5.9%	Innovative plans to depreciate nuclear power plants will help SCE outperform the market, says Goldman Sachs's Ernest Liu.
■ *SOUTHERN* SO	$24.00	12.1 6.0%	Liu also likes this utility, which recently expanded into England, where deregulation is further along.
■ *UTILICORP* UCU	$29.11	13.0 6.3%	Plans to make EnergyOne the first "brand name" in the history of utilities make this one a winner for Liu.
■ *WPL HOLDINGS* WPH	$30.63	12.9 6.7%	Low costs, low debt, and a competitive boss give this Wisc[illegible]in utility a lot of teeth, says Robert W. Baird & Co.'s David Pa[illegible]

In its November 13, 1995 issue, *FORTUNE* magazine ranked WPL Holdings, Inc. amang a select group of utility-company stocks with "lots of spork."



ERROLL B. DAVIS JR.
President and Chief Executive Officer
WPL Holdings, Inc. and Wisconsin Power and Light Co.

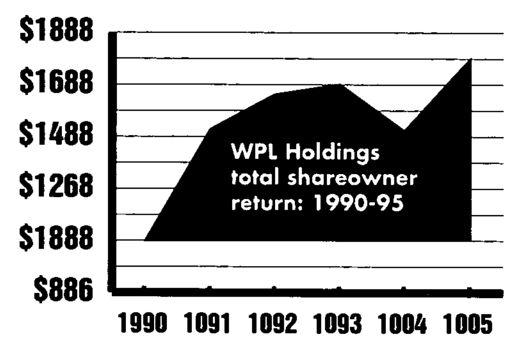
not result in higher rates or less reliable service. Business and industrial energy users, however, are already demanding more choices as a way to reduce their energy costs in an increasingly global economy.

Longtime WPL Holdings shareowners have been hearing about the inevitability of a competitive energy marketplace for the last 10 years. While many of our higher-cost competitors continue to resist their own customer demands, we have carefully restructured our operations to better serve our customers and enhance value for our shareowners. Robert W. Baird and Co., a regional brokerage firm,

approximately $700 million in operating costs over the next 10 years, will be the first three-way combination in recent utility-industry history.

Initially, leadership of Interstate Energy Corp. will be shared by the three merging utilities. Lee Liu, presently chairman, president and chief executive officer of IES Industries, will serve as chairman of the board of Interstate Energy Corp. Wayne Stoppelmoor, presently chairman, president and chief executive officer of Interstate Power Co., will be the vice chairman. I will be president and chief executive officer of Interstate Energy Corp. and assume the role of chairman upon the retirement of Mr. Liu and Mr. Stoppelmoor two years after the expected combination. As a WPL Holdings shareowner, you will be kept informed about the merger approval process.

The proliferation of utility-company merger agreements in 1995 was clearly driven by the impending transformation of this industry from a regulated monopoly to a competitive marketplace. Today, most energy customers can only be served by one supplier. As the industry becomes more competitive, customers will be able to shop around and choose the energy supplier that best meets their individual price, quality and service needs. While lower prices will be the most attractive feature in a competitive marketplace, customers will also have the opportunity to purchase value-added energy products and services that suit a wide range of lifestyles. Support for customer choice as reported by consumer surveys is strong, once consumers understand that competition will



A $1,000 investment made in WPL Holdings stock at year-end 1990, was worth $1,700 at year-end 1995, assuming reinvestment of dividends.

describes WPL Holdings as "exceptionally well positioned for the new competitive environment," while *FORTUNE* magazine last year placed WPL Holdings on its list of 10 "Utility Stocks With Lots of Spark."

Hastening the evolution of a competitive marketplace were several regulatory developments in 1995 occurring at the federal and state levels. At the same time that the Federal Energy Regulatory Commission was releasing plans to promote a robust wholesale energy market, nearly 40 states were considering their own retail customer-choice initiatives. Here in Wisconsin, the Public Service Commission wrapped up a very productive year of work, culminating in the endorsement of a plan to allow all Wisconsin customers to choose their energy supplier by the year 2000.

WPL Holdings shareowners will no doubt be pleased with the performance of our stock in 1995. Recapturing some of the loss incurred in 1994, our stock price increased from $27 3/8 at the beginning of 1995 to $30 5/8 by year end. Assuming reinvestment of dividends, WPL Holdings shareowners experienced a total-return increase of 19.5 percent in 1995. Last year also marked the 200th consecutive quarterly dividend payment on common stock, dating back to 1946.

Earnings from the company's core continuing businesses were up substantially in 1995. At Wisconsin Power and Light Co., our utility subsidiary, 1995's impressive earnings were driven primarily by extreme summer heat and an unusually early cold spell in the fall. Other contributors to utility earnings included lower power-plant fuel costs, continued economic strength in our traditional service area, and higher sales to other utilities. Earnings from our natural gas operations were enhanced by aggressive use of a new performance-based rate mechanism for gas procurement and the attraction of several new large

WP&L Senior Vice President William D. Harvey oversees the utility's power production, information technology, natural gas, and finance areas. WP&L began redesigning its plants in 1995 to drive down the cost of power production — an essential step toward achieving competitive advantage in the energy marketplace.

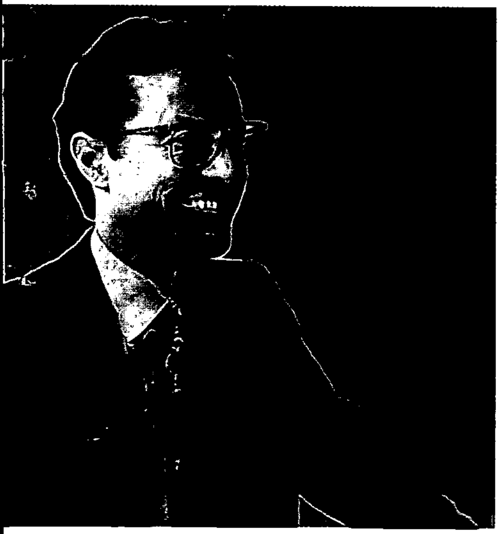
WP&L Senior Vice President A.J. (Nino) Amato meets with John Lillesand, senior vice president-technical services, for Kohler Co., a WP&L customer and leading manufacturer of plumbing products. Amato oversees WP&L's strategic planning, market research, environmental affairs, corporate communications, economic and community development, and governmental and regulatory relations.

WP&L Senior Vice President Eliot G. Protsch oversees the utility's customer service, transmission, distribution and bulk power operations. Over the past two years, these functions have been redesigned to provide WP&L customers with increasingly better service at a lower cost.

industrial customers. Operating expenses were also down in 1995, a result of WP&L's ongoing administrative efficiency measures.

At Heartland Development Corp., the home of our non-regulated businesses, we began to narrow our focus toward the energy and environmental needs of larger, energy-intensive industries. As part of this transition, we determined that A&C Enercom Consultants, Inc., a subsidiary providing marketing and energy consulting to the utility industry, no longer fit with our strategic goals. The sale of A&C Enercom resulted in a $13.2 million charge to earnings in 1995.

As president and CEO of Heartland Development Corp., Lance W. Ahearn manages the non–regulated companies under the WPL Holdings umbrella. In an increasingly competitive energy marketplace, Heartland Development Corp. will primarily focus on meeting the needs of energy-intensive customers.



PUBLIC SPEAKS OUT ON UTILITY RESTRUCTURING

A series of public hearings on restructuring the electric utility industry was conducted by the Public Service Commission of Wisconsin (PSCW) in late 1995. By year end, the PSCW agreed on a plan that would allow all Wisconsin customers to choose their energy supplier by the year 2000.

The public hearings followed nine months of study conducted by a 22-member Advisory Committee on Electric Utility Restructuring. Chaired by Public Service Commissioner Scott Neitzel (seated, far left), the advisory committee considered several ways to inject more competition into the electric utility industry. Utilities, large industries, small businesses, organized labor, consumer advocates and environmental groups were all represented on the Advisory Committee.

"This industry, like all others before it, is undergoing fundamental change," said Commissioner Neitzel. "Competition will bring out the best and worst in people. Our job should be to maximize the benefits by promoting full competition and limiting the potential downsides through tough and determined regulation."

MAJOR UTILITY RESTRUCTURING EVENTS: 1995

- **February 2:** Public Service Commission of Wisconsin (PSCW) forms a 22-member Advisory Committee on Electric Utility Restructuring. WP&L Senior Vice President William Harvey is appointed as a member.
- **March 29:** Federal Energy Regulatory Commission issues a plan to make the bulk-power electricity marketplace more competitive.
- **October 18:** PSCW Advisory Committee completes its business; submits five separate policy recommendations to PSCW for consideration.
- **November 27— December 5:** PSCW holds six sets of public hearings throughout the state of Wisconsin.
- **December 19:** PSCW approves a plan calling for all Wisconsin customers to choose their energy supplier by the year 2000.

We are, however, very pleased with the rapid development of our non-regulated natural gas and power marketing company, Heartland Energy Services, and the formation last year of the Heartland Energy Group. Our environmental and engineering consulting subsidiary, RMT, also produced steady results despite a continuing flat market. Heartland Properties, Inc., our affordable housing company, continues to offer valuable investment opportunities in tax-advantaged multi-family housing for corporate investors.

In spite of an historical merger agreement and considerable movement toward a more competitive electric utility industry, nothing that occurred in 1995 could be characterized as totally unexpected. Developments of the past year have dovetailed with our strategic plan to provide customers with reliable energy products and services at the lowest possible cost. While the challenges will be legion and the competition will be stiff, we continue to believe that WPL Holdings — and thereafter, Interstate Energy Corp. — will prosper as never before once the rules of the game are changed to allow the best performers to achieve the greatest results.

On behalf of all WPL Holdings' management and employees, I appreciate your continuing confidence in our company. Without the support of our shareowners over the years, WPL Holdings would not be ready to tackle the exciting challenges that lie ahead. Thanks to you, we are well positioned to become a supplier of choice in a competitive regional and national energy marketplace.

ERROLL B. DAVIS JR.
PRESIDENT AND CHIEF
EXECUTIVE OFFICER
WPL HOLDINGS, INC.

APRIL 10, 1996

ERROLL B. DAVIS JR.
PRESIDENT AND CEO, WPL HOLDINGS, INC.

Prior to joining Wisconsin Power and Light in 1978, Erroll Davis served on the corporate financial staffs of Ford Motor Co. and Xerox Corp. Davis will serve as president and chief executive officer of Interstate Energy Corp.

LEE LIU
CHAIRMAN, PRESIDENT AND CEO, IES INDUSTRIES INC.

Lee Liu has held several professional, management and executive positions since joining Iowa Electric Light and Power Co. in 1957. Liu will serve as chairman of the board of Interstate Energy Corp.

WAYNE H. STOPPELMOOR
CHAIRMAN, PRESIDENT AND CEO, INTERSTATE POWER CO.

Wayne Stoppelmoor began his career with Interstate Power in 1960. Stoppelmoor will serve as vice chairman of the board of Interstate Energy Corp.

"WE BELIEVE THE STRATEGIC MERGER WILL PROVIDE EARNINGS AND DIVIDEND GROWTH SUPERIOR TO WHAT EACH UTILITY CAN ACHIEVE ON A STAND-ALONE BASIS."

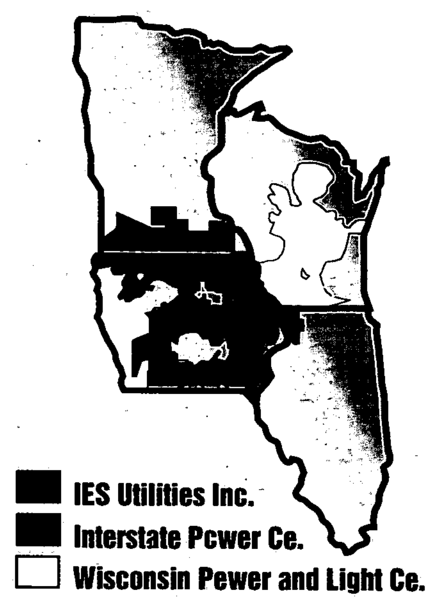
— DAVE PARKER,
ROBERT W. BAIRD AND CO.
(MILWAUKEE-BASED REGIONAL BROKERAGE FIRM)

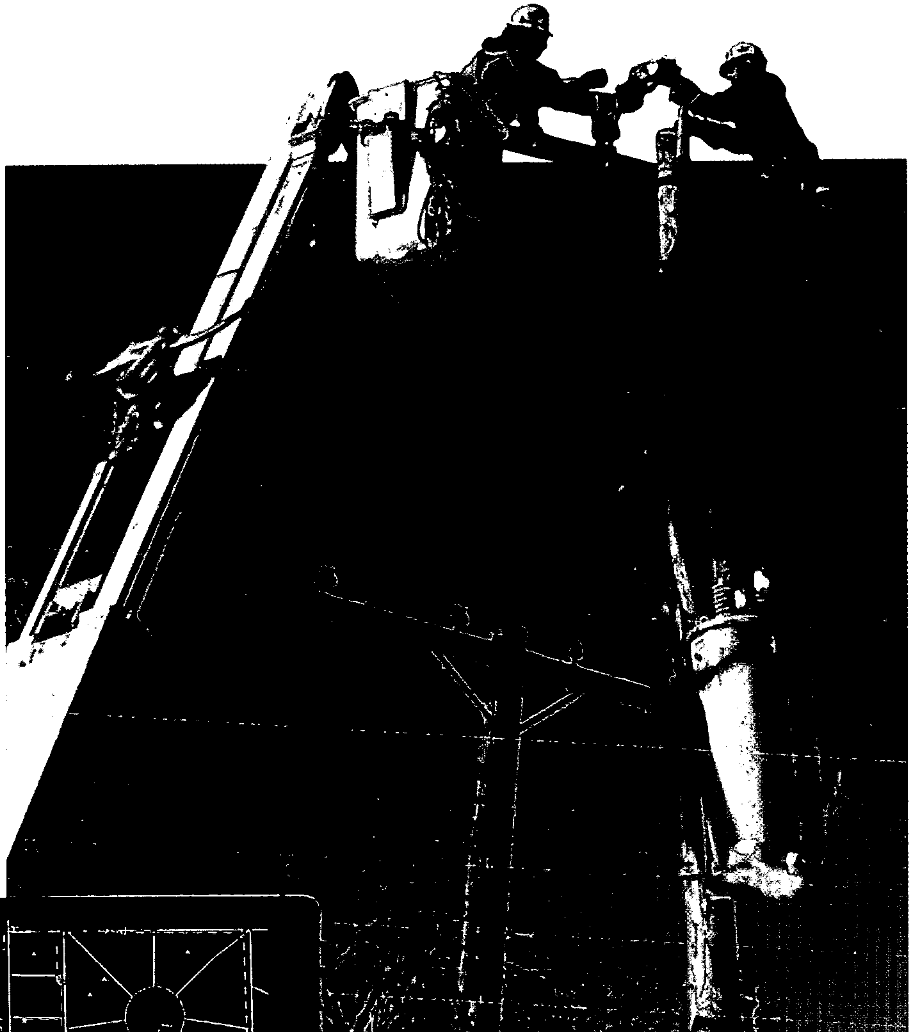
On November 11, 1995, WPL Holdings, Inc., IES Industries Inc., and Interstate Power Co. announced the signing of a merger agreement providing for the combination of the three companies. If approved by shareowners and regulatory authorities, the three companies will combine as Interstate Energy Corp.

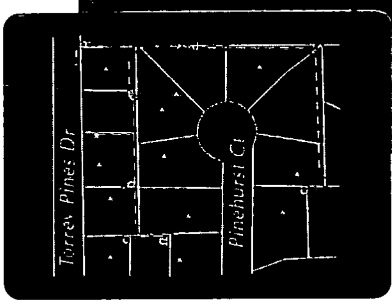
With headquarters to be located in Madison, Wis., Interstate Energy Corp. will consist of Wisconsin Power and Light Co. of Madison, IES Utilities of Cedar Rapids, Interstate Power Co. of Dubuque and a non-regulated component comprised of Heartland Development Corp. and IES Diversified Inc.

Together, the three utilities will serve more than 870,000 electric and 360,000 natural gas customers in Wisconsin, Iowa, Minnesota and Illinois. With nearly $2 billion in market capitalization and approximately $4.5 billion in assets, Interstate Energy Corp. would have ranked 34th out of 178 U.S. utilities and utility holding companies, at the time of the merger agreement.

Interstate Energy Corporation
Service Territory







When a WP&L crew heads out on the job, technicians must know the location of every pole, transformer, switch, electric line, and gas pipe in the area. This information, traditionally stored on paper maps, will be available to all WP&L technicians on portable computer screens (inset) by late 1997.

"We are the first impression customers have when they call WP&L," says customer service representative Betty Williams. "We like to overwhelm our customers with courteous service."

UTILITY OPERATIONS

For Wisconsin Power and Light Co., 1995 was a year of mounting change driven by the growing inevitability of a fully competitive energy marketplace. By year end, nearly 40 states were considering ways to give customers more choices of energy products and services. At the same time, the Federal Energy Regulatory Commission unveiled its plan for a more competitive wholesale energy marketplace to foster easier trading of bulk power between utilities. While generally supportive of the FERC proposal, WP&L joined with several other low-cost utilities in criticizing that portion of the plan that would subsidize the highest-cost energy suppliers at the expense of those who have worked overtime to reduce their costs.

With the era of customer choice moving into sharper focus daily, developments in 1995 were closely linked to WP&L's commitment to provide customers with the most reliable service at the lowest possible cost. To provide customers with even greater value for their dollar, WP&L in 1995 completed the redesign of all customer-contact operations. Begun in 1994, WP&L's reengineered field operations are already producing the kind of results that must be attained to emerge as a winner in a competitive environment.

Among the various customer-satisfaction achievements in 1995 were: faster restoration of power after an electric outage; shorter waits by customers for service technicians after reports of natural gas odors; faster and more efficient installation of new electric and natural gas service; and quicker telephone access to customer service representatives. Validating WP&L's internal operational improvements, WP&L received favorable rankings in several performance categories in a world-class benchmarking study (see PACEOPS sidebar on page 11) of 24 utilities from the United States, the United Kingdom, Australia and New Zealand.

Customers are increasingly satisfied with WP&L's Customer Service Center, the only source of comprehensive 24-hour service offered by a Wisconsin utility. In contrast to other companies that often leave customers waiting on hold for several minutes, 82 percent of WP&L customer-service calls are answered within 20 seconds.

To further enhance WP&L's competitive advantage, the company's power plants are currently being reengineered to drive down the cost of energy production. Plant costs were also reduced through the purchase of more coal from less expensive sources in Western states.

WP&L's electric system surfaced several major challenges during the incredibly hot and humid summer of 1995 — a summer that produced

TOTAL ENERGY SERVICES

To strengthen its relationship with larger commercial and industrial customers, WP&L developed a comprehensive energy partnership service to enhance business process efficiency. Known as Total Energy Services, the package provides customers with comprehensive energy consulting, financing and project coordination.

Interpane Glass Co., a leading fabricator and coater of glass used in commercial buildings, chose Total Energy Services to help secure the installation of a technologically advanced glass-tempering furnace at its Deerfield, Wis. plant. As a full-service energy partner, WP&L helped Interpane save energy, attract and retain workers, and improve process technologies.

"Through Total Energy Services, WP&L went the extra mile for us," said Interpane President Todd Robinson. "From the initial consulting to the financing to the long-term commitment for electrical energy, WP&L met our needs in ways I would consider unique for an electric utility.

"With WP&L's help," Robinson said, "our new glass-tempering furnace allows us to bring a process in-house that used to be done by an outside vendor. Our costs will come down while the quality of our coated glass will go up."

Todd Robinson (left), president of Interpane Glass Co., discusses Total Energy Services with WP&L Account Manager Greg Genin.

Respecting our surroundings

WP&L 's commitment to environmental stewardship reflects the company's long-held respect for its natural surroundings. Through its land stewardship program, WP&L manages pine forests and restores native prairie and wetland habitat along 13,000 acres of land near the Wisconsin River.

Through participation in the federal government's Global Climate Challenge Program, WP&L has joined with other companies to voluntarily reduce the emission of carbon dioxide — a greenhouse gas that contributes to global warming.

