

WISCONSIN ENERGY CORPORATION

# 2004 Performance Report

EXECUTIVE SUMMARY



**FOCUS** on Customer Satisfaction and Financial Discipline

**EXECUTION** of Our Business Plan

**INVESTMENT** in Our Future



**Wisconsin Energy  
Corporation**

## Overview and Introduction



**Gale Klappa**  
Chairman, President and  
Chief Executive Officer

The success of any enterprise begins and ends with satisfied customers. At Wisconsin Energy, our highest priority is to generate consistently higher levels of customer satisfaction.

In addition to maintaining a clear focus on customer satisfaction, we emphasized financial discipline and execution of our business plan in 2004 by investing in our plants, processes and people. The results helped us exceed our financial targets, advance our

growth strategy and generate strong total returns for stockholders, while enhancing our environmental and social performance.

Our 2004 accomplishments include:

- Utility operations and customer satisfaction improvements.
- Record earnings of \$2.57 per share – a 25 percent increase over 2003.
- Reduced debt and strengthened balance sheet through the sale of our manufacturing business.
- Significant progress on our Power the Future strategic plan.

Among our noteworthy achievements was winning the electric power industry's highest award – the Edison Award – from the Edison Electric Institute for our innovation and environmental leadership in expanding the markets for coal combustion products.

Our leadership in governance practices also was recognized in 2004. We received our third consecutive 10 rating – the highest possible score – from GovernanceMetrics International – and we were rated one of the top 10 companies for governance practices in the S&P 400 by Institutional Shareholder Services.

This report marks the fourth time we have measured our performance through the Global Reporting Initiative (GRI). Formed in 1997, the GRI provides a universal format for companies worldwide to evaluate and report their economic, environmental and social performance – and to solicit feedback from their constituencies.

### Focus on Customer Satisfaction

Customer satisfaction showed marked improvement during 2004. A key component of customer satisfaction is reliable service.

In 2004, We Energies received the ReliabilityOne™ National Achievement Award as America's most reliable utility in an independent ranking of 115 utilities. We Energies also won its third consecutive regional achievement award as the most reliable utility in the Midwest. Contributing to its high performance level was a 25 percent reduction in average restoration time for power outages. Following restoration, We Energies initiated a program to call customers affected by an outage to determine their satisfaction with the company's service. We Energies also improved its performance in J.D. Power's residential gas customer survey and its annual business customer survey.

Another customer satisfaction initiative is the Personal Energy Report, which helps customers better understand their energy usage and conserve energy to reduce costs. The report provides details on a customer's energy use and costs for the previous 24 months.

### Execution of Our Business Plan

Wisconsin's growing economy is driving the need to upgrade the state's energy infrastructure. Both public and private forecasts project that Wisconsin will need about 7,000 megawatts of new power generation by 2016. Our Power the Future plan helps to address this need. Power the Future is intended to provide customers with efficient, affordable energy and support the state's economic growth.

In 2004, we continued construction of the first of two 545-megawatt natural gas-fueled generating units at the Port Washington Generating Station. The unit was 80 percent complete at the end of 2004 and achieved commercial operation in July 2005. It is the first plant to be brought online as part of our Power the Future plan.

During 2004, we focused on securing environmental permits and negotiating other agreements needed to expand the coal-fueled generation at our Oak Creek site – another major component of our Power the Future plan. A circuit court decision in November 2004 vacated the Public Service Commission's 2003 order authorizing construction of the Oak Creek units. The Supreme Court of Wisconsin reversed that decision in June 2005, allowing us to start construction. The expansion will add two 615-megawatt

## Overview and Introduction



units scheduled for completion in 2009 and 2010. We also gained approval of Environmental Trust Financing (ETF) legislation from Wisconsin's legislature and governor. We expect to use ETF to help fund improvements that will reduce power plant emissions of sulfur dioxide, nitrogen oxide and mercury. ETF is expected to reduce the financing costs of environmental expenditures for our utility customers.

Elsewhere on the We Energies system, our commitment to provide safe, reliable energy continues at our Point Beach Nuclear Plant in Two Creeks, Wisconsin. Unit 2 generated a record 4.38 million megawatt-hours of electricity in 2004. We also made progress on our application to extend the operating licenses of both Point Beach units by an additional 20 years, which we anticipate will save customers more than \$450 million over the course of the extensions.

Our business plan also includes diversity as a key priority. We continued pursuing supplier diversity goals in 2004 and added a work force diversity initiative as a company objective for 2004 and 2005. This objective highlights the importance of setting the right strategies to attract, hire and promote women and minorities at all levels of the corporation.

### Investing in Our Future

Investments in new generation at the Port Washington and Oak Creek sites as part of our Power the Future plan are the foundations for our future success. But other aspects of Power the Future also are important to our comprehensive approach.

We Energies plans to spend about \$600 million in capital improvements for environmental upgrades at its existing power plants over the 10-year period ending 2013. This investment is expected to improve environmental performance and reduce the impact of our operations on the air, land and water.