Closer to home, WP&L's Stewards of Nature volunteer program helps restore the environment throughout the company's service territory. In concert with local environmental groups, Stewards of Nature encourages company employees, retirees, families and friends to take personal responsibility for the environmental health of the communities in which they live.

temperatures that have not been seen in 60 years. Hourly, daily and weekly energy-usage records were repeatedly broken, culminating in an all-time hourly demand peak of 2,197 megawatts on July 31. For the first time in its history, WP&L appealed to its employees and the public to voluntarily reduce energy use. Ironically, an unusually cold fall also resulted in a new wintertime system peak of 1,913 megawatts on December 11.

Fortunately, the ability of utilities to serve customers during high-demand periods such as the 1995 heat wave was enhanced by the emergence of a rapidly growing bulk-power market. Instead of relying solely on their own generators and power from neighboring suppliers, utilities are now able to cost-effectively buy and sell power throughout an increasingly larger geographic region. WP&L, for example, purchased power from utilities in 14 states and sold power to utilities in eight states in 1995. One year earlier, WP&L was doing business with utilities in just four states. To keep the bulk-power business growing, WP&L aggressively expanded its power marketing arm to seek even more ways to cost-effectively trade power with other utilities.

Competition also played a large role in WP&L's natural gas business in 1995. Seeking more flexibility in a less regulated marketplace, WP&L won approval from the Public Service Commission of Wisconsin for a performance-based rate mechanism for gas procurement. As a result, WP&L has increased earnings through aggressive purchasing and sales of gas and pipeline capacity. At the same time, the Wisconsin PSC held public hearings on the state's natural gas industry. WP&L expects that these proceedings will culminate in a set of new rules under which regulated utilities will cease to sell natural gas directly to customers, serving only as a distributor.

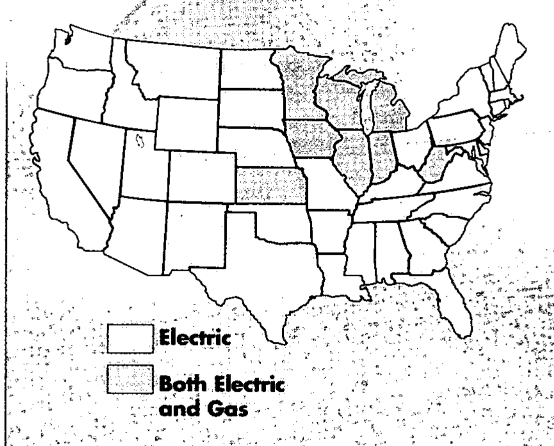
Perhaps the greatest operational achievement of the year, however, was WP&L's improved safety performance. In spite of the increasing pace of change affecting every facet of the company, lost-time accidents in 1995 were down by 39 percent from 1994.

Management and employees were very proud of this accomplishment and expect 1996 to be an even safer year for WP&L.

HEARTLAND DEVELOPMENT CORPORATION

An increasingly competitive, rapidly expanding energy marketplace presents a tremen-

HEARTLAND ENERGY SERVICES
ELECTRIC AND GAS CUSTOMERS



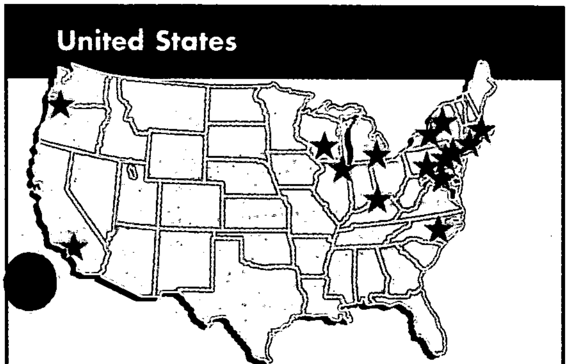
Heartland Energy Services does electric or natural gas business with companies in 33 states.

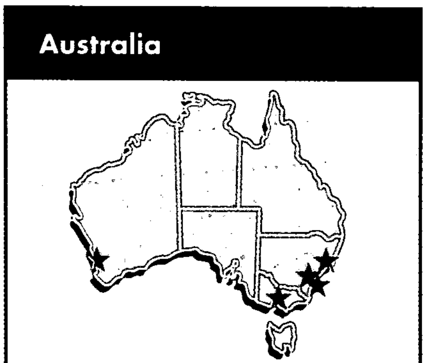
PACEOPS: HOW WP&L STACKS UP AGAINST THE REST

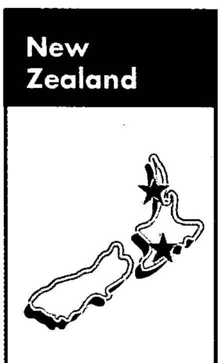
To succeed in a competitive marketplace, WP&L must provide customers with reliable service at the lowest possible cost. Last year, WP&L participated in a study comparing its customer-contact performance against 23 other utilities (indicated by stars below) from the United States, the United Kingdom, Australia and New Zealand. Known as the World Class Performance and Competitive Excellence Operational Study, or PACEOPS, the study was conducted by the UMS Group, Inc., of Parsippany, New Jersey.

WP&L was among the "best-in-class" performers in four key areas: trouble-call response, new-customer connections, overhead line construction and streetlight maintenance.

"The PACEOPS study tells us where we excel and where we can improve," says Kim Zuhlke, WP&L vice president-customer sales and services. "During the next year, for example, WP&L will spend $5 million focused on making its electrical system less susceptible to outages. This investment in reliability performance will enhance our commitment to excellent customer service and help us deliver even more 'best-in-class' results."







Potash, a primary nutrient for corn and other crops, is the mojor product of The Vigoro Corporation of Chicago. A leoding North American manufacturer and distributor of fertilizer products for agricultural and other markets, Vigoro, in partnership with RMT, Inc., implemented a strategic environmental and safety management plan.

"RMT presented us with several cost-effective ways to benchmark our performance with regord to other major corporations and to develop the taols necessary to ossure ongoing improvement in compliance and risk management," said Carolyn W. Merritt, vice president of environmental affairs for Vigoro. "Without question, RMT's partnership with Vigoro adds significant volue to our company."

MARK JOSEPH / CHICAGO

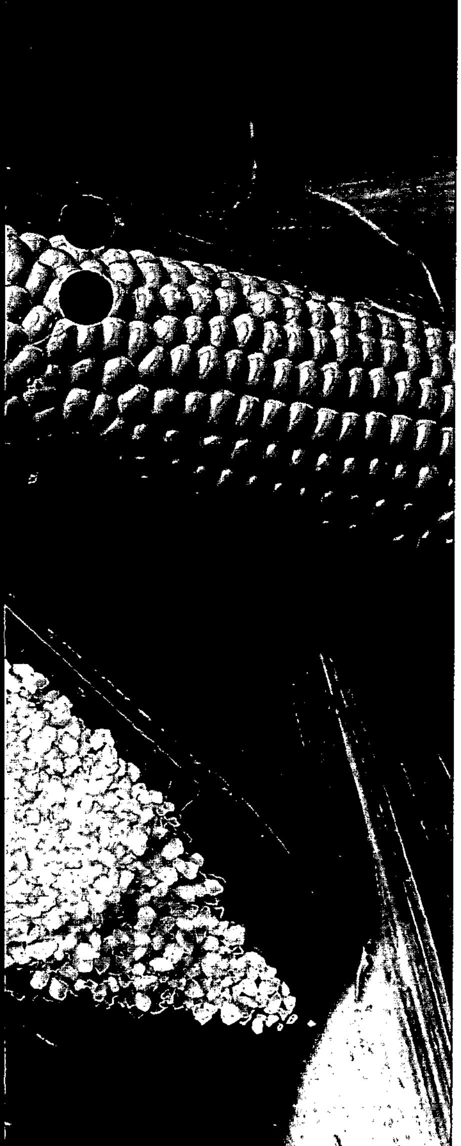
dous opportunity for Heartland Development Corp., the home of all non-regulated companies under the WPL Holdings umbrella.

ENERGY SERVICES

The evolution of a fully competitive energy marketplace will open up a wide range of product and service options unheard of just a few years ago. Large energy users who are positioned to take advantage of these options can gain significant advantage over competitors who are less astute in their energy-management techniques.

Created in June 1995, Heartland Energy Group (HEG) offers its industrial and wholesale energy customers a partnership resulting in both lower energy costs and value-added convenience. HEG consists of Heartland Energy Services, an electricity and natural-gas marketing firm; ENSERV, a developer of small-scale electricity generation units for industrial customers; and HEG Planning Services, an arm of the company providing energy-use planning and analysis.

HEG's flagship, Heartland Energy Services, experienced a successful first year as an electricity and natural-gas marketer. (See sidebar on page 13.) Heartland Energy Services' revenues, which increased more than fourfold in 1995, are expected to continue growing at an even more robust pace in 1996. In 1995, HES



conducted electricity business with 43 utility companies in 33 states. The nation's first utility-affiliated electric-energy marketing company, HES opened its 24-hour operations center in 1995 to better meet the needs of its growing customer base.

Heartland Energy Services' natural-gas marketing business also grew tremendously last year. In 1995 alone, Heartland Energy Services saw its natural-gas customer base increase from 14 primarily Wisconsin buyers to more than 100 buyers located in eight states.

The strategic focus of WPL Holdings in the energy services sector is not consistent with the continuation of its investment in A&C Enercom

ELECTRIC AND GAS MARKETING ACROSS THE NATION

Every day, electricity and natural gas are bought and sold in a rapidly evolving national commodity marketplace. By aggressively packaging the energy product with value-added services, energy marketing companies such as Heartland Energy Services (HES) are meeting customer needs in an increasingly attractive niche in the wholesale energy marketplace.

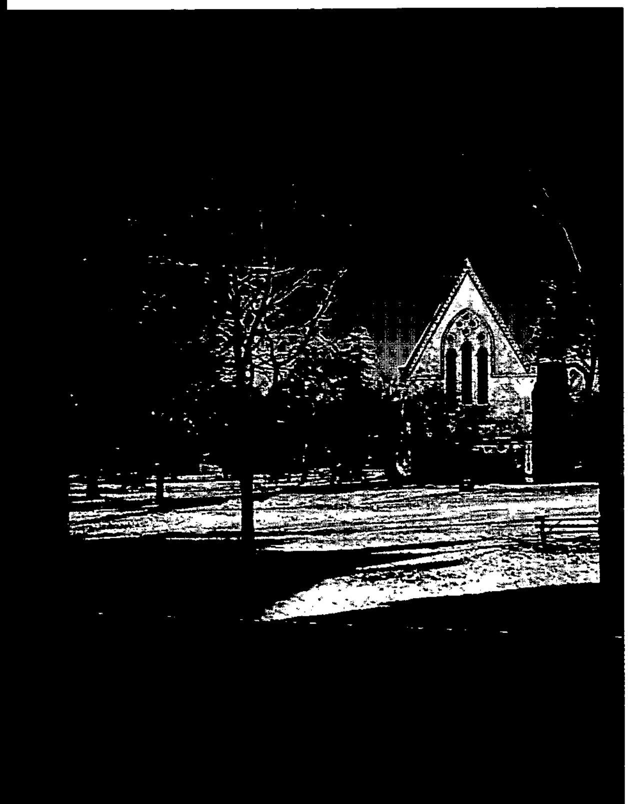
With a fully operative energy marketing business in place only since the summer of 1995, HES has already become a national player in the energy commodity marketing arena.

"Based on electricity volume sold, we already rank among the top 10 percent of power marketing companies," says Rich Friedmon, HES vice president-electric. "With our knowledge and experience as power traders, we speok the language our customers understand and make it very easy for them to do business with us.

"In a fully competitive environment, we will expand our customer base by marketing electricity directly to industrial and other energy-intensive buyers," Friedman says. "We are very excited about our growth prospects."

HES also morkets naturol gas to a wide array of natural gas utilities and large industrial customers. As the residential natural gos marketplace becomes more competitive, HES will aggressively pursue this attractive new base of customers.

"Demand for natural gas and gas-related services is growing at a very fast pace," says Don Dana, HES vice president-gas. "We meet our customers' gas needs by purchosing from producers, natural-gas utilities and other gas marketers."



Located on the shore of Lake Michigan, the 150-year-old historic DeKoven Center provided Heartlond Properties with a unique opportunity to renovate the Gothic style buildings while creating new housing opportunities in Racine, Wis.

Consultants, Inc. As a result, Heartland Development Corp. completed the sale of the operations of A&C Enercom, recognizing a $13.2 million loss in 1995.

ENVIRONMENTAL SERVICES

RMT, Inc., WPL Holdings' environmental and engineering consulting firm, continues to perform very well despite a flat market in the environmental management industry. RMT clients include a wide range of metals manufacturers, chemical and pharmaceutical companies, petroleum refineries, pulp and paper manufacturers and other industries looking to better manage their environmental, health and safety programs. With 24 offices located in 12 states and international operations in Finland, RMT and its affiliated companies offer customized services ranging from specific engineering designs to environmental management strategy consulting. A well-known environmental consultant of choice for clients faced with government-mandated cleanup projects, RMT also serves many clients seeking to enhance the bottom line by installing more cost-effective environmental management systems.

RMT has done business with 65 percent of all *FORTUNE 100* companies and, according to the *Environmental Business Journal*, ranks 31st in revenues among environmental and engineering consulting firms.

In 1995, RMT's net revenue was maintained while several non-strategic niche businesses were sold or closed down. Net income remained flat due to pricing pressures from a more competitive marketplace and regulatory uncertainties.

AFFORDABLE HOUSING

Heartland Properties, Inc. continues to offer valuable investment opportunities in tax-advantaged multi-family real estate to WPL Holdings and other corporate investors. Since its formation in 1988, Heartland Properties has been responsible for the acquisition, development, financing and syndication of more than 100 high-quality affordable housing developments through use of the Federal Low Income Housing Tax Credit (Section 42) Program. A subsidiary company, Heartland Asset Management, administers the jointly-owned affordable housing portfolio currently valued at more than $250 million. The property-management oversight, compliance monitoring and financial reporting to investors are designed to ensure the integrity of these long-term assets and provide competitive returns to WPL Holdings and its investment partners.

In the future, HDC will focus even more closely on serving energy-intensive customers primarily through its energy services and environmental services companies.

THE EXECUTIVE GROUP OF THE WPL HOLDINGS, INC. FAMILY OF COMPANIES

s of December 31, 1995

(Dates in parentheses represent the year each person joined 'PLH and/or subsidiary)

WPL HOLDINGS, INC. (WPLH) CORPORATE OFFICERS

Erroll B. Davis Jr., 51 (1978)
President and Chief Executive Officer

Edward M. Gleason, 55 (1977)
Vice President, Treasurer and Corporate Secretary

Steven F. Price, 43 (1984)
Assistant Corporate Secretary and Assistant Treasurer

WISCONSIN POWER AND LIGHT COMPANY (WP&L) CORPORATE OFFICERS

Erroll B. Davis Jr., 51 (1978)
President and Chief Executive Officer

A.J. (Nino) Amato, 44 (1985)
Senior Vice President

William D. Harvey, 46 (1986)
Senior Vice President

Eliot G. Protsch, 42 (1978)
Senior Vice President

Norman E. Boys, 51 (1973)
Vice President–Power Production

Daniel A. Doyle, 37 (1992)
Vice President–Finance

David E. Ellestad, 55 (1960)
Vice President

Joseph E. Shefchek, 39 (1984)
Assistant Vice President–Environmental Affairs and Research

Barbara J. Swan, 44 (1987)
Vice President and General Counsel

Pamela J. Wegner, 48 (1993)
Vice President–Information Technology and Administration

Kim K. Zuhlke, 42 (1978)
Vice President–Customer Sales and Services

Edward M. Gleason, 55 (1977)
Corporate Secretary

Susan J. Kosmo, 49 (1986)
Assistant Controller

Steven F. Price, 43 (1984)
Assistant Corporate Secretary

David A. Ramos, 39 (1983)
Assistant Controller

Robert A. Rusch, 33 (1989)
Assistant Treasurer

SUBSIDIARY OF WISCONSIN POWER AND LIGHT COMPANY

South Beloit Water, Gas and Electric Company

Erroll B. Davis Jr., 51 (1978)
President and Chief Executive Officer

HEARTLAND DEVELOPMENT CORPORATION (HDC) CORPORATE OFFICERS

Erroll B. Davis Jr., 51 (1978)
Chairman of the Board

Lauce W. Ahearn, 46 (1990)
President and Chief Executive Officer

Joel E. Simpson, 49 (1994)
Vice President, Chief Financial Officer, Treasurer and Secretary

Marilyn C. Bottorff, 49 (1992)
Assistant Corporate Secretary

Edward M. Gleason, 55 (1977)
Assistant Corporate Secretary

HEARTLAND DEVELOPMENT CORPORATION (HDC) COMPANIES

Capital Square Financial Corporation

Joel E. Simpson, 49 (1994)
Chief Executive Officer and President

Heartland Energy Group, Inc.

Claire K. Fulenwider, 53 (1993)
President

Heartland Properties, Inc.

Joel E. Simpson, 49 (1994)
President and Chief Executive Officer

RMT, Inc.

Lance W. Abearn, 46 (1990)
Chairman of the Board

Josepb B. Busby, 56 (1984)
President and Chief Executive Officer

WISCONSIN POWER & LIGHT FOUNDATION, INC.

A.J. (Nino) Amato, 44 (1985)
President

Liuda G. Brei, 47 (1987)
Vice President

Susan J. Kosmo, 49 (1986)
Secretary and Treasurer

1995 WPLH MANAGEMENT CHANGES

New Corporate Officers Named at WP&L and HDC

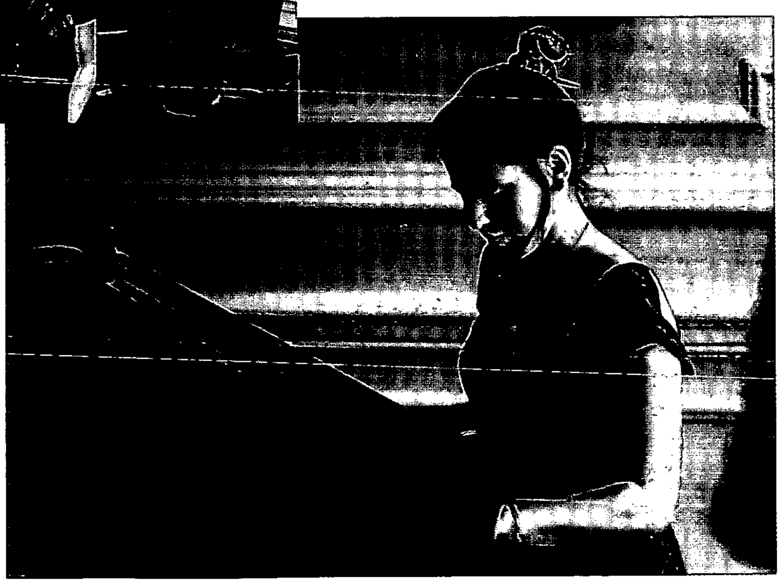
The Wisconsin Power and Light Co. Board of Directors elected three new corporate officers in 1995. On Jan. 23, 1995, David A. Ramos, manager of budgets, rates and cost accounting, was named assistant controller. On Sept. 20, 1995, Susan J. Kosmo, supervisor of trust investments and investor relations, was named assistant controller; and Robert A. Rusch, financial analyst, was named assistant treasurer.

The Heartland Development Corp. Board of Directors elected one new corporate officer in 1995. On Sept. 20, 1995, Claire K. Fulenwider, vice president-general manager of Heartland Energy Services, was named president of the newly created Heartland Energy Group.

CORPORATE *Philanthropy*

Billy Jo Grimm (seated at piano, below), a 1995 Youth Enrichment Scholarship winner who graduated in the top 5 percent of her high school class, offered an impromptu demonstration of her musical skills at the scholarship awards ceremony. The YES program, one of several scholarship programs supported by the WP&L Foundation, is co-sponsored by the Urban League of Greater Madison.

(Inset) WPL Holdings CEO Erroll B. Davis Jr. (far right) and A.J. (Nina) Amato, president of the WP&L Foundation, are pictured with other recipients at the ceremony.

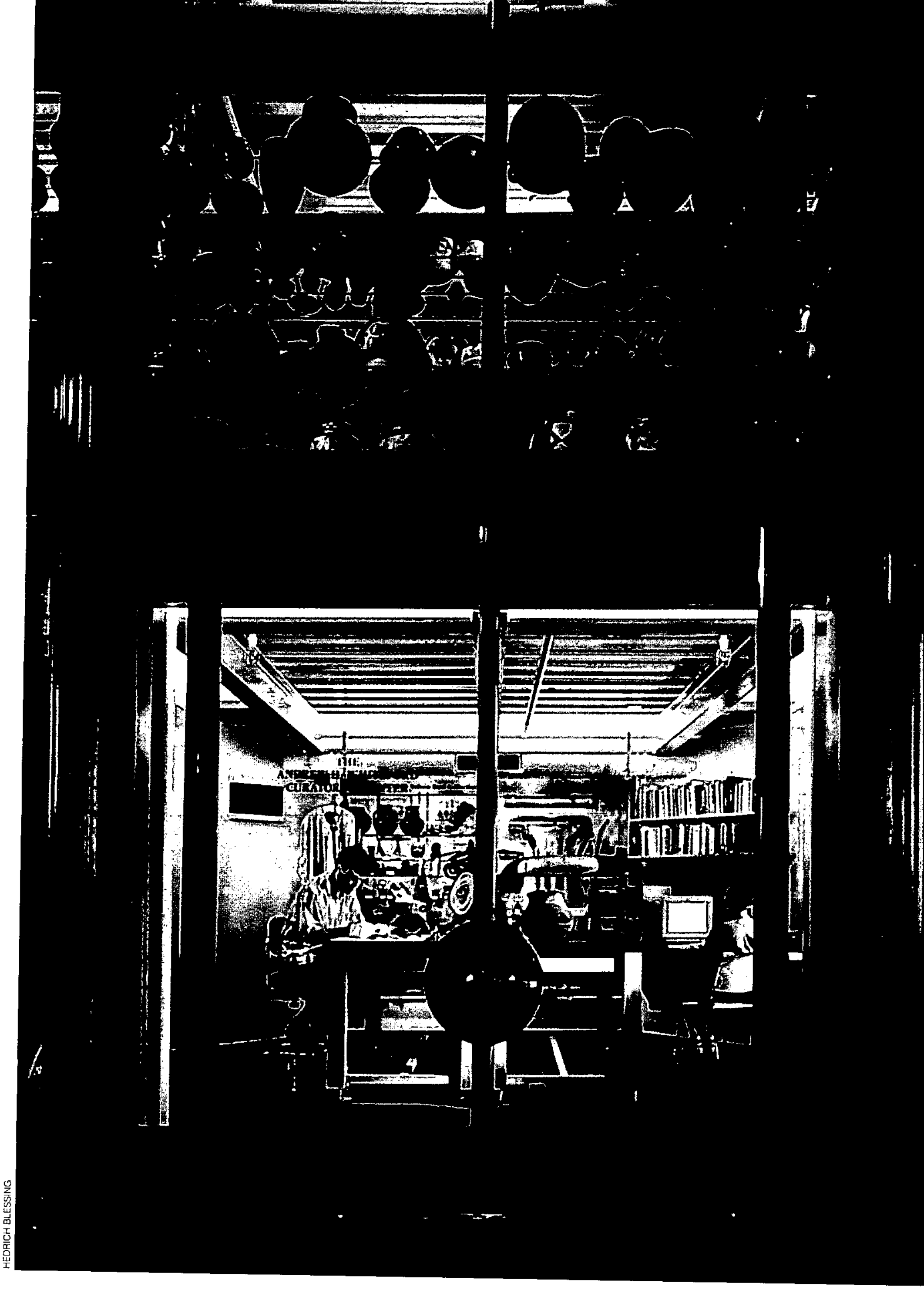


WPL Holdings, Inc. believes strongly that being a good corporate citizen means giving back, both in human and financial capital, to the communities where we serve and live. We encourage the spirit of community through our corporate giving programs and try to foster a similar commitment from our employees, as well.

Through the WP&L Foundation, the company supports a variety of community programs and activities throughout the state of Wisconsin and beyond. One major area of focus for us is educational opportunity. Since 1985, we have given more than 275 scholarships to both students and teachers. Our scholarship programs include the Youth Enrichment Scholarships, which assist socially and economically disadvantaged high school students with their college expenses; the James R. Underkofler awards for excellence in teaching, given to public and private college faculty; and scholarships targeted to students of state technical colleges. We also contribute to the arts, health care facilities, and environmental and community programs that help sustain the quality of life our customers and neighbors enjoy. For example, through our real estate company, REAC, WPLH has set aside 1,600 acres of valuable property along Lake Wisconsin for use as a nature conservancy, where prairie restoration, wetland restoration and oak savannah restoration experiments are taking place.

WPLH's commitment to communities does not stop at the corporate level, however. Our employees also have a reputation for helping to make their communities better places in which to live. In 1995, WPLH employees contributed more than $160,000 to local United Way fund drives. This is in addition to corporate contributions through the WP&L Foundation. Our Stewards of Nature volunteers — recipients of numerous national environmental awards — have been active for several years, sponsoring large and small environmental volunteer projects. (See page 10.)

WPLH's commitment to our communities and customers is demonstrated through our business practices, our corporate giving programs and by the actions of our employees, even beyond their work responsibilities. We are proud that both through the services provided by our companies and through our corporate giving, WPLH is able to positively contribute to the quality of life we all enjoy.

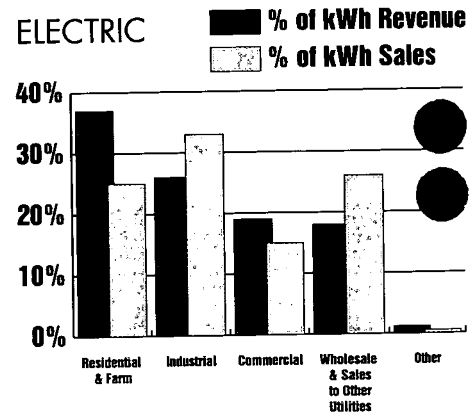


HEDRICH BLESSING

Belait College's Logan Museum of Anthropology is among the building projects supported by the WP&L Foundation. In this newly remodeled facility, students and community members have access to more than 250,000 artifacts from around the world.

Left: During the summer months, WPLH and Operation Fresh Start team up to provide positive work experiences for troubled youth. On our Lake Wisconsin property near Merrimac, students learn good work ethics as well as how to care for the land.

WISCONSIN POWER AND LIGHT CO.



CORPORATE HEADQUARTERS:

Wisconsin Power and Light Co.
Madison, Wis.

Suhsidiary: South Beloit Water, Gas and Electric Co.

FINANCIAL HIGHLIGHTS:

Total assets: $1.64 billion
Operating revenues: $689.7 million
Net income: $75.3 million
Total employees: 2,332
Customers: 403,181
(total electric, gas and water)

SERVICE TERRITORY:

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

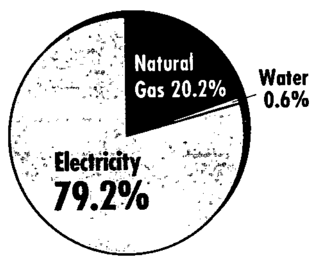
FACILITIES:

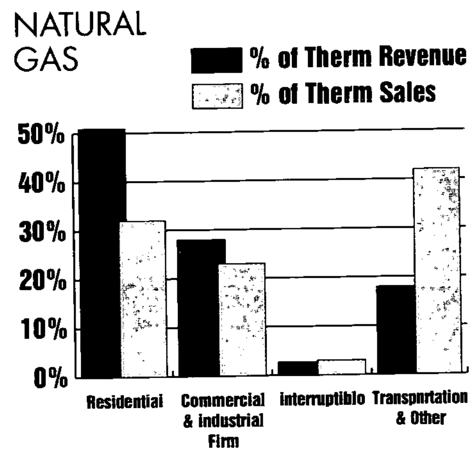
- 8 hydroelectric plants (2 jointly owned)
- 7 natural-gas-fired peaking units
- 4 coal-fired generating stations (includes 9 units; 4 jointly owned)
- 1 gas-fired steam generating plant
- 1 nuclear power plant (jointly owned)
- 1 Customer Service Center
- 1 System Operations Center
- 1 Distribution Dispatch Center

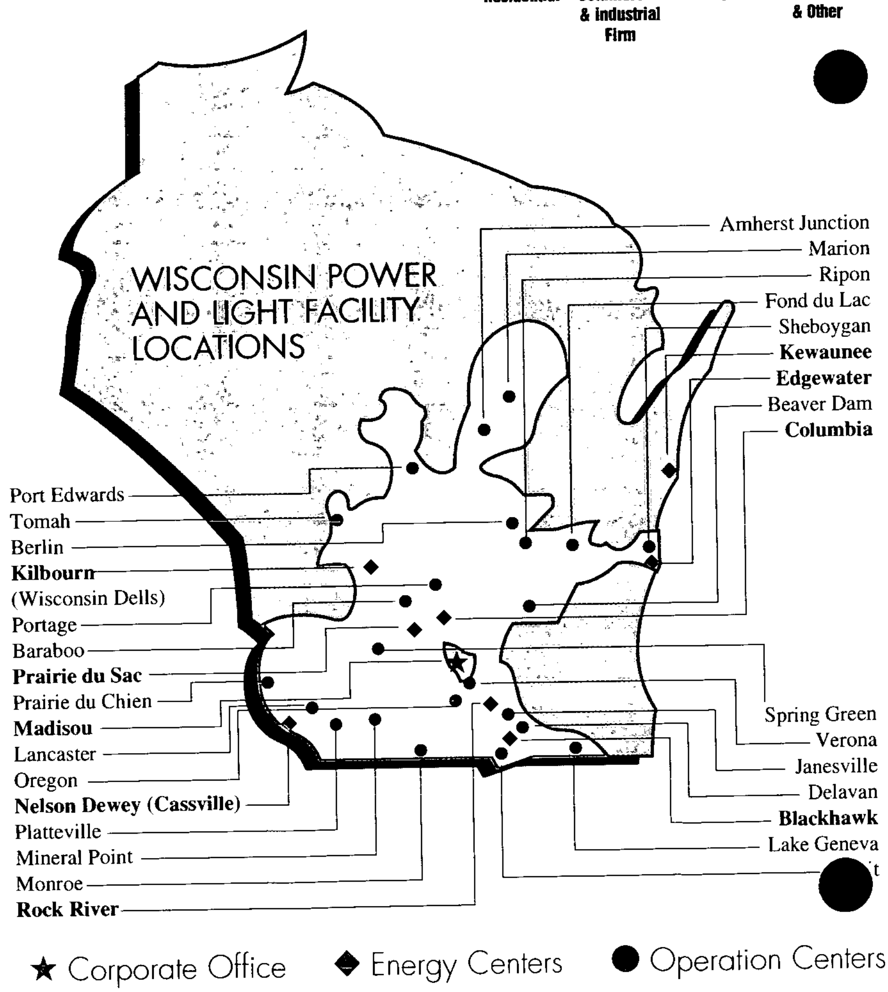
Total system capacity:
2,233 megawatts

Record system peak demand:
2,197 megawatts on July 31, 1995

BREAKDOWN OF WP&L OPERATING REVENUES





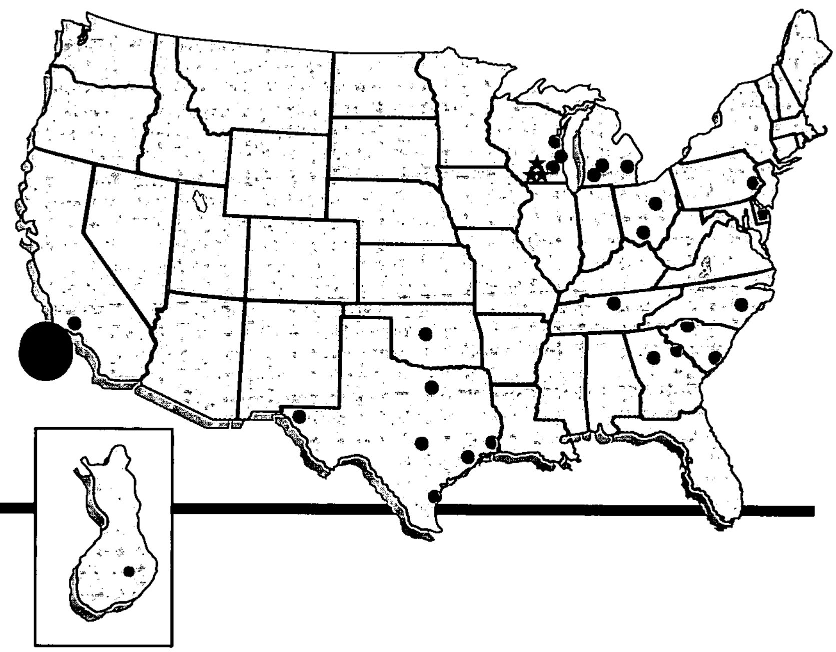


HEARTLAND DEVELOPMENT CORP.

HDC OFFICE LOCATIONS

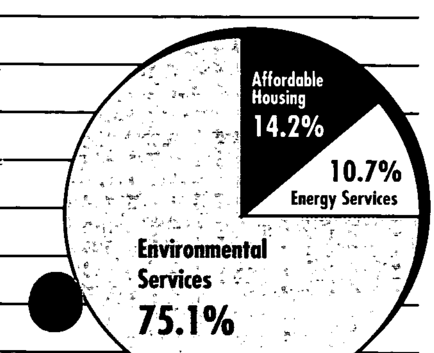
★ Corporate Offices

● Environmental Services Offices

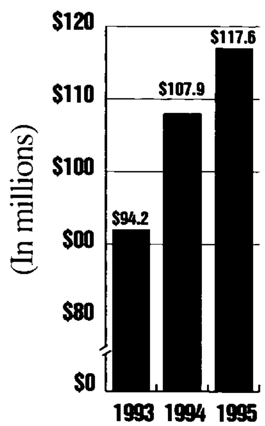


FINLAND

BREAKDOWN OF HDC OPERATING REVENUES



HDC OPERATING REVENUES



CORPORATE HEADQUARTERS:

Heartland Development Corp.,
Madison, Wis.

FINANCIAL HIGHLIGHTS:

Total assets: $227.2 million

Operating revenues: $117.6 million

Net income (loss) from continuing operations: ($1.5 million)

Total employees: 1,224

SUBSIDIARIES:

Energy Services
Entec Consulting, Inc.
Heartland Energy Group, Inc.
Heartland Energy Services, Inc.
ENSERV, Inc.
HEG Planning Services

Environmental Services
RMT, Inc.

Affordahle Housing
Capital Square Financial Corp.
Heartland Asset Management, Inc.
Heartland Capital Company, L.L.C.
Heartland Properties, Inc.

ORGANIZATION:

Four corporate offices:

- *Corporate Headquarters*
  Heartland Development Corp., Madison, Wis.
- *Energy Services*
  Heartland Energy Group, Inc., Madison, Wis.
- *Environmental Services*
  RMT, Inc., Madison, Wis.
- *Affordable Housing*
  Heartland Properties, Inc., Madison, Wis.

General offices:

29 (including one in Finland), located in 25 cities

BOARDS OF DIRECTORS

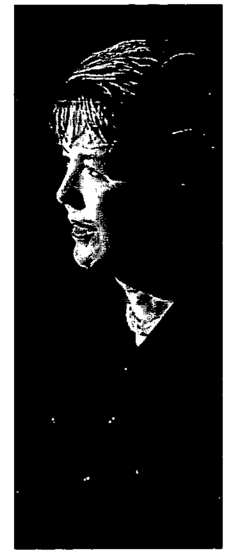
Board members as of December 31,1995 {Bracketed information represents Board/Year Elected.}

ERROLL B. DAVIS JR., 51
President and Chief Executive Officer, WPL Holdings, Inc. and Wisconsin Power and Light Co.; Chairman of the Board, Heartland Development Corp., Madison, Wisconsin
{WPLH/1982}; {WP&L/1984}; {HDC/1988}
Committees: None

L. DAVID CARLEY, 67
Consultant (to institutions and associations specializing in higher education and health delivery, and financial advisor to small businesses), Washington, D.C.
{WPLH/1994}; {WP&L/1983); {HDC/1994}
Committees: Audit, Environmental Affairs, HDC Corporate Operations Review, Nominating (chair)

ARNOLD M. NEMIROW, 52
President, Bowater, Inc., (pulp and paper manufacturer), Greenville, South Carolina
{WPLH/1991}; {WP&L/1994}; {HDC/1991}
Committees: Compensation and Personnel (chair), Nominating, WP&L Corporate Operations Review

CAROL T. TOUSSAINT, 66
Consultant (to nonprofit groups on board organization, fund development and public relations), Madison, Wisconsin
{WPLH/1994}; {WP&L/1976}; {HDC/1994}
Committees: Compensation and Personnel, Environmental Affairs, WP&L Corporate Operations Review (chair)



JUDITH D. PYLE, 52
Vice Chair and Senior Vice President – Corporate Marketing, Rayovac Corp. (battery and lighting–products manufacturer), Madison, Wisconsin
{WPLH/1992}; {WP&L/1994}; {HDC/1992}
Committees: Compensation and Personnel, Nominating, WP&L Corporate Operations Review

WPL HOLDINGS DIRECTOR LES ASPIN DIES

Les Aspin, a member of the boards of directors of WPL Holdings, Inc., Wisconsin Power and Light Co. and Heartland Development Corp., died May 21, 1995, at age 56 from complications related to a stroke. Aspin, former U.S. secretary of defense and congressman, was elected to the boards of WPLH and its subsidiaries in February 1994. "Although his tenure on our boards was too brief, Les was an active director who made a significant contribution," said Erroll Davis, president and CEO of WPLH and WP&L. "We will dearly miss his quick wit and smiling face."

ROCKNE G. FLOWERS, 64

President and Director, Nelson Industries, Inc. (muffler, filter, industrial-silencer, and active sound and vibration-control technology manufacturing firm), Stoughton, Wisconsin {WPLH/1981}; {WP&L/1994}; {HDC/1990}
Committees: Audit, HDC Corporate Operations Review (chair), Nominating

DONALD R. HALDEMAN, 59

Executive Vice President and Chief Executive Officer, Rural Insurance Companies (mutual insurance group), Madison, Wisconsin; and farm owner-operator, Norwalk, Wisconsin {WPLH/1994}; {WP&L/1985}; {HDC/1994}
Committees: Audit, Environmental Affairs (chair), WP&L Corporate Operations Review

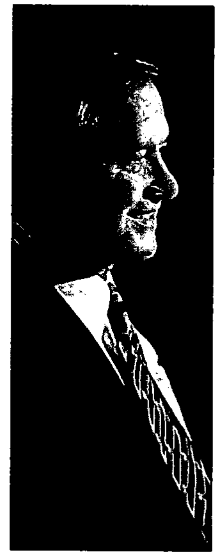
KATHARINE C. LYALL, 54

President, University of Wisconsin System, Madison, Wisconsin {WPLH/1994}; {WP&L/1986}; {HDC/1994}
Committees: Audit (chair), HDC Corporate Operations Review, Nominating

*** LANCE W. AHEARN, 46**

President and Chief Executive Officer, Heartland Development Corp., (WPLH subsidiary specializing in energy, environmental and housing services), Madison, Wisconsin {HDC/1990}
Committees: None

*Heartland Development Corp. Board Only



MILTON E. NESHEK, 65

President, Chief Executive Officer and Director, Godfrey, Neshek, Worth & Leibsle, S.C. (law firm), Elkhorn, Wisconsin; Director, General Counsel, Assistant Secretary and Manager, New Market Development, Kikkoman Foods, Inc. (food–products manufacturer), Walworth, Wisconsin {WPLH/1986}; {WP&L/1984}; {HDC/1994}
Committees: Compensation and Personnel, Environmental Affairs, HDC Corporate Operations Review

HENRY C. PRANGE, 68

Retired Chairman of the Board, H.C. Prange Company (retail department stores), Green Bay, Wisconsin {WPLH/1986}; {WP&L/1965}; {HDC/1994}
Committees: Compensation and Personnel, HDC Corporate Operations Review, Nominating

HENRY SCHEIG RETIRES FROM BOARD

Henry F. Scheig, 70, retired from the WPL Holdings Board of Directors May 17, 1995. A 15-year veteran of the WPLH board, Scheig, until December 1994, was chairman of the board of the Aid Association for Lutherans, a fraternal benefit society headquartered in Appleton, Wis. Scheig's association with WPLH began in 1980, when he was named to the Wisconsin Power and Light Co. Board of Directors.

SELECTED FINANCIAL DATA

	1995	1994	1993	1992	1991
		(in millions except for per-share data)			
Operating revenues	**$807**	$796	$739	$673	$670
Income from continuing operations	**$72**	$66	$64	$58	$66
Per share	**$2.33**	$2.17	$2.15	$2.10	$2.42
Discontinued operations	**$(13)**	$(1)	$(1)	—	—
Per share	**$(0.43)**	$(0.04)	$(0.04)	—	—
Net income available for common stockholders	**$58**	$65	$63	$58	$66
Per share	**$1.90**	$2.13	$2.11	$2.10	$2.42
Cash dividends paid per share	**$1.94**	$1.92	$1.90	$1.86	$1.80
Total assets (at December 31)	**$1,872**	$1,806	$1,762	$1,566	$1,383
Long-term debt, net (at December 31)	**$430**	$448	$425	$418	$367

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

1995 COMPARED WITH 1994

O V E R V I E W

Earnings per share of WPL Holdings, Inc. (the "Company") common stock decreased to $1.90 in 1995 from $2.13 in 1994 reflecting the 43-cent impact of discontinued operations arising from the sale of A&C Enercom Consultants, Inc., which is discussed in the "Other Events" section of the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"). Consolidated income per share from continuing operations increased to $2.33 in 1995 as compared to $2.17 in 1994, after reflecting a restatement of the prior year for discontinued operations.

The 16-cent increase per share from continuing operations reflects the impact of two non-recurring items in 1994 as well as higher earnings in 1995 at the Company's utility subsidiary, Wisconsin Power and Light Company ("WP&L"). The higher earnings at the utility subsidiary were primarily the result of higher electric and gas margins (see "Electric Operations and Gas Operations" section of the MD&A) and aggressive cost management.

The two non-recurring items affecting net income for 1994 were the reversal of a coal contract penalty and costs associated with early retirement and severance programs. The coal contract item is discussed in the "Other Events" section of the MD&A. The following break out presents the recurring aspects of 1995 and 1994 operations.

	1995	1994
Earnings per share, as reported	**$1.90**	$2.13
Per share impact of discontinued operations	**0.43**	0.04
Earnings per share from continuing operations	**2.33**	2.17
Non-recurring items		
Coal contract penalty reversal	—	(0.16)
Early retirement and severance costs	—	0.27
Earnings per share from continuing operations before non-recurring items	**$2.33**	$2.28

Heartland Development Corp., ("HDC"), parent company of the Company's non-regulated operations, reported a loss from continuing operations of $1.5 million in 1995 and a gain of $0.1 million in 1994. The decline in earnings is primarily the result of higher interest expense and new business development costs.

Electric Operations

	Revenues and Costs (In Thousands)		% Change	kWhs Sold (In Thousands)		% Change	Customers at End of Year		% Change
	1995	1994		**1995**	1994		**1995**	1994	
Residential and Farm	**$199,850**	$194,242	3%	**2,937,825**	2,776,895	6%	**329,643**	322,924	2%
Industrial	**140,562**	140,487	0%	**3,872,520**	3,764,953	3%	**795**	776	2%
Commercial	**102,129**	101,382	1%	**1,773,406**	1,688,349	5%	**44,730**	43,793	2%
Wholesale and Class A ...	**97,350**	86,400	13%	**3,109,385**	2,574,121	21%	**48**	42	14%
Other	**6,433**	9,236	(30%)	**54,042**	54,518	(1%)	**1,294**	1,256	3%
Total	**546,324**	531,747	3%	**11,747,178**	10,858,836	8%	**376,510**	368,791	2%
Electric Production Fuels	**116,488**	123,469	(6%)						
Purchased Power	**44,015**	37,913	16%						
Margin	**$385,821**	$370,365	4%						

Electric margin increased 4 percent during 1995 compared with 1994 primarily due to higher sales combined with reduced aggregate costs per kWh for electric production fuels and purchased power. Kilowatthour sales increased 8 percent due to a much warmer summer than normal, increased sales to other utilities, a 2 percent growth in customers, and continued economic strength in the service territory. Partially offsetting these sales increases was a 2.8 percent decrease in retail electric rates effective January 1, 1995.

A record setting heat wave resulted in WP&L setting a system peak of 2,197 megawatts on July 31, 1995. This reflects a 9.7 percent increase over the previous record system peak of 2,002 megawatts set in 1994.

While overall kWh sales increased, the aggregate costs of electric production fuels and purchased power remained relatively unchanged. The stability of these costs reflects lower coal and transportation costs at WP&L's generating units in 1995 as well as the availability of attractive purchased power opportunities in the bulk power market.

Gas Operations

	Revenues and Costs (In Thousands)		% Change	Therms Sold (In Thousands)		% Change	Customers at End of Year		% Change
	1995	1994		**1995**	1994		**1995**	1994	
Residential and Farm	**$70,382**	$71,555	(2%)	**126,903**	119,562	6%	**129,576**	124,938	4%
Firm	**39,456**	41,918	(6%)	**91,316**	87,487	4%	**15,976**	15,531	3%
Interruptible	**3,708**	8,777	(58%)	**12,148**	24,809	(51%)	**257**	272	(6%)
Transport. and Other	**25,619**	29,681	(14%)	**169,121**	142,252	19%	**284**	240	18%
Total	**139,165**	151,931	(8%)	**399,488**	374,110	7%	**146,093**	140,981	4%
Purchased Gas	**84,002**	100,942	(17%)						
Margin	**$55,163**	$50,989	8%						

Gas margin increased 8 percent during 1995 compared with 1994 primarily as a result of higher sales volumes and favorable gas procurement strategies. Therm sales increased 7 percent principally due to residential customer growth reflecting the favorable economic conditions in WP&L's service territory and colder than normal weather in the fourth quarter, offsetting a mild January and February. The 8-percent decrease in gas revenues was the result of a pass through to customers of the lower cost of purchased gas. Under the current rate structure, future reductions in revenues resulting solely from such pass through would not be expected to have a material impact on earnings. The gas incentive program authorized by the Public Service Commission of Wisconsin ("PSCW") in its most recent rate order also resulted in additional pre-tax earnings of $750,000 in 1995.

Fees, Rents and Other Revenues

Fees, rents and other revenues primarily reflect sales and revenues of the Company's non-regulated subsidiaries, consolidated under Heartland Development Corp., as adjusted for discontinued operations. Revenues of the principal businesses of HDC were as follows:

	1995	1994
	(in millions)	
Environmental and engineering services	**$88.6**	$87.7
Other	**29.0**	20.2
	$117.6	$107.9

The increase in other revenues in 1995 was attributable to higher energy marketing revenues and syndication fees associated with the development of affordable housing properties for institutional investors. Due to uncertainties as to the future of the affordable housing tax credit program, the Company is not making additional commitments in this area at this time. While revenues of the environmental and engineering business were relatively unchanged, margins were lower in 1995 reflecting greater price competition in that industry.

In addition to the revenues of the non-regulated businesses, fees, rents and other revenues also include revenue received from the water utility operations of WP&L. These revenues represented $4.2 million and $4.1 million, respectively, in 1995 and 1994.

Operating Expenses

Operations expense includes expenses related to the Company's utility operations, parent company and the non-regulated businesses of HDC. The distribution of operations expense was as follows:

	1995	1994
	(in millions)	
Utility operations	**$137.4**	$148.4
Non-regulated businesses and parent company operations	**113.4**	97.8
Total	**$250.8**	$246.2

The decline in utility-related operations expense principally reflects the impact of a $13.7 million charge for early retirement and severance costs in 1994. While the utility was able to achieve savings in 1995 from its continued reengineering of operations, these savings were offset somewhat by higher conservation expenses.

The increase in operations expense associated with the non-regulated businesses and parent company principally reflects higher costs at the energy marketing company, Heartland Energy Services, Inc. In addition, this business experienced additional administrative costs associated with new business development resulting in an operating loss in 1995 of 3 cents per share. The environmental and engineering business also incurred higher operations costs. However, as a result of realigning its business in 1995 through the sale of selected operations as discussed in the "Other Income and Deductions" section of the MD&A, the environmental and engineering business was able to maintain a 7 cent per share contribution to earnings in both 1995 and 1994.

As is typical of the affordable housing business, operating expenses exceeded operating income. However, after adjusting for the tax benefits and credits associated with this business, the affordable housing business contributed approximately 4 cents per share in 1995 and 3 cents per share in 1994.

The increase in depreciation expense in 1995 is primarily the result of property additions at the utility and higher contributions to WP&L's external nuclear decommissioning trust.

Other Income and Deductions

Other income and deductions in 1994 include after-tax income of $5.3 million related to the reversal of a coal contract penalty as discussed in the "Other Events" section of the MD&A. In addition, income associated with the allowance for funds used during construction ("AFUDC") decreased in 1995 due to significantly lower construction-work-in-progress amounts and a lower Federal Energy Regulatory Commission ("FERC") AFUDC rate.

Other income also includes $2.2 million associated with the gain on the sale of various investments and environmental consulting divisions in 1995 by HDC, offset somewhat by expenses associated with the Company's plans to merge with two Iowa-based utility companies. See the "Other Events" section of the MD&A.

Interest Expense

Interest expense increased due to the higher levels of short-term debt and higher short-term interest rates. During the second quarter of 1995, WP&L repurchased $18 million of its Series V bonds from private investors. WP&L applied revenue neutral treatment to these reacquired bonds, which are anticipated to be refinanced in 1996.

Income Taxes

Despite higher operating income in 1995, the income tax expense was unchanged due to prior years' tax adjustments resolved in 1995.

1994 COMPARED WITH 1993

OVERVIEW

Earnings per share of the Company's common stock increased to $2.13 in 1994 compared with $2.11 in 1993. Earnings per share from continuing operations increased from $2.15 in 1993 to $2.17 in 1994 reflecting the sale of A&C Enercom Consultants, Inc. (see "Other Events" section of the MD&A). Earnings for 1994 were significantly affected by two non-recurring items from the Company's utility subsidiary, WP&L. These items were the reversal of a coal contract penalty, and costs associated with early retirement and severance programs, which primarily occurred in the fourth quarter. The reversal of the coal contract penalty is discussed in the "Other Events" section of the MD&A. The following break out presents the recurring aspects of 1994 and 1993 operations.

	1994	1993
Earnings per share, as reported	$2.13	$2.11
Per share impact of discontinued operations	0.04	0.04
Earnings per share from continuing operations	2.17	2.15
Non-recurring items		
Coal contract penalty reversal	(0.16)	—
Early retirement and severance costs	0.27	0.04
Earnings per share before non-recurring items	$2.28	$2.19

The increase in the "Earnings per share before non-recurring items" primarily reflects an increase in operating earnings from WP&L. The increase was somewhat offset by program start-up costs associated with expansion of the affordable housing and energy marketing services businesses of the Company's non-regulated subsidiary, Heartland Development Corp.

Electric Operations

	Revenues and Costs (In Thousands)		% Change	kWhs Sold (In Thousands)		% Change	Customers at End of Year		% Change
	1994	1993		1994	1993		1994	1993	
Residential and Farm	$194,242	$184,176	5%	2,776,895	2,751,363	1%	322,924	316,870	2%
Industrial	140,487	132,903	6%	3,764,953	3,540,082	6%	776	714	9%
Commercial	101,382	95,977	6%	1,688,349	1,629,911	4%	43,793	42,884	2%
Wholesale and Class A ...	86,400	78,955	9%	2,574,121	2,388,131	8%	42	39	8%
Other	9,236	11,176	(17%)	54,518	51,073	7%	1,256	1,236	2%
Total	531,747	503,187	6%	10,858,836	10,360,560	5%	368,791	361,743	2%
Electric Production Fuels	123,469	123,919	0%						
Purchased Power	37,913	28,574	33%						
Margin	$370,365	$350,694	6%						

WP&L's electric margin increased 6 percent during 1994 compared to 1993. The primary factor was a 3.8 percent retail rate increase effective October 1, 1993. Strong economic conditions in the industrial and commercial customer classes and residential customer growth contributed to higher sales.

Electric production fuel costs were reasonably stable for 1994. The volume of purchased power increased as a result of WP&L's efforts to conserve coal inventories during a rail strike in the third quarter of 1994. The financial impact on WP&L's operating results was not material.

Gas Operations

	Revenues and Costs (In Thousands)		% Change	Therms Sold (In Thousands)		% Change	Customers at End of Year		% Change
	1994	1993		1994	1993		1994	1993	
Residential and Farm	$71,555	$71,632	0%	119,562	120,005	0%	124,938	120,829	3%
Firm	41,918	40,748	3%	87,487	87,038	1%	15,531	15,088	3%
Interruptible	8,777	11,247	(22%)	24,809	27,872	(11%)	272	261	4%
Transport. and Other	29,681	13,643	118%	142,252	84,877	68%	240	85	182%
Total	$151,931	$137,270	11%	374,110	319,792	17%	140,981	136,263	3%
Purchased Gas	$100,942	$90,505	12%						
Margin	$50,989	$46,765	9%						

Gas margin increased 9 percent in 1994 from 1993 primarily due to a 1.4 percent retail rate increase effective October 1, 1993, and higher sales to firm service customers. The overall cost of purchased gas declined reflecting WP&L's effective use of opportunities on the gas spot market.

Fees, Rents and Other Revenues

Environmental services revenue increased due to continued strong demand. Other revenues increased due to an increased number of affordable housing project syndications.

Operating Expenses

Operations expense increased primarily due to several early retirement and severance programs offered in 1994 and increased program start-up costs associated with the expansion of the Company's affordable housing and energy services businesses. Depreciation expense increased, principally reflecting increased property additions and increased decommissioning costs.

Partially offsetting these costs were reductions in WP&L's operating costs resulting from the ongoing reengineering of its processes. Maintenance expense decreased between years due to the variation in the timing and extent of maintenance on its generating facilities between years. Secondarily, a severe storm in the summer of 1993 increased 1993's maintenance expense related to service restoration.

Other Income and (Deductions)

Other income increased resulting from the reversal of a coal contract penalty which is discussed in the "Other Events" section of the MD&A.

Income Taxes

Income taxes increased between years primarily due to higher taxable income. Affordable housing tax credits declined as HDC reduced its ownership interests in qualifying properties late in 1993, placing more emphasis on the generation of syndication and development fees and retaining only small ownership interests in additional properties.

LIQUIDITY AND CAPITAL RESOURCES

During 1995 and 1994 the Company generated sufficient cash flows from operations and short-term borrowings to cover operating expenses, cash dividends, and investment activities. In 1993, cash flows from operations covered a portion of investing activities, the remainder was generated through the issuance of common stock and long and short-term debt. Cash flows from operations increased to $186 million in 1995 compared with $172 million and $148 million in 1994 and 1993, respectively.

Rates and Regulatory Matters

Effective January 1, 1995, for the two-year period ended December 31, 1996, the PSCW in rate order UR-109, authorized a 2.8 percent annual decrease in electric rates and a 0.5 percent annual increase in gas rates, and a decline in the allowed return on common equity to 11.5 percent from the previous 11.6 percent. None of these events is expected to have a material impact on earnings. Further, the PSCW approved certain incentive programs described below:

1. The retail electric fuel adjustment mechanism, which allowed costs to fluctuate within a 3-percent band width, was eliminated. The elimination of the adjustment mechanism did not have a material effect on 1995 earnings and is not expected to materially impact 1996 results.

2. The automatic purchased gas adjustment clause was also eliminated. The fluctuations in the commodity cost of gas above or below a prescribed commodity price index will serve to increase or decrease WP&L's margin on gas sales. Both benefits and exposures are subject to customer sharing provisions. WP&L's share is capped at $1.1 million pre-tax. For 1995, WP&L earned $750,000 pre-tax under this incentive mechanism. The customers' share of this program is $1.1 million pre-tax, which will be refunded to customers in April 1996. The refund has been fully reserved in the 1995 financial results.

3. In order to promote air quality and delivery system reliability, there are SO_2 emissions and service reliability incentive clauses. Positive incentives available under these clauses include $1.5 million pre-tax for the SO_2 emissions and $.5 million pre-tax for the service reliability. WP&L's earnings are also negatively exposed for equal amounts. For calendar year 1995, WP&L collected $2.0 million pre-tax in revenues and also deferred $2.1 million pre-tax in revenues. WP&L plans to refund the $2.1 million to customers in April 1996, resulting in no material impact on 1995 revenues.

Industry Outlook

The primary business of WPL Holdings, Inc. is that of its public utility, WP&L, which is subject to regulation by the PSCW and the FERC. The stated goal of the PSCW in its natural gas docket is to move all gas supply activities out of the existing regulated distribution utilities and allow independent units to compete for the business. The goal of the electric utility restrncturing process is to create open access transmission and distribution services for all customers with competitive generation and customer service markets. Additional proceedings as well as consultation with the legislature are planned prior to a target implementation date after the year 2000. The Company cannot currently predict what impact, if any, these proceedings may have on its future financial condition or results of operations. The Company believes, however, that it is well-positioned to compete in a deregulated environment. WP&L's rates to all customer classes are competitive within the state of Wisconsin and below the average in the Midwest region.

The FERC is developing regulation which will begin to provide open access to utility transmission facilities for wholesale electric customers subject to certain approved FERC tariffs. WP&L believes its existing open access tariffs position it well to compete under such market conditions.

Financing and Capital Structure

The level of short-term borrowings fluctuates based on seasonal corporate needs, the timing of long-term financing, and capital market conditions. The Company's operating subsidiaries generally borrow on a short-term basis to provide interim financing of construction and capital expenditures in excess of available internally generated funds. The subsidiaries periodically reduce their outstanding short-term borrowings through the issuance of long-term debt and through the Company's additional investment in their common equity. To maintain flexibility in its capital structure and to take advantage of favorable short-term rates, the Company also uses proceeds from the sales of accounts receivable and unbilled revenues to finance a portion of its long-term cash needs. The Company also anticipates that short-term debt funds will continue to be available at reasonable costs due to strong ratings by independent utility analysts and rating services. Commercial paper has been rated A-1+ by Standard & Poor's Corp. and P-1 by Moody's Investors Service. Bank lines of credit of $141.9 million at December 31, 1995, are available to support these borrowings.

The Company has only limited involvement with derivative financial instruments and does not use them for trading purposes. They are used to manage well-defined interest rate and gas commodity price risks. The Company enters into interest rate swap agreements to reduce the impact of changes in interest rates on its floating-rate long-term debt, short-term debt and the sales of its accounts receivable. The total notional amount of interest rate swaps was $123 million and $150 million, respectively, for the years ended December 31, 1995 and 1994. The Company uses gas commodity swaps to hedge the price risks associated with the purchase and sale of stored gas.

The Company's capitalization at December 31, 1995, including the current maturities of long-term debt, variable rate demand bonds and short-term debt, consisted of 47 percent common equity, 5 percent preferred stock and 48 percent debt. The common equity to total capitalization ratio at December 31, 1995, decreased to 47 percent from 49 percent at December 31, 1994.

In accordance with the terms of the Merger Agreement (see "Other Events" section of the MD&A), the Company may not declare or pay any dividends on any of its capital stock other than the obligations that exist with respect to cumulative preferred stock, and regular quarterly dividends on common stock may not exceed 105 percent of the common stock dividends from the prior year.

The retail rate order effective January 1, 1995, requires WP&L to maintain a utility common equity level of 51.93 percent of total utility capitalization during the two-year period ending December 31, 1996. In addition, the PSCW ordered that it must approve the payment of dividends by WP&L to the Company that are in excess of the level forecasted for 1995 ($58.1 million), if such dividends would reduce WP&L's average common equity ratio below 51.93 percent. At December 31, 1995, WP&L's common equity ratio was 52.6 percent.

Capital Requirements

The Company's largest subsidiary, WP&L, is a capital-intensive business and requires large investments in long-lived assets. Therefore, the Company's most significant capital requirements relate to construction expenditures. Additions to utility plant decreased in 1995 by $29.6 million and in 1994 by $25.9 million primarily due to the completion of two 86-megawatt combustion turbine generators in 1994. Estimated capital requirements for WP&L for the next five years are as follows:

	1996	1997	1998	1999	2000
			(in millions)		
Construction expenditures					
Electric	$81.5	$79.5	$75.3	$77.9	$72.0
Gas, water and common	41.7	38.9	31.1	31.4	32.1
Nuclear fuel	8.3	10.0	8.2	9.7	13.7
Decommissioning fund	15.4	16.3	17.2	18.3	18.7
AFUDC	2.5	2.2	1.3	1.4	1.4
Total construction expenditures	149.4	146.9	133.1	138.7	137.9
Changes in working capital and other	(8.3)	7.1	(16.3)	.2	(6.1)
Total construction and operating capital	141.1	154.0	116.8	138.9	131.8
Long-term debt maturities	—	55.0	8.9	—	1.9
Manufactured gas plant remediation	6.8	11.4	8.6	0.6	0.6
Total capital requirements	$147.9	$220.4	$134.3	$139.5	$134[illegible]

Included in the construction expenditure estimates, in addition to the recurring additions and improvements to the distribution and transmission systems, are the following: 1) expenditures for managing and controlling electric line losses and for the electric delivery system that will reduce electric line losses and enhance WP&L's interconnection capability with other utilities; 2) expenditures related to upgrading computer systems to improve productivity and customer service; and 3) expenditures associated with the construction of an 86-megawatt combustion-turbine generator expected to become operational in 1996. The decommissioning expenditures represent both the amount of annual contribution to external trust funds and the income earned on the external trust funds. These amounts are recorded in depreciation expense and recovered in rates. The Company expects to contribute $10.7 million annually to this fund.

The steam generator tubes at the Kewaunee Nuclear Power Plant ("Kewaunee") are susceptible to corrosion characteristics seen throughout the nuclear industry. During the first quarter of 1995, Kewaunee was shutdown for scheduled maintenance and refueling. Inspection of the steam generators revealed increased levels of tube degeneration. Prior to shutdown, the equivalent of approximately 12 percent of the tubes in the steam generators were plugged, with no loss of capacity. When the plant was returned to service in May 1995, approximately 21 percent of the tubes were plugged.

As a result of the need to address the repair or replacement of the steam generators, the owners of Kewaunee have been, and are continuing to evaluate various alternatives to deal with the capacity degradation of the steam generator tubes. As part of this evaluation the owners have:

(a) submitted a request to the NRC to redefine the pressure boundary point of the repaired steam generator tubes (sleeved tubes) which have been removed from service by plugging, in order to allow the return of many of the sleeved tubes to service. If the request is granted, even if additional degraded tubes would be discovered during the next planned shutdown in the fall of 1996, the requested redefinition of the pressure boundary point should allow the plant to return to full output. Testing of three tubes removed during the 1995 refueling outage indicates structural soundness equal to the original tube strength. Management believes the request will be granted by the NRC;

(b) requested approval from the NRC to pursue welded repair technologies to return plugged tubes to service. Although welded tube repair technologies exist, the technology is not presently approved by the NRC; and

(c) continued to evaluate the economics of replacement of the steam generators. The replacement of steam generators is estimated to cost approximately $100 million, exclusive of additional purchased power costs associated with an extended shutdown.

The owners continue to evaluate the potential financial and regulatory implications of a change in ownership (which would likely require as a condition precedent, authority to replace the steam generator) or early shutdown of Kewaunee. WP&L believes that the best near term economic alternative for the owners of Kewaunee is to continue to pursue tube recovery and repair processes. WP&L will reassess its views of available alternatives based on the condition of steam generator tubes during the fall 1996 refueling outage. On December 31, 1995, the net book value of WP&L's share of Kewaunee was $57.0 million.

Physical decommissioning of Kewaunee is expected to occur during the period 2014 to 2021 with additional expenditures being incurred during the period 2022 to 2050 related to the storage of spent nuclear fuel at the site. The undiscounted amount of decommissioning costs estimated to be expended between the years 2014 and 2050 is $1,016 million. Wisconsin utilities operating nuclear generating plants are required by the PSCW to establish external trust funds to provide for the decommissioning of such plants. WP&L's share of the decommissioning costs is estimated to be $169 million in 1995 dollars, assuming the plant is operating through 2013, based on a 1992 site-specific study, using the immediate dismantlement method of decommissioning. The market value of the investments in the funds established by WP&L at December 31, 1995, totaled $73.4 million.

Capital requirements for HDC, the Company's non-utility subsidiary, generally consist of funds used for investing in development of affordable housing projects and for business acquisition activity. In addition, funds are required periodically to provide for changes in working capital for the operations of existing businesses.

In addition to those items mentioned above, requirements at HDC over the next five years are expected to emphasize implementation of project development at the energy marketing company, Heartland Energy Group ("HEG"). ENSERV, a subsidiary of HEG, will provide energy supply services for customers including project feasibility, engineering, financing and management.

Capital Resources

One of the Company's objectives is to finance utility construction expenditures through WP&L's internally generated funds supplemented, when required, by outside financing. With this objective in place, WP&L has financed an average of 68 percent of its construction expenditures during the past five years from internal sources. However, during the next five years, the Company expects this percentage to increase primarily due to a relatively stable level of construction expenditures and higher depreciation rates beginning in 1997. External financing sources such as the issuance of long-term debt, short-term borrowings and equity contributions from its parent, WPL Holdings, Inc. will be used by WP&L to finance the remaining construction expenditure requirements for this period. Expectations are that approximately $60 million of long-term debt will be issued in 1996. HDC's financing of capital requirements will be accomplished through internally generated funds, supplemented by external borrowings and equity contributions from WPL Holdings, Inc.

NEW ACCOUNTING PRONOUNCEMENTS

In October 1995, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 "Accounting for Stock Based Compensation Plans" which establishes standards of financial accounting and reporting for stock based compensation plans. As allowed under SFAS No. 123, the Company will continue to apply APB No. 25, "Accounting for Stock Issued to Employees," in accounting for stock based compensation plans when the statement becomes effective in 1996. As a result, this statement will have no impact on the financial position or results of operations of the Company.

In March 1995, the FASB issued Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of." This statement imposes stricter criteria for evaluating the recoverability of regulatory assets and real estate investments. The Company adopted this standard on January 1, 1996, and does not expect that adoption will have a material impact on the financial position or results of operations of the Company which may change in the future as competitive factors influence wholesale and retail pricing in the utility industry.

INFLATION

The impacts of inflation on WP&L are currently mitigated through current ratemaking methodologies. Although rates will be held flat until at least 1997, management expects that any impact of inflation will be mitigated by customer growth and productivity improvements. Inflationary impacts on the non-regulated businesses are not anticipated to be material to the Company.

OTHER EVENTS

Sale of Business Segment

The Company's financial statements reflect the discontinuance of operations of A&C Enercom Consultants, Inc., its utility energy and marketing consulting business, in 1995. The discontinuance of this business resulted in a pre-tax loss of $7.7 million ($11.0 million net of the applicable income tax expenses). Operating revenues, operating expenses, other income and expense and income taxes from the discontinued operations for the time periods presented have been excluded from income from continuing operations. Interest expense has been adjusted for the amounts associated with direct obligations of the discontinued operations.

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

	Year Ended December 31,		
	1995	1994	1993
		(in thousands)	
Operating revenues	**$24,979**	$34,798	$33,340
Loss from discontinued operations before income tax	**$3,663**	$1,806	$1,761
Income tax benefit	**1,451**	632	599
Loss from discontinued operations	**$2,212**	$1,174	$1,162

Coal Contract Penalty

In November 1989, the PSCW concluded that WP&L did not properly administer a coal contract, resulting in an assessment to compensate ratepayers for excess fuel costs having been incurred. As a result, WP&L recorded a reserve in 1989 that had an after-tax effect of reducing 1989 net income by $4.9 million. The PSCW decision was found to represent unlawful retroactive rate-making by both the Dane County Circuit Court and the Wisconsin Court of Appeals. The case was then appealed to the Wisconsin Supreme Court.

In January 1994, the Wisconsin Supreme Court affirmed the decisions of the Dane County Circuit Court and Wisconsin Court of Appeals. In management's opinion, all avenues for appeal have been exhausted. As a result, WP&L reversed the entire reserve and was also allowed to collect interest on amounts of the penalty previously refunded to ratepayers. The reversal of the reserve plus interest had an after-tax affect of increasing net income in 1994 by $5.3 million.

Proposed Merger

The Company, IES Industries Inc. ("IES"), and Interstate Power Co. ("IPC") have entered into an Agreement and Plan of Merger ("Merger Agreement"), dated November 10, 1995, providing for: a) IPC becoming a wholly-owned subsidiary of the Company, and b) the merger of IES with and into the Company, which merger will result in the combination of IES and the Company as a single holding company (collectively, the "Proposed Merger"). The new holding company will be named Interstate Energy Corp. ("Interstate Energy"). The Proposed Merger, which will be accounted for as a pooling of interests, has been approved by the respective Boards of Directors. It is still subject to approval by the shareholders of each company as well as several federal and state regulatory agencies. The companies expect to receive the shareholder approvals in the second quarter of 1996 and regulatory approvals by the second quarter of 1997. The corporate headquarters of Interstate Energy will be in Madison.

The business of Interstate Energy will consist of utility operations and various non-utility enterprises, and it is expected that its utility subsidiaries will serve more than 870,000 electric customers and 360,000 natural gas customers in Iowa, Illinois, Minnesota and Wisconsin.

The operating revenues, net income from continuing operations and total assets of the companies were as follows:

	WPLH	IES	IPC	PRO FORMA COMBINED (Unaudited)
		(in thousands)		
1995 operating revenues	$807,255	$851,010	$318,542	$1,976,807
1995 net income from continuing operations	$71,618	$64,176	$25,198	$160,992
Assets at December 31, 1995	$1,872,414	$1,985,591	$634,316	$4,492,321

Under the terms of the Merger Agreement, the outstanding shares of the Company's common stock will remain unchanged and outstanding as shares of Interstate Energy. Each outstanding share of IES common stock will be converted to .98 shares of Interstate Energy's common stock. Each share of IPC's common stock will be converted to 1.11 shares of Interstate Energy's common stock. It is anticipated that Interstate Energy will retain the Company's common share dividend payment level as of the effective time of the merger. On January 24, 1996, the Board of Directors of WPL Holdings Inc. declared a quarterly dividend of 49.25 cents. This represents an annual rate of $1.97 per share.

Interstate Energy will be the parent company of Wisconsin Power and Light Co., IES Utilities and IPC and will be registered under the Public Utility Holding Company Act of 1935, as amended ("1935 Act"). The Merger Agreement provides that these operating utility companies will continue to operate as separate entities for a minimum of three years beyond the effective date of the merger. In addition, the non-utility operations of the Company and IES Diversified will be combined shortly after the effective date of the merger under one entity to manage the diversified operations of Interstate Energy.

The SEC historically has interpreted the 1935 Act to preclude registered holding companies, with limited exceptions, from owning both electric and gas utility systems. Although the SEC has recently recommended that registered holding companies be allowed to hold both gas and electric utility operations if the affected states agree, it remains possible that the SEC may require as a condition to its approval of the Proposed Merger that the Company, IES and IPC divest their gas utility properties, and possibly certain non-utility ventures of the Company and IES, within a reasonable time after the effective date of the Proposed Merger.

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

Union Contract

The three year contract WP&L has with the International Brotherhood of Electrical Workers, Local 965 is in effect until June 1, 1996. The contract covers 1,601 of WP&L's employees which represents approximately 69 percent of the total employees at December 31, 1995. At this time, the results of negotiations cannot be estimated.

Environmental

WP&L cannot precisely forecast the effect of future environmental regulations by federal, state and local authorities upon its generating, transmission and other facilities, or its operations, but has taken steps to anticipate the future while meeting the requirements of current environmental regulations. The Clean Air Act Amendments of 1977 and subsequent amendments to the Clean Air Act, as well as the new laws affecting the handling and disposal of solid and hazardous wastes, could affect the siting, construction and operating costs of both present and future generating units.

Under the Federal Clean Water Act, National Pollutant Discharge Elimination System permits for generating station discharge into waterways are required to be obtained from the Wisconsin Department of Natural Resources ("DNR") to which the permit program has been delegated. These permits must be periodically reviewed. The Company has obtained such permits for all of its generating stations or has filed timely applications for renewals of such permits.

Air quality regulations promulgated by the DNR in accordance with federal standards impose statewide restrictions on the emission of particulates, sulfur dioxide, nitrogen oxides and other air pollutants and require permits from the DNR for the operation of emission sources. WP&L currently has the necessary permits to operate its fossil-fueled generating facilities. While periodic exceedances in air emissions may occur, management promptly acts on these excursions and works with the DNR to resolve any permit compliance issues. With the passage of the new Federal Clean Air Act Amendments, the state is required to include these provisions in its permit requirements. WP&L has submitted timely Title V permit applications in compliance with schedules set forth by the regulators. WP&L has also completed application for Phase II permits under the Clean Air Act in compliance with the time lines identified. The state Title V operating permits, when issued, will consolidate all existing air permit conditions and regulatory requirements into one permit for each facility. Permits are expected to be issued in 1996. Until such time, the facilities will continue to operate under their existing permit conditions.

WP&L's compliance strategy for Wisconsin's sulfur dioxide law (discussed above) and the Federal Clean Air Act Amendments required plant upgrades at its generating facilities. The majority of these projects were completed in 1993. WP&L has installed continuous emission monitoring systems at all of its coal fired boilers in compliance with federal requirements. Monitoring for sulfur dioxide was also required by Title IV of the Federal Clean Air Act at WP&L's South Fond du Lac combustion-turbine site. These requirements were also met. Additional monitoring systems for nitrogen oxides are required in 1996 at the combustion turbine site. WP&L has installed these monitors, and will complete certification tests for the equipment by May 1996. No significant investments are anticipated at this time to meet the requirements of the Federal Clean Air Act Amendments.

For a discussion of the Company's liability regarding environmental remediation at certain manufactured gas plant sites formerly operated by WP&L, see "Note 11. of Notes to Consolidated Financial Statements."

Dividend Declaration

On January 24, 1996, the Board of Directors of WPL Holdings, Inc. declared a quarterly dividend on common stock. The dividend is 49.25 cents per share payable February 15 to shareowners of record on February 2, 1996.

REPORT ON THE FINANCIAL INFORMATION

WPL Holdings, Inc. 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 ensure the integrity and objectivity of the financial information presented in this report. This system of internal control is designed to provide reasonable assurance that the assets of the company are safeguarded and that the transactions are executed according to management's authorizations and are recorded in accordance with the appropriate accounting principles.

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

Erroll B. Davis Jr.
President and Chief Executive Officer
WPL Holdings, Inc.

Edward M. Gleason
Vice President, Treasurer and Corporate Secretary
Principal Financial Officer
WPL Holdings, Inc.

Daniel A. Doyle
Vice President-Finance, Controller and Treasurer
Wisconsin Power and Light Company
Principal Accounting Officer
WPL Holdings, Inc.

January 26, 1996

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To WPL Holdings, Inc.:

We have audited the accompanying consolidated balance sheets and statements of capitalization of WPL HOLDINGS, INC. (a Wisconsin corporation) and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of income, common shareowners' investment and cash flows for each of the three years in the period ended December 31, 1995. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WPL Holdings, Inc. and subsidiaries as of December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Milwaukee, Wisconsin
January 26, 1996

WPL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	1995	1994	1993
	(in thousands except for per-share data)		
Operating revenues:			
Electric	**$546,324**	$531,747	$503,187
Gas	**139,165**	151,931	137,270
Fees, rents and other	**121,766**	112,039	98,147
	807,255	795,717	738,604
Operating expenses:			
Electric production fuels	**116,488**	123,469	123,919
Purchased power	**44,015**	37,913	28,574
Purchased gas	**84,002**	100,942	90,505
Other operation	**250,796**	246,212	221,840
Maintenance	**42,043**	41,227	44,763
Depreciation and amortization	**86,319**	80,351	68,680
Taxes other than income	**34,188**	33,788	32,379
	657,851	663,902	610,660
Operating income	**149,404**	131,815	127,944
Other income aud (deductions):			
Allowance for equity funds used during construction	**1,425**	3,009	2,978
Other, net	**3,103**	7,610	(633)
	4,528	10,619	2,345
Interest expense:			
Interest on debt	**43,559**	37,686	38,073
Allowance for borrowed funds used during construction	**(663)**	(1,029)	(1,053)
	42,896	36,657	37,020
Income from continuing operations before income taxes	**111,036**	105,777	93,269
Income taxes	**36,108**	36,043	25,656
Preferred stock dividends of subsidiary	**3,310**	3,310	3,928
Income from continuing operations	**71,618**	66,424	63,685
Discontiuued operatious (Note 13):			
Loss from operation of discontinued subsidiary, net of applicable tax benefits of $1,451, $632, and $599	**2,212**	1,174	1,162
Loss on disposal of subsidiary, net of applicable taxes of $3,271	**10,974**	—	—
	13,186	1,174	1,162
Net income	**$58,432**	$65,250	$62,523
Earnings per share:			
Income from continuing operations	**$2.33**	$2.17	$2.15
Discontinued operations	**(0.43)**	(0.04)	(0.04)
Net income	**$1.90**	$2.13	$2.11
Weighted average uumber of shares of common stock outstanding	**30,774**	30,671	29,681
Casb dividends paid per share	**$1.94**	$1.92	$1.90

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

WPL HOLDINGS, INC. CONSOLIDATED BALANCE SHEETS

	Year Ended December 31, 1995	1994
	(dollars in thousands)	
ASSETS		
Utility plant:		
Plant in service		
Electric	**$1,681,093**	$1,611,351
Gas	**217,678**	204,514
Water	**22,518**	22,070
Common	**136,943**	123,254
	2,058,232	1,961,189
Dedicated decommissioning funds, at market	**73,357**	51,791
	2,131,589	2,012,980
Less—accumulated provision for depreciation	**887,562**	808,853
	1,244,027	1,204,127
Construction work in progress	**36,996**	42,732
Nuclear fuel, net	**18,867**	19,396
Total utility plant	**1,299,890**	1,266,255
Other property and equipment:		
Rental, net	**102,206**	96,536
Other, net	**42,563**	26,693
Total other property and equipment, net	**144,769**	123,229
Investments	**12,105**	12,320
Current assets:		
Cash and equivalents	**11,386**	7,273
Net accounts receivable and unbilled revenue, less allowance for doubtful accounts of $1,735 and $1,964, respectively	**94,648**	71,465
Coal, at average cost	**14,625**	15,824
Materials and supplies, at average cost	**20,723**	21,618
Gas in storage, at average cost	**6,319**	7,975
Prepayments and other	**27,987**	30,279
Total current assets	**175,688**	154,434
Restricted cash	**3,266**	3,217
Deferred charges:		
Regulatory assets	**156,740**	144,476
Other	**79,956**	101,970
Total deferred charges	**236,696**	246,446
TOTAL ASSETS	**$1,872,414**	$1,805,901
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common shareowners' investment	**$597,470**	$597,798
Subsidiary preferred stock not mandatorily redeemable	**59,963**	59,963
Long-term debt, net	**430,362**	448,110
Total capitalization	**1,087,795**	1,105,871
Current liabilities:		
Current maturities of long-term debt	**3,397**	2,832
Variable rate demand bonds	**56,975**	56,975
Short-term debt	**109,525**	64,501
Accounts payable and accruals	**94,898**	71,949
Accrued payroll and vacation	**14,299**	17,357
Accrued taxes	**6,483**	6,395
Accrued interest	**9,214**	9,138
Other	**26,783**	21,925
Total current liabilities	**321,574**	251,072
Other credits:		
Accumulated deferred income taxes	**241,150**	224,049
Accumulated deferred investment tax credits	**38,842**	40,758
Accrued environmental remediation costs	**76,852**	79,280
Deferred credits and other	**106,201**	104,871
Total other credits	**463,045**	448,958
Commitments and contingencies (Note 11)		
TOTAL CAPITALIZATION AND LIABILITIES	**$1,872,414**	$1,805,901

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

WPL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	1995	1994	1993
	(dollars in thousands)		
Cash flows generated from (used for) operating activities:			
Net income	**$58,432**	$65,250	$62,523
Adjustments to reconcile net income to net cash generated from operating activities:			
Depreciation and amortization	**86,319**	80,351	68,680
Deferred income taxes	**10,716**	10,321	5,015
Investment tax credit restored	**(1,916)**	(1,926)	(1,967)
Amortization of nuclear fuel	**7,787**	6,707	7,049
Allowance for equity funds used during construction	**(1,425)**	(3,009)	(2,977)
Loss on sale of subsidiary	**10,974**	—	—
Changes in assets and liabilities:			
Restricted cash	**(49)**	3,495	5,417
Net accounts receivable and unbilled revenue	**(23,183)**	(3,842)	(11,578)
Coal	**1,199**	217	2,943
Materials and supplies	**895**	61	(6)
Gas in storage	**1,656**	779	(4,463)
Prepayments and other	**2,293**	(7,028)	(1,226)
Accounts payable and accruals	**20,414**	(6,245)	760
Accrued taxes	**88**	6,965	1,438
Other, net	**11,473**	20,043	16,395
Net cash generated from operating activities	**185,673**	172,139	148,003
Cash flows generated from (used for) financing activities:			
Issuance of common stock	—	—	58,575
Issuance of long-term debt	—	—	11,538
Issuance of preferred stock	—	—	29,986
Redemption of preferred stock	—	—	(29,986)
Long-term debt maturities, redemptions and sinking fund requirements	**756**	24,993	(7,257)
Net change in short-term debt	**45,024**	(27,401)	20,475
Retirement of first mortgage bonds	**(18,000)**	—	—
Common stock cash dividends, less dividends reinvested	**(59,701)**	(49,357)	(40,342)
Other, net	**941**	(1,061)	(2,052)
Net cash (used for) generated from financing activities	**(30,980)**	(52,826)	40,937
Cash flows generated from (used for) investing activities:			
Additions to utility plant, excluding AFUDC	**(93,857)**	(123,460)	(149,333)
Allowance for borrowed funds used during construction	**(663)**	(1,029)	(1,053)
Dedicated decommissioning funds	**(21,566)**	(1,988)	(9,426)
Purchase of other property and equipment	**(21,539)**	(6,160)	(16,553)
Other, net	**(12,955)**	1,129	2,555
Net cash used for investing activities	**(150,580)**	(131,508)	(173,810)
Net increase (decrease) in cash and equivalents	**4,113**	(12,195)	15,130
Cash and equivalents at beginning of year	**7,273**	19,468	4,338
Cash and equivalents at end of year	**$11,386**	$7,273	$19,468
Supplemental disclosures of casb flow information:			
Casb paid during tbe year:			
Interest on debt	**$39,984**	$36,914	$36,759
Preferred stock dividends of subsidiary	**$3,310**	$3,310	$3,928
Income taxes	**$29,499**	$22,902	$20,743
Non-cash financing activities:			
Dividends reinvested	—	$9,653	$15,284

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

WPL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CAPITALIZATION

	Years Ended December 31, 1995	1994
	(dollars in thousands)	
Common shareowners' investment:		
Common stock $.01 par value, authorized– 100,000,000 shares; issued and outstanding—30,773,588 shares	**$308**	$308
Additional paid in capital	**305,223**	304,442
Reinvested earnings	**291,939**	293,048
Total common shareowners' investment	**597,470**	597,798
Preferred stock:		
Wisconsin Power and Light Company—		
Cumulative, without par value, authorized 3,750,000 shares, maximum aggregate stated value $150,000,000;		
Preferred stock without mandatory redemption, $100 stated value—		
4.50% series, 99,970 shares outstanding	**9,997**	9,997
4.80% series, 74,912 shares outstanding	**7,491**	7,491
4.96% series, 64,979 shares outstanding	**6,498**	6,498
4.40% series, 29,957 shares outstanding	**2,996**	2,996
4.76% series, 29,947 shares outstanding	**2,995**	2,995
6.20% series, 150,000 shares outstanding	**15,000**	15,000
Cumulative, without par value, $25 stated value;		
6.50% series, 599,460 shares outstanding	**14,986**	14,986
Total preferred stock	**59,963**	59,963
Long-term debt:		
Wisconsin Power and Light Company—		
First mortgage bonds:		
Series L, 6.25%, due 1998	**8,899**	8,899
1984 Series A, variable rate, due 2014 (5.25% at 12/31/95)	**8,500**	8,500
1988 Series A, variable rate, due 2015 (5.15% at 12/31/95)	**14,600**	14,600
1990 Series V, 9.3%, due 2025	**32,000**	50,000
1991 Series A, variable rate, due 2015 (6.10% at 12/31/95)	**16,000**	16,000
1991 Series B, variable rate, due 2005 (6.10% at 12/31/95)	**16,000**	16,000
1991 Series C, variable rate, due 2000 (6.10% at 12/31/95)	**1,000**	1,000
1991 Series D, variable rate, due 2000 (6.10% at 12/31/95)	**875**	875
1992 Series W, 8.6%, due 2027	**90,000**	90,000
1992 Series X, 7.75%, due 2004	**62,000**	62,000
1992 Series Y, 7.6%, due 2005	**72,000**	72,000
1992 Series Z, 6.125%, due 1997	**55,000**	55,000
Total first mortgage bonds	**376,874**	394,874
Heartland Development Corporation—		
Multifamily Housing Revenue Bonds issued by various housing and community development authorities, due 2004–2024, 2.00% – 7.55%	**38,326**	39,169
Other mortgage notes payable, due 1996–2042, 0% - 10.75%	**42 834**	41,235
	81,160	80,404
WPL Holdings, Inc.—		
8.96% Senior note, due 1997	**10,000**	10,000
8.59% Senior notes, due 2004	**24,000**	24,000
	34,000	34,000
Less—		
Current maturities	**(3,397)**	(2,832)
Variable rate demand bonds	**(56,975)**	(56,975)
Unamortized discount and premium, net	**(1,300)**	(1,361)
Total long-term debt, net	**430,362**	448,110
TOTAL CAPITALIZATION	**$1,087,795**	$1,105,871

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

WPL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF COMMON SHAREOWNERS' INVESTMENT

	Year Ended December 31,		
	1995	1994	1993
	(dollars in thousands)		
Common stock:			
Balance at beginning of year	**$308**	$305	$278
Issued in connection with public offering	—	—	17
Issued in connection with acquisitions	—	—	5
Issued in connection with dividend reinvestment plan	—	3	5
Balance at end of year	**308**	308	305
Additional paid-in capital:			
Balance at beginning of year	**304,442**	297,916	204,041
Received in connection with public offering	—	—	58,558
Received in connection with acquisitions	—	—	20,721
Received in connection with dividend reinvestment plan	—	9,650	15,279
Common stock issuance expense	—	—	(1,888)
Other	**781**	(3,124)	1,205
Balance at end of year	**305,223**	304,442	297,916
Reinvested earnings:			
Balance at beginning of year	**293,048**	284,745	279,217
Net income	**58,432**	65,250	62,523
Cash dividends ($1.94 per share, $1.92 per share, and $1.90 per share, respectively)	**(59,701)**	(59,010)	(55,626)
Expense of issuing stock and other	**160**	2,063	(1,369)
Balance at end of year	**291,939**	293,048	284,745
TOTAL COMMON SHAREOWNERS' INVESTMENT	**$597,470**	$597,798	$582,966

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands except as otherwise indicated)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES:

a. Business and Consolidation:

WPL Holdings, Inc. (the "Company" or "WPLH") is the parent holding company of Wisconsin Power and Light Co. ("WP&L") and Heartland Development Corp. ("HDC"). The consolidated financial statements include the Company and its consolidated subsidiaries, WP&L and HDC, along with their respective subsidiaries. Certain amounts from prior years have been reclassified to conform with the current year presentation.

WP&L is a public utility predominantly engaged in the transmission and distribution of electric energy and the generation and bulk purchase of electric energy for sale. WP&L also transports, distributes and sells natural gas purchased from gas suppliers. Nearly all of WP&L's retail customers are located in south and central Wisconsin. WP&L's principal consolidated subsidiary is South Beloit Water, Gas and Electric Co.

HDC and its principal subsidiaries are engaged in business development in three major areas: 1) environmental and engineering services through the Heartland Environmental Holding Company ("HEHC") which is the parent compa of RMT, Inc. ("RMT"), Jones and Neuse, Inc., and QES, Inc., 2) affordable housing through Heartland Properties, ("HPI") and 3) energy services which includes Heartland Energy Group, Inc., and Entec Consulting, Inc. In 1995, WPLH discontinued the operations of A&C Enercom Consultants, Inc., its utility energy and marketing consulting business. An agreement was reached to sell the assets of these operations in a cash transaction; the operating results of this entity have been excluded from continued operations in the consolidated financial statements (see "Note 13. Discontinued Operations").

b. Regulation:

WP&L's financial records are maintained in accordance with the uniform system of accounts prescribed by its regulators. The Public Service Commission of Wisconsin ("PSCW") and the Illinois Commerce Commission have jurisdiction over retail rates, which represent approximately 82 percent of electric revenues plus all gas revenues. The Federal Energy Regulatory Commission ("FERC") has jurisdiction over wholesale electric rates representing the balance of electric revenues. Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation" provides that rate-regulated public utilities such as WP&L record certain costs and credits allowed in the ratemaking process in different periods than for unregulated entities. These are deferred as regulatory assets or regulatory liabilities and are recognized in the Consolidated Statements of Income at the time they are reflected in rates.

c. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results will, in most cases, differ from those estimates.

d. Utility Plant and Otber Property and Equipment:

Utility plant and other property and equipment are recorded at original cost and cost, respectively. Utility plant costs include financing costs that are capitalized using the FERC method for allowance for funds used during construction ("AFUDC"). The AFUDC capitalization rate for 1995 was 6.68 percent. These capitalized costs are recovered in rates as the cost of the utility plant is depreciated.

Normal repairs, maintenance and minor items of utility plant and other property and equipment are expensed. Ordinary utility plant retirements, including removal costs less salvage value, are charged to accumulated depreciation upon removal from utility plant accounts, and no gain or loss is recognized. Upon retirement or sale of other property and equipment, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in other income and deductions.

e. Depreciation:

The Company uses the straight-line method of depreciation. For utility plant, straight-line depreciation is computed on the average balance of depreciable property at individual straight-line PSCW approved rates that consider the estimated useful life and removal cost or salvage value as follows:

	Electric	Gas	Water	Common
1995	**3.3%**	**3.7%**	**2.5%**	**7.9%**
1994	3.2%	3.7%	2.5%	7.2%
1993	3.2%	3.7%	2.5%	7.3%

Depreciation expense related to WP&L's share of the decommissioning of the Kewaunee Nuclear Power Plant is discussed in "Note 11. Commitments and Contingencies". WP&L has filed a depreciation rate case with the PSCW requesting higher depreciation rates, which if approved, will be effective in 1997.

Estimated useful lives related to other property and equipment are from 3 to 12 years for equipment and 31.5 to 40 years for buildings.

f. Nuclear Fuel:

Nuclear fuel is recorded at its original cost and is amortized to expense based upon the quantity of heat produced for the generation of electricity. This accumulated amortization assumes spent nuclear fuel will have no residual value. Estimated future disposal costs of such fuel are expensed based on kilowatthours generated.

g. Revenue:

WP&L accrues utility revenues for services provided but not yet billed. HDC records revenues earned but not billed and revenues from professional services rendered as incurred using a time and materials basis.

h. Electric Production Fuels and Purchased Gas:

(1) Electric Production Fuels:

Through 1994, the PSCW retail electric rates provided a range from which actual fuel costs could vary in relation to costs forecasted and used in rates. If actual fuel costs fell outside this range, a hearing could be held to determine if a rate change was necessary, and a rate increase or decrease could result.

Beginning with WP&L's latest rate order UR-109, effective January 1, 1995, the automatic fuel adjustment clause was eliminated. In its absence, WP&L will benefit from reductions in fuel cost. Conversely, WP&L will be exposed to increases in fuel costs.

An automatic fuel adjustment clause for the FERC wholesale portion of WP&L's electric business and South Beloit's retail rates operates to increase or decrease monthly rates based on changes in fuel costs.

(2) Purchased Gas:

Through 1994, WP&L's base gas cost recovery rates permitted the recovery of or refund to all customers for any increases or decreases in the cost of gas purchased from WP&L's suppliers through a monthly purchased gas adjustment clause.

Beginning with UR-109, the monthly purchased gas adjustment clause was also eliminated. Thus, the fluctuations in the commodity cost of gas above or below a prescribed commodity price index will serve to increase or decrease WP&L's margin on gas sales. Fixed demand costs are excluded from the incentive program. Both benefits and exposures are subject to customer sharing provisions. WP&L's share is capped at $1.1 million pre-tax.

i. Cash and Equivalents:

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The carrying amount approximates fair value because of the short maturity of these items.

j. Income Taxes:

The Company files a consolidated federal income tax return. Under the terms of an agreement between WPLH and its subsidiaries, WP&L and HDC calculate their respective federal tax provisions and make payments to WPLH as if they were separate taxable entities. Beginning in 1993, the Company fully provides deferred income taxes in accordance with SFAS No.109, "Accounting for Income Taxes" to reflect tax effects of reporting book and tax items in different periods. Investment tax credits are accounted for on a deferred basis and reflected in income ratably over the life of related property.

As part of HPI's investments in affordable housing, HPI is eligible to claim affordable housing and historic rehabilitation credits. These tax credits can be recognized to the extent the Company has consolidated taxes payable.

k. Goodwill:

The excess of the purchase cost over the fair value of net assets acquired is amortized over 20 to 30 years on a straight-line basis based on its estimated useful benefit. Subsequent to its acquisitions, the Company continually evaluates whether later events and circumstances have occurred that indicate the remaining estimated useful life of goodwill may warrant revision or that the remaining balance of goodwill may not be recoverable. To evaluate goodwill for possible impairment, the Company uses a forecast of the related business's discounted earnings over the remaining life of the goodwill. Goodwill (net of accumulated amortization) was $11,900 and $20,136 at December 31, 1995 and 1994, respectively. The decrease in goodwill is primarily due to the sale of A&C Enercom Consultants, Inc. (See "Note 13. Discontinued Operations" for further discussion).

NOTE 2. JOINTLY OWNED UTILITY PLANTS:

WP&L participates with other Wisconsin utilities in the construction and operation of several jointly owned utility generating plants. The chart below represents WP&L's proportionate share of such plants as reflected in the Consolidated Balance Sheets at December 31, 1995 and 1994.

				1995			1994		
	Ownership Interest %	Inservice Date	Plant MW Capacity	Plant in Service	Accumulated Provision for Depreciation	CWIP	Plant In Service	Accumulated Provision for Depreciation	CWIP
Coal:									
Columbia Energy Center	46.2	1975 & 1978	1,023	**$160,348**	**$79,521**	**$881**	$159,650	$78,573	$1,484
Edgewater Unit 4	68.2	1969	330	**50,762**	**26,759**	**216**	50,206	25,394	181
Edgewater Unit 5	75.0	1985	380	**229,429**	**68,515**	**0**	225,336	63,324	26
Nuclear:									
Kewaunee Nuclear Power Plant	41.0	1974	535	**132,211**	**76,096**	**836**	132,726	72,367	452
Total				**$572,750**	**$250,891**	**$1,933**	$567,918	$239,658	$2,143

Each of the respective joint owners finances its portion of construction costs. WP&L's share of operations and maintenance expenses is included in the Consolidated Statements of Income.

NOTE 3. NET ACCOUNTS RECEIVABLE:

WP&L has a contract with a financial organization to sell, with limited recourse, certain accounts receivable and unbilled revenues. These receivables include customer receivables, sales to other public utilities and billings to the co-owners of the jointly owned electric generating plants that WP&L operates. The contract allows WP&L to sell up to $150 million of receivables at any time. Expenses related to the sale of receivables are paid to the financial organization under this contract, and include, along with various other fees, a monthly discount charge on the outstanding balance of receivables sold that approximated a 5.94 percent annual rate during 1995. These costs are recovered in retail utility rates as an operating expense. All billing and collection functions remain the responsibility of WP&L. The contract expires August 16, 1998, unless extended by mutual agreement.

As of December 31, 1995 and 1994, the balance of sold accounts receivable that had not been collected totaled $79.5 million and $76.5 million, respectively. During 1995, the monthly proceeds from the sale of accounts receivable averaged $77.5 million, compared with $82.3 million in 1994.

The Company does not have any significant concentrations of credit risk in the December 31, 1995 and 1994 net accounts receivable balances.

NOTE 4. REGULATORY ASSETS AND REGULATORY LIABILITIES:

Certain costs and credits are deferred and amortized in accordance with authorized or expected ratemaking treatment. As of December 31, 1995 and 1994, regulatory created assets include the following:

	1995	1994
Environmental remediation costs	**$81,431**	$82,179
Tax related (see Note 6)	**47,837**	43,736
Jurisdictional plant differences	**7,517**	7,173
Decontamination and decommissioning costs of federal enrichment facilities	**6,555**	7,100
Other	**13,400**	4,288
	$156,740	$144,476

The PSCW, in rate case UR-108, ordered the recovery of environmental remediation costs incurred be deferred and amortized over a five-year period with no recovery of the carrying costs on the unamortized balance.

As of December 31, 1995 and 1994, WP&L had recorded regulatory related liabilities of $37,898 and $42,803, respectively. T liabilities are primarily tax related.

In March 1995, the Financial Accounting Standards Board issued SFAS No. 121, "Accounting for the Impairment of Long-Liv Assets and Long-Lived Assets to be Disposed Of." This statement imposes stricter criteria for regulatory assets by requiring that such assets be probable of future recovery at each balance sheet date. The Company adopted this standard on January 1, 1996, and does not expect that adoption will have a material impact on the financial position or results of operations of the Company based on the current regulatory structure in which the Company operates. This conclusion may change in the future as competitive factors influence wholesale and retail pricing in this industry.

NOTE 5. EMPLOYEE BENEFIT PLANS:

a. Pension Plans:

WP&L has noncontributory, defined benefit retirement plans covering substantially all employees. The benefits are based upon years of service and levels of compensation. WP&L's funding policy is to contribute at least the statutory minimum to a trust.

The projected unit credit actuarial cost method was used to compute net pension costs and the accumulated and projected benefit obligations. The discount rate used in determining those benefit obligations was 7.25, 8.25 and 7.25 percent for 1995, 1994 and 1993, respectively. The long-term rate of return on assets used in determining those benefit obligations was 9.00, 9.00 and 9.75 percent for 1995, 1994 and 1993, respectively.

The following table sets forth the funded status of the WP&L plans and amounts recognized in the Company's Consolidated Balance Sheets at December 31, 1995 and 1994:

	1995	1994
Accumulated benefit obligation—		
Vested benefits	**$(157,111)**	$(134,829)
Non-vested benefits	**(2,755)**	(3,295)
Total benefits	**(159,866)**	(138,124)
Projected benefit obligation	**(184,937)**	(154,283)
Plan assets at fair value, primarily common stocks and fixed income securities	**202,343**	178,095
Plan assets in excess of projected benefit obligation	**17,406**	23,812
Unrecognized net transition asset	**(16,928)**	(19,376)
Unrecognized prior service cost	**4,022**	5,679
Unrecognized net loss	**24,685**	14,737
Prepaid pension costs, included in other deferred charges	**$29,185**	$24,852

The net pension cost (benefit) recognized in the Consolidated Statements of Income for 1995, 1994 and 1993 included the following components:

	1995	1994	1993
Service cost	**$3,879**	$5,123	$4,263
Interest cost on projected benefit obligation	**12,911**	12,051	11,614
Actual return on assets	**(31,548)**	1,016	(24,759)
Amortization and deferral	**15,103**	(17,795)	8,430
Net pension cost (benefit)	**$345**	$395	($452)

b. Postretirement Healtb Care and Life lnsurance:

Effective January 1, 1993, the Company prospectively adopted SFAS No 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". SFAS No. 106 establishes standards of financial accounting and reporting for the Company's postretirement health-care and life insurance benefits. SFAS No. 106 requires the accrual of the expected cost of such benefits during the employees' years of service based on actuarial methodologies that closely parallel pension accounting requirements. WP&L has elected delayed recognition of the transition obligation and is amortizing the discounted present value of the transition obligation to expense over 20 years. For WP&L, the cost of providing postretirement benefits, including the transition obligation, is being recovered in retail rates under current regulatory practices.

The following table sets forth the plans' funded status:

	1995	1994
Accumulated benefit obligation—		
Retirees	**$(35,639)**	$(29,273)
Fully eligible active plan participants	**(6,261)**	(5,998)
Other active plan participants	**(8,091)**	(7,675)
Total	**(49,991)**	(42,946)
Plan assets at fair value	**11,768**	9,767
Accumulated benefit obligation in excess of plan assets	**(38,223)**	(33,179)
Unrecognized transition obligation	**25,003**	26,474
Unrecognized loss	**1,166**	(2,570)
Accrued postretirement benefits liability	**$(12,054)**	$(9,275)

The net postretirement benefits cost recognized in the Consolidated Statements of Income for 1995, 1994 and 1993 included the following components:

	1995	1994	1993
Service cost	**$1,495**	$1,739	$1,463
Interest cost on projected benefit obligation	**3,567**	3,135	3,151
Actual return on assets	**(2,051)**	(253)	(696)
Amortization of transition obligation	**1,471**	1,527	1,560
Amortization and deferral	**1,313**	(381)	(27)
Net postretirement benefits cost	**$5,795**	$5,767	$5,451

The postretirement benefits cost components for 1995 were calculated assuming health-care cost trend rates ranging from 11.5 percent for 1995 and decreasing to 5.0 percent by the year 2002. The health-care cost trend rate considers estimates of health care inflation, changes in utilization or delivery, technological advances, and changes in the health status of the plan participants. Increasing the health-care cost trend rate by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1995, by $2.8 million and the aggregate of the service and interest cost components of the net periodic postretirement benefit cost for the year by $.5 million.

The assumed discount rate used in determining the accumulated postretirement obligation was 7.25, 8.25 and 7.25 percent in 1995, 1994 and 1993, respectively. The long-term rate of return on assets was 9.00, 9.00 and 9.50 percent in 1995, 1994 and 1993, respectively. Plan assets are primarily invested in common stock, bonds and fixed income securities. The Company's funding policy is to contribute the tax-advantaged maximum to a trust.

c. Other Post-employment Benefits:

In November 1992, the Financial Accounting Standards Board issued SFAS No. 112, "Employers' Accounting for Post-employment Benefits". SFAS No. 112, which was effective January 1, 1994, establishes standards of financial accounting and reporting for the estimated cost of benefits provided by an employer to former or inactive employees after employment but before retirement. The effect of adopting SFAS No. 112 was not material to the Company's financial position or results of operations.

d. Long-Term Equity Incentive Plan

On January 23, 1994, the Company adopted the "WPL Holdings, Inc. Long-Term Equity Incentive Plan" (the "Plan") which permits the grant of non-qualified stock options and equivalent performance units. To date, 41,900 non-qualified stock options and equivalent performance units have been granted under the Plan. The non-qualified stock options have a per-share option price of $27.50. There were no options exercised during the year nor exercisable at year-end.

NOTE 6. INCOME TAXES:

The following table reconciles the statutory federal income tax rate to the effective income tax rate on continuing operations:

	1995	1994	1993
Statutory federal income tax rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal benefit	**6.0**	5.3	5.1
Investment tax credits restored	**(1.7)**	(1.9)	(2.1)
Amortization of excess deferred taxes	**(1.5)**	(1.6)	(1.7)
Affordable housing and historical tax credits	**(4.5)**	(4.6)	(5.7)
Other differences, net	**(.8)**	1.9	(3.1)
Effective income tax rate	**32.5%**	34.1%	27.5

The breakdown of income tax expense as reflected in the Consolidated Statements of Income is as follows:

	1995	1994	1993
Current federal	**$25,679**	$26,793	$21,325
Current state	**6,620**	5,673	6,500
Deferred	**10,716**	10,321	5,015
Investment tax credit restored	**(1,916)**	(1,926)	(1,967)
Affordable housing and historical tax credits	**(4,991)**	(4,818)	(5,217)
	$36,108	$36,043	$25,656

The temporary differences that resulted in accumulated deferred income tax (assets) and liabilities as of December 31, 1995 and 1994, are as follows:

	1995	1994
Accelerated depreciation and other plant related	**$226,647**	$213,447
Unamortized investment tax credits	**(20,762)**	(21,784)
Regulatory liability	**19,202**	17,553
Other	**16,063**	14,833
	$241,150	$224,049

Changes in WP&L's deferred income taxes arising from the adoption of SFAS No. 109 represent amounts recoverable or refundable through future rates and have been recorded as net regulatory assets on the Consolidated Balance Sheets. These net regulatory assets are being recovered in rates over the estimated remaining useful lives of the assets to which they pertain.

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

The Company and its subsidiaries maintain committed bank lines of credit, most of which are at the bank prime rates, to obtain short-term borrowing flexibility, including pledging lines of credit as security for any commercial paper outstanding. Amounts available under these lines of credit totaled $141.9 million as of December 31, 1995. Information regarding short-term debt and lines of credit is as follows:

	1995	1994	1993
As of end of year—			
Lines of credit borrowings	**$—**	$—	$2,000
Commercial paper outstanding	**$56,500**	$50,500	$49,000
Notes payable outstanding	**$53,025**	$14,001	$40,954
Discount rates on commercial paper	**5.73%-5.77%**	5.64%-6.12%	3.24%-3.40%
Interest rates on notes payable	**5.80%-6.42%**	6.04%-6.07%	3.34%-3.35%
For the year ended—			
Maximum month-end amount of short-term debt	**$117,000**	$81,000	$92,000
Average amount of short-term debt (based on daily outstanding balances)	**$68,725**	$61,835	$56,250
Average interest rate on short-term debt	**5.95%**	4.49%	3.33%

NOTE 8. DERIVATIVE FINANCIAL INSTRUMENTS:

The Company has only limited involvement with derivative financial instruments and does not use them for trading purposes. They are used to manage well-defined interest rate and gas commodity price risks.

The Company enters into interest rate swap agreements to reduce the impact of changes in interest rates on its floating-rate debt and fees associated with the sale of its accounts receivable. The notional principal amount of interest rate swaps outstanding as of December 31, 1995, was $123 million. Average variable rates are based on rates implied in the forward yield curve at the reporting date. The average pay and receive rates associated with these agreements are 5.27 percent and 5.31 percent, respectively. The swap agreements have contract maturities from one-and-a-half to five years. It is not the Company's intent to terminate these contracts, however, the total cost to the Company if it were to terminate all of the agreements existing at December 31, 1995, is $.8 million. In addition, the Company entered into an interest rate forward contract related to the anticipated issuance of $60 million of long-term debt securities. At December 31, 1995, the forward contract, if settled on that date, would have required a payment by the Company of approximately $6.7 million. The financial impact of this contract, which will result in either a cash payment or cash receipt, will be deferred and recognized as an adjustment to interest expense over the life of the new bonds to effect the interest rate implicit in the forward contract.

The Company uses gas commodity swaps to reduce the impact of price fluctuations on gas purchased and injected into storage during the summer months and withdrawn and sold at current market prices during the winter months. Variances between underlying commodity prices and financial contracts on these agreements are deferred and recognized as increases or decreases in the cost of gas at the time the storage gas is sold. At December 31, 1995 and 1994, the commodity swap agreements outstanding were immaterial.

NOTE 9. FAIR VALUE OF FINANCIAL INSTRUMENTS:

In accordance with SFAS No. 107, "Disclosure about Fair Value of Financial Instruments," all financial instruments of the Company for which the carrying amount does not approximate fair value, must be disclosed. At December 31, 1995, the fair value of long-term debt was $523.6 million and the carrying amount was $490.7 million. At December 31, 1994, the fair value of long-term debt was $499.6 million and the carrying amount was $507.9 million.

NOTE 10. CAPITALIZATION:

a. Common Shareowners' Investment:

During 1995, 1994 and 1993, respectively, the Company issued 0, 337,980 and 451,233 new shares of common stock through its Dividend Reinvestment and Stock Purchase Plan and 401(k) Savings Plan, generating proceeds of $0, $9.6 million and $15.3 million, respectively.

In February 1989, the Board of Directors of the Company declared a dividend distribution of one common stock purchase right ("right") on each outstanding share of the Company's common stock. Each right would initially entitle shareowners to buy one-half of one share of the Company's common stock at an exercise price of $60.00 per share, subject to adjustment. The rights are not currently exercisable, but would become exercisable if certain events occurred related to a person or group acquiring or attempting to acquire 20 percent or more of the outstanding shares of common stock. The rights expire on February 22, 1999, unless the rights are earlier redeemed or exchanged by the Company.

Authorized shares of common stock total 100,000,000 as of December 31, 1995, and can be categorized as follows:

	No. Of Shares
Issued and outstanding	30,773,588
Reserved for issuance for Dividend Reinvestment and Purchase Plan	501,017
Reserved for WPLH Long-Term Equity Incentive Plan	1,000,000
Common Stock Rights Agreement	15,709,781
Unreserved	52,015,614
Total authorized	100,000,000

A retail rate order effective January 1, 1995, requires WP&L to maintain a utility common equity level of 51.93 percent of total utility capitalization during the test years January 1, 1995 to December 31, 1996. In addition, the PSCW ordered that it must approve the payment of dividends by WP&L to the Company that are in excess of the level forecasted in the rate order ($58.1 million), if such dividends would reduce WP&L's average common equity ratio below 51.93 percent. At December 31, 1995, WP&L's common equity ratio was 52.6 percent.

b. Long-Term Deht:

Substantially all of WP&L's utility plant is secured by its first mortgage bonds. Current maturities of long-term debt of the Company are as follows: $3.4 million in 1996, $68.1 million in 1997, $12.1 million in 1998, $3.3 million in 1999 and $6.6 million in 2000.

On September 14, 1995, the Company received an order from the PSCW authorizing the sale of up to $60 million of long-term debt securities. The Company currently expects to make an offering of the long-term debt securities before December 31, 1996, unless the PSCW grants a request for extension. The Company intends to use the net proceeds from the sale of these securities first to repay short-term debt which was incurred in June 1995 to repurchase in private transactions $18 million aggregate principal amount of the Company's 9.30 percent first mortgage bonds, Series V, due December 1, 2025. The remainder of the net proceeds will be used to repay other short-term debt incurred by the Company to finance utility construction expenditures and for general corporate purposes.

NOTE 11. COMMITMENTS AND CONTINGENCIES:

a. Coal Contract Commitments:

To ensure an adequate supply of coal, WP&L has entered into certain long-term coal contracts. These contracts include a demand or take-or-pay clause under which payments are required if contracted quantities are not purchased. Purchase obligations on these coal and related rail contracts total approximately $168 million through December 31, 2002. WP&L's management believes it will meet minimum coal and rail purchase obligations under the contracts. Minimum purchase obligations on these contracts over the next five years are estimated to be $37 million in 1996, 1997, and 1998, $30 million in 1999 and $10 million in 2000, respectively.

b. Purchased Power and Gas:

Under firm purchased power and gas contracts, WP&L is obligated as follows (dollars in millions):

	Purchased Power		Purchased Gas	
	Purchase Obligation	MW's	Purchase Obligation	Decatherms (in millions)
1996	$23.4	2,893	$73	94
1997	14.1	4,212	62	82
1998	17.7	4,041	52	69
1999	19.8	4,050	43	54
2000	27.7	4,796	39	52
Thereafter	104.6	11,510	108	163

c. Manufactured Gas Plant Sites:

Historically, WP&L has owned 11 properties that have been associated with the production of manufactured gas. Currently, WP&L owns five of these sites, three are owned by municipalities, and the remaining three are owned by private companies. In 1989, WP&L initiated an investigation of these manufactured gas plant sites. The Wisconsin Department of Natural Resources ("DNR") has been involved in reviewing investigation plans and has received ongoing reports regarding these investigations.

WP&L has continued its investigations and studies. WP&L confirmed that there was no contamination at two of the sites and received a close out letter from the DNR related to one of those sites. WP&L requested a close out letter for the second site; at this time no further response from the DNR is expected on the close out request for this second site. Additionally, the investigation of historical records at a third site indicated a minimal likelihood of any significant environmental impacts. In 1995, WP&L requested and received a close out letter for the third site.

In February 1993, WP&L completed cost estimates for the environmental remediation of the eight remaining sites. The result of this analysis indicates that during the next 32 years, WP&L will expend approximately $77 million for feasibility studies, data collection, soil remediation activities, groundwater research and groundwater remediation activities, including construction of slurry containment walls and the installation of groundwater pump and treatment facilities. This estimate was based on various assumptions, and is subject to continuous review and revision by management.

The cost estimate set forth above assumes 4 percent average inflation over the period. The cost estimate also contemplates that primarily groundwater pump and treatment activities will take place after 1998 through and including 2027. During this time, WP&L estimates that it will incur average annual costs of $2.0 million to complete the planned groundwater remediation activities.

Through 1995, management has continued its oversight of the issues related to the above manufactured gas plant sites without significant revision to the above estimates and assumptions. With respect to rate recovery of these costs, the PSCW has approved a five year amortization of the unamortized balance of environmental costs expended to date. Based on the present regulatory record at the PSCW, management believes that future costs of remediating these manufactured gas plant sites will be recovered in rates.

d. Speut Nuclear Fuel and Decommissioning Costs:

Wisconsin utilities with ownership of nuclear generating plants are required by the PSCW to establish and make annual contributions to external trust funds to provide for plant decommissioning over the remaining life of the nucl generating plants. In July 1994, the PSCW issued a generic order covering utilities that have nuclear generation, wh standardizes the escalation assumptions to be used in determining nuclear decommissioning liabilities.

WP&L's share of the decommissioning costs of the Kewaunee Nuclear Power Plant ("Kewaunee") is estimated to be $169 million (in 1995 dollars, assuming the plant is operating through 2013) based on a 1992 site-specific study, using the immediate dismantlement method of decommissioning. The costs of decommissioning are assumed to escalate at an annual rate of 6.5 percent. The undiscounted amount of decommissioning costs estimated to be expended between the years 2014 and 2050 is $1,016 million.

WP&L has established external trusts to custody decommissioning funds. The Company's current annual contribution is $10.7 million. This amount is fully recovered in rates. The after-tax income of the external trust funds was $2.8 million, $2.7 million and $1.1 million for the years ended December 31, 1995, 1994 and 1993, respectively. In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", the fair value of the external trusts as of December 31, 1995 and 1994, is reported as $73.4 million and $51.8 million, respectively.

Decommissioning costs, which include the annual contribution and earnings on the assets of the trust, are recorded as depreciation expense in the Consolidated Statements of Income with the cumulative amount included in the accumulated provision for depreciation on the Consolidated Balance Sheets. Depreciation expense related to Kewaunee totaled $13.6 million, $13.4 million and $6.1 million in 1995, 1994 and 1993, respectively. As of December 31, 1995, the total decommissioning costs included in the accumulated provision for depreciation were $73.4 million.

Under the Nuclear Waste Policy Act of 1982, the U.S. Department of Energy ("DOE") is responsible for the ultimate storage and disposal of spent nuclear fuel removed from nuclear reactors. Interim storage space for spent nuclear fuel is currently provided at Kewaunee. Currently there is on-site storage capacity for spent fuel through the year 2001. An investment of approximately $2.5 million could provide additional storage sufficient to meet spent fuel storage needs until the expiration of the current operating license.

The following summarizes the investment at December 31, 1995 and 1994:

	1995	1994
Original cost of nuclear fuel	**$160,997**	$155,190
Less—Accumulated amortization	**142,130**	135,794
Nuclear fuel, net	**$18,867**	$19,396

e. Nuclear Insurance:

The Price Anderson Act provides for the payment of funds for public liability claims arising from a nuclear incident. Accordingly, in the event of a nuclear incident, WP&L, as a 41-percent owner of Kewaunee, is subject to an overall assessment of approximately $32.5 million per incident for its ownership of this factor, not to exceed $4.1 million payable in any given year.

Through its membership in Nuclear Electric Insurance Limited, WP&L has obtained property damage and decontamination insurance totaling $1.5 billion for loss from damage at Kewaunee. In addition, WP&L maintains outage and replacement power insurance coverage totaling $101.4 million in the event an outage exceeds 21 weeks.

f. Planned Capital Expenditures:

Plans for the construction and financing of future additions to utility plant can be found elsewhere in this report in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

NOTE 12. PROPOSED MERGER OF THE COMPANY:

The Company, IES Industries Inc. ("IES"), and Interstate Power Co. ("IPC") have entered into an Agreement and Plan of Merger ("Merger Agreement"), dated November 10, 1995, providing for: a) IPC becoming a wholly-owned subsidiary of the Company, and b) the merger of IES with and into the Company, which merger will result in the combination of IES and the Company as a single holding company (collectively, the "Proposed Merger"). The new holding company will be named Interstate Energy Corp. ("Interstate Energy"). The Proposed Merger, which will be accounted for as a pooling of interests, has been approved by the respective Boards of Directors. It is still subject to approval by the shareholders of each company as well as several federal and state regulatory agencies. The companies expect to receive the shareholder approvals in the second quarter of 1996 and the regulatory approvals by the second quarter of 1997.

The operating revenues, net income from continuing operations and total assets of the companies were as follows:

	WPLH	IES	IPC	PRO FORMA COMBINED (Unaudited)
1995 Operating revenues	$807,255	$851,010	$318,542	$1,976,807
1995 Income from continuing operations	$71,618	$64,176	$25,198	$160,992
Assets at December 31, 1995	$1,872,414	$1,985,591	$634,316	$4,492,321

Under the terms of the Merger Agreement, the outstanding shares of the Company's common stock will remain unchanged and outstanding as shares of Interstate Energy. Each outstanding share of IES common stock will be converted to .98 shares of Interstate Energy's common stock. Each share of IPC's common stock will be converted to 1.11 shares of Interstate Energy's common stock. It is anticipated that Interstate Energy will retain the Company's common share dividend payment level as of the effective time of the merger. On January 24, 1996, the Board of Directors of the Company declared a quarterly dividend of 49.25 cents per share. This represents an annual rate of $1.97 per share.

IES is a holding company headquartered in Cedar Rapids, Iowa, and is the parent company of IES Utilities Inc. ("IES Utilities") and IES Diversified Inc. ("IES Diversified"). IES Utilities supplies electric and gas service to approximately 333,000 and 174,000 customers, respectively, in Iowa. IES Diversified and its principal subsidiaries are primarily engaged in the energy-related, transportation and real estate development businesses. IPC, an operating public utility headquartered in Dubuque, Iowa, supplies electric and gas service to approximately 163,000 and 49,000 customers, respectively, in northeast Iowa, northwest Illinois and southern Minnesota.

Interstate Energy will be the parent company of WP&L, IES Utilities and IPC and will be registered under the Public Utility Holding Company Act of 1935, as amended ("1935 Act"). The Merger Agreement provides that these operating utility companies will continue to operate as separate entities for a minimum of three years beyond the effective date of the merger. In addition, the non-utility operations of the Company and IES Diversified will be combined shortly after the effective date of the merger under one entity to manage the diversified operations of Interstate Energy. The corporate headquarters of Interstate Energy will be in Madison.

The SEC historically has interpreted the 1935 Act to preclude registered holding companies, with limited exceptions, from owning both electric and gas utility systems. Although the SEC has recently recommended that registered holding companies be allowed to hold both gas and electric utility operations if the affected states agree, it remains possible that the SEC may require as a condition to its approval of the Proposed Merger that the Company, IES and IPC divest their gas utility properties, and possibly certain non-utility ventures of the Company and IES, within a reasonable time after the effective date of the Proposed Merger.

NOTE 13. DISCONTINUED OPERATIONS:

The Company's financial statements reflect the discontinuance of operations of its utility energy and marketing consulting business in 1995. The discontinuance of this business resulted in a pre-tax loss of $7.7 million ($11.0 million, net of the applicable income tax expenses). The after tax loss on disposition was $11.0 million reflecting the associated tax expense on disposition due to the non-deductibility of the carrying value of goodwill at sale. Operating revenues, operating expenses, other income and expense and income taxes for the discontinued operations for the time periods presented have been excluded from income from continuing operations. Interest expense has been adjusted for the amounts associated with direct obligations of the discontinued operations.

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

	Year Ended December 31,		
	1995	1994	1993
Operating revenues	**$24,979**	$34,798	$33,340
Loss from discontinued operations before income tax	**$3,663**	$1,806	$1,761
Income tax benefit	**1,451**	632	599
Loss from discontinued operations	**$2,212**	$1,174	$1,162

The assets and liabilities associated with discontinued operations included in the Balance Sheets at December 31, 1995 and 1994 follow:

	1995	1994
Assets:		
Other property, plant and equipment, net and investments	**$1,612**	$2,983
Accounts receivable, net	**4,942**	9,914
Prepaids and other	**333**	932
Deferred charges and other	**5,717**	16,362
Liabilities:		
Long-term debt, net	**147**	218
Current maturities of long-term debt	**65**	161
Accounts payable and accruals	**1,491**	1,022
Other accrued liabilities	**684**	2,911
Other liabilities and deferred credits	**736**	1,282
Net assets	**$9,481**	$24,597

NOTE 14. SEGMENT INFORMATION:

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

	Year Ended December 31,		
	1995	1994	1993
Operation information:			
Customer revenues—			
Electric	**$546,324**	$531,747	$503,187
Gas	**139,165**	151,931	137,270
Environmental services	**88,574**	87,673	81,396
Other	**33,192**	24,366	16,751
Operating income (loss)—			
Electric	**$137,171**	$121,136	$118,785
Gas	**17,341**	13,334	10,431
Environmental and engineering services	**3,680**	6,038	4,219
Other (a)	**(8,788)**	(8,693)	(5,491)

(continued)

	Year Ended December 31,		
	1995	1994	1993
Investment information:			
Identifiable assets, including allocated common plant at December 31—			
Electric	**$1,226,786**	$1,176,670	$1,170,010
Gas	**250,643**	234,815	228,257
Environmental and engineering services	**38,116**	41,187	40,124
Other	**356,869**	353,229	323,508
Other information:			
Construction and nuclear fuel expenditures—			
Electric	**$122,297**	$103,420	$139,805
Gas	**16,905**	20,319	18,876
Other	**14,607**	5,949	18,538
Depreciation and amortization expense—			
Electric	**$71,379**	$64,695	$53,398
Gas	**9,629**	8,082	7,329
Other	**5,311**	7,574	7,953

(a) excludes the effects of affordable housing and historical tax credits of $5.0 million, $4.8 million and $5.2 million in 1995, 1994 and 1993, respectively.

NOTE 15. CONSOLIDATED QUARTERLY FINANCIAL DATA (Unaudited):

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

	Operating Revenues	Operating Income	Net Income	Earnings Per Share
Quarter Ended				
1995:				
March 31	**$215,874**	**$44,701**	**$19,653**	**$0.64**
June 30	**175,990**	**21,427**	**6,939**	**.23**
Septemher 30	**196,131**	**41,923**	**20,709**	**.67**
December 31	**219,260**	**41,353**	**11,131**	**.36**
1994:				
March 31	$227,023	$47,330	$26,369	$0.87
June 30	175,783	21,814	10,303	.33
September 30	190,178	33,801	15,309	.50
December 31	202,733	28,870	13,269	.43

The Company's business is influenced by seasonal weather conditions.

FINANCIAL AND OPERATING STATISTICS

	Year Ended December 31,						
	1995	1994	1993	1992	1991	1990	1[illegible]
Consolidated Statements of Income							
(In thousands except for per-share data)							
Operating revenues:							
Electric	**$546,324**	$531,747	$503,187	$477,735	$488,552	$470,819	$432,314
Gas	**139,165**	151,931	137,270	119,362	117,775	110,423	152,588
Other (a)	**121,766**	112,039	98,147	76,176	63,222	37,249	4,029
Total operating revennes	**807,255**	795,717	738,604	673,273	669,549	618,491	588,931
Operating expenses:							
Electric production fuels	**116,488**	123,469	123,919	123,440	130,406	125,817	126,957
Purchased power	**44,015**	37,913	28,574	24,427	20,390	17,703	22,764
Purchased gas	**84,002**	100,942	90,505	77,112	70,834	65,348	112,364
Other operations and maintenance (a)	**292,839**	287,439	266,603	241,125	234,635	202,192	129,864
Depreciation and amortization	**86,319**	80,351	68,680	59,949	54,145	55,297	50,945
Taxes other than income	**34,188**	33,788	32,379	29,261	26,534	25,820	14,975
Total operating expenses	**657,851**	663,902	610,660	555,314	536,944	492,177	457,869
Operating income	**149,404**	131,815	127,944	117,959	132,605	126,314	131,062
Other income (expenses), net (a)	**3,103**	7,610	(633)	2,390	3,258	(2,403)	(3,155)
AFUDC — equity	**1,425**	3,009	2,978	2,351	1,073	—	2,646
AFUDC — debt	**663**	1,029	1,053	1,329	886	1,304	3,181
Interest on debt	**(43,559)**	(37,686)	(38,073)	(38,954)	(35,691)	(33,372)	(24,002)
Income before income taxes	**111,036**	105,777	93,269	85,075	102,131	91,843	109,7[illegible]
Income taxes	**(36,108)**	(36,043)	(25,656)	(23,257)	(32,390)	(28,494)	(49,0[illegible])
Preferred dividends of subsidiary	**(3,310)**	(3,310)	(3,928)	(3,811)	(3,811)	(3,811)	(4,360)
Income from continuing operations	**71,618**	66,424	63,685	58,007	65,930	59,538	56,368
Discontinued operations	**(13,186)**	(1,174)	(1,162)	—	—	—	—
Net income	**$58,432**	$65,250	$62,523	$58,007	$65,930	$59,538	$56,368
Per Sbare Data (b):							
Income from continuing operations per share	**$2.33**	$2.17	$2.15	$2.10	$2.42	$2.23	$2.13
Discontinued operations per share	**$(0.43)**	$(0.04)	$(0.04)	—	—	—	—
Net income per share	**$1.90**	$2.13	$2.11	$2.10	$2.42	$2.23	$2.13
Cash dividends paid per share	**$1.94**	$1.92	$1.90	$1.86	$1.80	$1.74	$1.35
Book value per share at year-end	**$19.41**	$19.43	$19.15	$17.28	$16.77	$16.39	$13.81
Market value per share at year-end	**$30 5/8**	$27 3/8	$32 7/8	$33 7/8	$32 3/4	$24 1/2	$20 1/4
Shares outstanding at year-end (in 000s)	**30,774**	30,774	30,439	27,829	27,301	26,663	26,473
Weighted average shares outstanding (in 000s)	**30,774**	30,671	29,681	27,559	27,246	26,663	26,473
Otlier:							
Effective income tax rate	**32.5%**	34.1%	27.5%	28.4%	32.9%	32.4%	44.7%
Embedded cost of long term debt	**7.39%**	8.01%	7.77%	8.19%	8.44%	8.65%	8.9%
Embedded cost of preferred stock	**5.52%**	5.52%	6.13%	6.36%	6.36%	6.36%	6.4%
Dividend coverage ratio	**3.15x**	2.97x	2.72x	2.79x	1.94x	2.90x	3.06x
Return on common equity	**9.8%**	11.0%	11.5%	12.4%	14.6%	14.0%	15.9%

(a) The financial statements of WPL Holdings, Inc. were consolidated with the operations of its subsidiaries effective January 1, 1988. For prio[illegible] periods, non-utility subsidiary net revenues and expenses are included with "Other income (expenses), net." Such amounts are not material to a fair presentation of financial results and, therefore, periods prior to January 1, 1988, were not restated.

(b) As adjusted for 2-for-1 stock split for shareowners of record on September 2, 1988.

FINANCIAL AND OPERATING STATISTICS

	Year Ended December 31,						
	1995	1994	1993	1992	1991	1990	1985
Consolidated Balance Sheets (a)							
(In Thousands)							
Assets							
Utility plant	**$2,058,232**	$1,961,189	$1,840,224	$1,736,592	$1,664,946	$1,612,117	$1,303,891
Dedicated decommissioning funds	**73,357**	51,791	49,803	40,377	36,640	32,800	—
Less: accumulated depreciation	**887,562**	808,853	763,027	719,987	675,589	640,458	424,096
	1,244,027	1,204,127	1,127,000	1,056,982	1,025,997	1,004,459	879,795
Construction work in progress	**36,996**	42,732	75,732	58,973	27,135	17,714	10,513
Nuclear fuel, net	**18,867**	19,396	18,000	16,923	18,682	19,290	20,374
Other property and equipment, net, and investments	**156,874**	135,549	133,912	122,800	84,018	48,568	16,024
Current assets	**175,688**	154,434	156,817	127,357	130,010	133,609	162,516
Deferred charges and other	**239,962**	249,663	250,438	182,863	97,657	37,309	6,940
Total assets	**$1,872,414**	$1,805,901	$1,761,899	$1,565,898	$1,383,499	$1,260,949	$1,096,162
Capitalization and liabilities							
Common shareowners' investment	**597,470**	$597,798	$582,966	$ 483,536	$ 459,659	$ 437,082	$365,650
Preferred stock	**59,963**	59,963	59,963	62,449	62,449	59,963	60,000
Long-term debt, net	**430,362**	448,110	425,105	417,975	367,489	342,812	324,377
Total capitalization	**1,087,795**	1,105,871	1,068,034	963,960	889,597	839,857	750,027
Current maturities of long-term debt	**3,397**	2,832	782	985	4,415	10,200	—
Variable rate demand bonds	**56,975**	56,975	56,975	57,075	57,875	24,000	8,500
Other current liabilities	**270,396**	191,265	217,264	187,055	172,630	150,822	132,949
Other noncurrent liabilities	**453,851**	448,958	418,844	356,823	258,982	236,070	204,686
Total capitalization and liabilities	**$1,872,414**	$1,805,901	$1,761,899	$1,565,898	$1,383,499	$1,260,949	$1,096,162
Year-end capitalization ratios							
Common	**47.5%**	48.6%	47.9%	44.2%	45.8%	48.3%	47.0%
Preferred	**4.8%**	4.9%	4.9%	5.7%	6.0%	6.6%	7.7%
Debt (b)	**47.7%**	46.5%	47.2%	50.1%	48.2%	45.1%	45.3%
Total capitalization	**100.0%**	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Key financial ratios - utility only							
Times interest earned							
Before tax (including AFUDC)	**4.58X**	4.51X	3.69X	3.41X	3.77X	3.77X	5.46X
Before tax (excluding AFUDC)	**4.52X**	4.38X	3.57X	3.31X	3.71X	3.73X	5.22X
After tax (including AFUDC)	**3.23X**	3.19X	2.70X	2.55X	2.81X	2.80X	3.35
Ratio of earnings to fixed charges and preferred dividend requirements							
Before tax (including AFUDC)	**3.98X**	3.88X	3.15X	2.94X	3.24X	3.22X	4.08X
After tax (including AFUDC)	**2.94X**	2.88X	2.43X	2.30X	2.54X	2.52X	2.83X
Construction expenditures financed internally	**83%**	75%	46%	55%	80%	93%	106%
Total utility capital requirements financed internally	**99%**	95%	53%	51%	67%	80%	86%
Utility bond rating—							
Moody's Investors Service, Inc	**Aa**	Aa	Aa	Aa	Aa	Aa	Aaa
Standard & Poor's Corp	**AA**	AA	AA	AA	AA	AA	AA+

(a) These statements have been retroactively restated to reflect Wisconsin Power and Light Company's adoption of the Federal Energy Regulatory Commission Uniform System of Accounts, with minor modifications, effective January 1990.
(b) Includes variable rate demand bonds and short-term debt outstanding on December 31.

FINANCIAL AND OPERATING STATISTICS

	Year Ended December 31,						
	1995	1994	1993	1992	1991	1990	1985
Consolidated Electric Statistics							
Customers served (end of period):							
Residential and farm	**329,643**	322,924	316,870	310,702	304,825	302,942	281,[illegible]
Commercial and industrial	**45,525**	44,569	43,598	43,014	41,869	40,993	37,[illegible]
Wholesale	**48**	42	39	31	31	31	37
Other	**1,294**	1,256	1,236	958	1,183	1,157	914
Total	**376,510**	368,791	361,743	354,705	347,908	345,123	319,397
Electric operating revenues (in 000s):							
Residential and farm	**$199,850**	$194,242	$184,176	$171,887	$179,751	$170,875	$154,416
Commercial and industrial	**242,691**	241,869	228,880	220,174	216,840	214,590	187,859
Wholesale	**97,350**	86,400	78,955	67,326	68,154	65,983	55,393
Other	**6,433**	9,236	11,176	18,348	23,807	19,371	34,646
Total	**$546,324**	$531,747	$503,187	$477,735	$488,552	$470,819	$432,314
Sales (MWh in 000s):							
Residential and farm	**2,938**	2,777	2,751	2,614	2,730	2,566	2,276
Commercial and industrial	**5,646**	5,453	5,170	4,929	4,743	4,667	3,750
Wholesale	**3,109**	2574	2,106	1,995	1,980	1,885	1,469
Other	**54**	55	334	269	516	407	1,297
Total	**11,747**	10,859	10,361	9,807	9,969	9,525	8,792
Generation and purchases (MWh in 000s):							
Steam	**8,323**	7,821	7,616	7,420	7,841	7,262	6,565
Nuclear	**1,555**	1,625	1,565	1,615	1,508	1,599	1,517
Hydroelectric	**222**	228	276	238	247	224	265
Purchases	**2,227**	1,786	1,488	1,131	968	1,009	985
Other	**86**	24	6	6	18	8	2
Total	**12,413**	11,484	10,951	10,410	10,582	10,102	9[illegible]
System capacity at time of peak demand (MW)							
Company-owned	**2,176**	2,193	2,019	1,934	1,932	1,936	1,889
Firm purchases and sales (net)	**57**	40	83	110	70	(55)	42
Total	**2,233**	2,233	2,102	2,044	2,002	1,881	1,931
Native system peak demand (a)	**2,197**	2,002	1,971	1,782	1,863	1,798	1,371
Firm demand at system peak (b)	**2,058**	1,822	1,840	1,680	1,775	1,718	1,336
Consolidated Gas Statistics							
Customers served (end of period)	**146,093**	140,981	136,263	131,669	128,027	124,698	109,432
Gas operating revenues (in 000s):							
Residential and farm	**$70,382**	$71,555	$71,632	$ 63,699	$ 63,521	$ 59,793	$70,758
Commercial and industrial firm	**39,456**	41,918	40,748	37,154	36,407	34,051	49,831
Interruptible	**3,708**	8,777	11,247	14,589	12,051	11,563	31,025
Transportation and other	**25,619**	29,681	13,643	3,920	5,796	5,016	974
Total	**$139,165**	$151,931	$137,270	$119,362	$117,775	$110,423	$152,588
Therm deliveries (in 000s):							
Residential and farm	**126,903**	119,562	120,005	114,131	114,772	102,048	106,424
Commercial and industrial firm	**91,316**	87,487	87,038	82,087	83,451	74,325	89,550
Interruptible	**12,148**	24,809	27,872	25,497	26,025	35,434	72,024
Transportation and other	**169,121**	142,252	84,877	71,167	66,531	59,030	1,155
Total	**399,488**	374,110	319,792	292,882	290,779	270,837	269,153
Degree days:							
Heating	**7,431**	7,170	7,351	7,050	7,055	6,733	7,822
Cooling	**982**	637	630	342	858	629	[illegible]

(a) Includes contract interruptible demand served at time of system peak.
(b) Native system peak less contract interruptible demand, less direct load control served at time of peak.

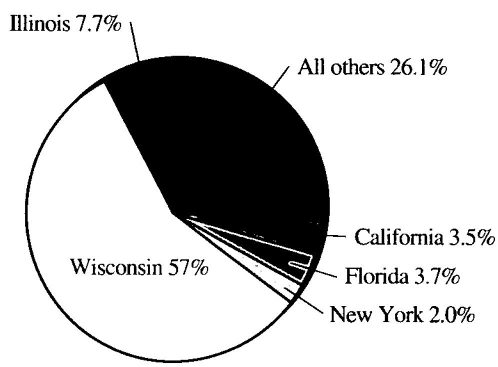
Shareowner

INFORMATION

The company had 38,437 shareowners as of December 31, 1995, based on the number of shareowner accounts. Shareowner account records are maintained in the corporate general office in Madison, Wis.

WHERE WPLH SHAREOWNERS LIVE

(As of 12-31-95)



WP&L PREFERRED STOCK

Wisconsin Power and Light Co. preferred stock dividends per share for each quarter during 1995 were as follows:

Series	*Dividend*	*Series*	*Dividend*
4.40%	$1.10	4.96%	$1.24
4.50%	$1.125	6.20%	$1.55
4.76%	$1.19	6.50%	$ .40625
4.80%	$1.20		

MARKET INFORMATION

EXCHANGE LISTINGS

	Stock Exchange	*Trading Symbol*	*Newspaper Abbreviation*
WPL Holdings, Inc. Common	New York Stock Exchange	WPH	WPL Hldg
Wisconsin Power & Light Co. 4.50% Preferred	American Stock Exchange	Wis Pr	WiscPL

All other Wisconsin Power and Light Co. preferred series are traded on the over-the-counter market.

WPLH COMMON STOCK QUARTERLY PRICE RANGES AND DIVIDENDS

	1995			*1994*		
Quarter	*High*	*Low*	*Dividend*	*High*	*Low*	*Dividend*
First	$31	27 1/4	.485	$32 7/8	27 3/4	.48
Second	30	27 1/2	.485	30 3/4	26 3/8	.48
Third	29 3/8	27 1/2	.485	29 7/8	27	.48
Fourth	31 3/4	29 1/4	.485	28 7/8	26 7/8	.48
	$31 3/4	27 1/4	1.94	$32 7/8	26 3/8	1.92

Year-end stock price: $30 5/8

1996 RECORD AND DIVIDEND PAYMENT DATES

As authorized by the WPL Holdings, Inc. and Wisconsin Power and Light Co. Boards of Directors, record and dividend dates normally are as follows:

WPL Holdings, Inc. Common Stock

Record Dates	*Payment Dates*
Feb. 2	Feb. 15
Apr. 30	May 15
Aug. 5	Aug. 15
Nov. 1	Nov. 15

Wisconsin Power and Light Co. Preferred Stock

Record Dates	*Payment Dates*
Feb. 29	Mar. 15
May 31	June 15
Aug. 30	Sept. 14
Nov. 29	Dec. 14

Shareowner

INFORMATION

CONTINUED

DIVIDEND CHECKS NOT RECEIVED

If you do not receive your dividend check on the appropriate payment date, we suggest that you wait about seven days after the scheduled payment date to allow for any delays in mail delivery. After that time, call Shareowner Services at the toll-free number listed at the end of this section.

STREET-NAME ACCOUNTS

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

FORM 10-K INFORMATION

Upon request, the company will provide, without charge, copies of *Form 10-K*, as filed with the Securities and Exchange Commission. Direct your request to Shareowner Services.

ANALYST INQUIRIES

Inquiries from the financial community may be directed to: Robert Rusch, Wisconsin Power and Light Company, Attn: Investor Relations, P.O. Box 192, Madison, WI 53701-0192, Telephone: (608) 252–3470.

DUPLICATE MAILINGS

WPLH Annual Reports are mailed to all shareowners. You will receive duplicate mailings from us if your shares are registered in different, but similar names. If you do not need duplicate annual reports, send us a request to eliminate the duplicate mailings. Please tell us the names of the accounts you want eliminated from our mailing list and the name of the account that you want your mailings addressed to. Send your request to Shareowner Services.

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

SERVICES OFFERED TO SHAREOWNERS

The company is pleased to provide numerous services for the institutions and individuals who own the company. Here is a summary of the key services that WPL Holdings offers to shareowners.

Dividend Reinvestment – WPL Holdings has a Dividend Reinvestment and Stock Purchase Plan that is available to all of its shareowners. The plan enables shareowners to buy common stock directly through the company without paying any brokerage commissions, fees or service charges. The minimum monthly stock purchase is $20 and the current maximum is $25,000 per month. You may obtain a copy of the Plan Prospectus detailing the features of the Plan by contacting Shareowner Services.

Automatic Stock Purchase – This option enables shareowners participating in the Dividend Reinvestment and Stock Purchase Plan, who want to purchase common stock on a monthly basis, to have money transferred directly from their checking accounts to their plan accounts. This service provides a way to purchase stock on a regular basis and build investment over time.

Direct Deposit – Shareowners who are not reinvesting their dividends through WPL Holdings' plan may choose to have their quarterly common and preferred stock dividend checks electronically deposited in their checking or savings accounts through this service.

Stock Transfers – WPL Holdings is its own transfer agent for WPL Holdings, Inc. and Wisconsin Power and Light Co. stock, and handles all types of stock transfer for shareowners, including transfers for name changes, custodial accounts, joint tenancy, gifts, trusts and other changes.

Shareowner Information – The company keeps its shareowners informed regularly through the *Annual Report*, the *Quarterly Report* and other communications. WPL Holdings encourages shareowners with questions or concerns to contact its Shareowner Services representatives.

STOCK TRANSFER AGENT AND REGISTRAR

For WPL Holdings, Inc. common stock and Wisconsin Power and Light Company preferred stock, contact:

WPL Holdings, Inc.
Attn: Shareowner Services
P.O. Box 2568
Madison, WI 53701-2568

SHAREOWNER SERVICES

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

Madison Area number	(608) 252-3110
Toll-free number	(800) 356-5343

Please direct written inquiries to:

WPL Holdings, Inc.
Attn: Shareowner Services
P.O. Box 2568
Madison, WI 53701–2568

Internet Address:
http://www.wpl.com/wplh

Credits

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1995 Annual Report

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