We Energies is installing environmental controls at its Pleasant Prairie Power Plant at an estimated cost of \$320 million to further reduce sulfur dioxide and nitrogen oxide emissions. Work is expected to be completed by the end of 2007. We also expect to complete construction of two projects in 2005 that will further reduce air emissions at our Presque Isle Power Plant in Michigan's Upper Peninsula. The first – a \$50 million joint project with the U.S. Department of Energy – is the nation's first full-scale demonstration of a new process patented by the Electric Power

Research Institute to control mercury and other air emissions. The second is investing \$26 million to install equipment that will further control the plant's particulate emissions.

Other Power the Future investments during 2004 included building several new substations, upgrading hundreds of miles of our electric distribution system to further strengthen service reliability, and implementing a plan to add 55 megawatts of additional energy conservation and efficiency by 2008.

### Challenges for Our Future

Looking ahead over the next five to seven years, Wisconsin Energy faces three major challenges:

- First, we need to continue to upgrade the energy infrastructure in Wisconsin to support the state's economic growth.
- Second, we must continue to increase our productivity – particularly our focus on financial discipline and cost control – so we can minimize necessary price increases.
- And third, we must continue to increase customer satisfaction.

In summary, we have confidence in our long-term business plan. We have a solid foundation and a realistic plan to meet the energy needs of our customers. Our electric distribution system has been recognized as the most reliable in the nation, and we are increasing our focus on customer service. We are continuing to reduce our business and financial risk, and seeking to increase stockholder value by leveraging our core competencies.

We have a strong management team with the experience, skill and determination to ensure the corporation's continued success. We have much to accomplish, but I am confident in our ability to deliver real value for our customers and stockholders in the years ahead.

We continue to have a significant and positive impact on the economic, civic and cultural vitality of the communities we serve. Please take time to look through the 2004 WEC Performance Report for examples and details. You can view our complete 2004 report at [wec-performancereport.com](http://wec-performancereport.com).

**Gale Klappa**

Chairman, President and Chief Executive Officer

## Economic Performance



### Overview

For WEC, 2004 was a year of focus on customer satisfaction, execution of its business plan and investment in the future. WEC achieved record earnings per share, advanced its Power the Future growth strategy, further divested non-core assets and strengthened its balance sheet. Power the Future is intended to meet the region's growing demand for reliable, affordable and environmentally responsible energy while ensuring a diverse fuel mix. The company also continued to focus economic and community development activities on urban renewal initiatives.

Based on strong operational performance and the sale of its pump and water systems business, WEC reported 2004 net income of \$306 million, or \$2.57 per share, compared with \$244 million, or \$2.06 per share, in 2003. The company recorded a gain of \$1.28 per share on the sale of its pump and water systems business, offset somewhat by non-cash charges of 81 cents per share associated with nonutility facilities, debt redemption costs of 13 cents per share and severance costs of 16 cents per share. In 2003, earnings were reduced by valuation charges of 32 cents per share, offset by a gain of 7 cents per share on the sale of nonutility investments. Excluding the effect of asset sales, impairment charges and other one-time items, adjusted earnings for 2004 were \$285 million, or \$2.39 per share, compared with \$274 million, or \$2.31 per share, on the same basis in 2003. The improved results reflect lower interest costs and improved base utility operations offset in part by a rise in benefit costs.

WEC sold its pump and water systems business in July 2004 to Pentair, Inc. for more than \$850 million plus the assumption of approximately \$25 million of third party debt. Proceeds from the

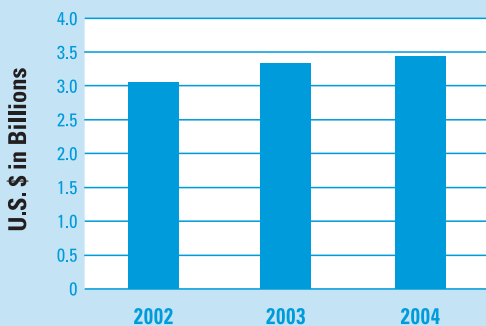


The first of two new natural-gas-fueled units at Port Washington Generating Station began commercial operation in July 2005.

sale were used to reduce debt, strengthening the balance sheet. WEC reduced its year-end 2004 debt-to-total-capital ratio to 59.3 percent from 64.4 percent at year-end 2003.

Since 2000, WEC has received nearly \$2 billion from the sale of non-core assets. It has used the proceeds to reduce debt, strengthening its balance sheet; fund growth initiatives (including its Power the Future plan); and repurchase common stock. The board of directors raised the common stock dividend by 5 percent in 2004 and by 4.8 percent in the first quarter of 2005.

### Wisconsin Energy Corporation Operating Revenues



The company plans to invest approximately \$2.5 billion in new generation at existing sites and to upgrade its energy distribution system and existing generating facilities under its Power the Future strategy. Construction on the first of two new natural gas-fueled generating units in Port Washington, Wisconsin, continued during 2004. That unit began commercial operation in July 2005. The second unit, currently under construction, is expected to be on line in 2008. As a result of a favorable decision by the Supreme Court of Wisconsin in June 2005, WEC is proceeding with construction of two new coal-fueled units in Oak Creek, Wisconsin, that are scheduled to go on line in 2009 and 2010.

## Economic Performance



As part of its investment in existing generating facilities, the company has agreed to invest approximately \$600 million during the 10-year period ending 2013 in facility improvements to reduce emissions from existing power plants. In October 2004, the PSCW approved We Energies' innovative Environmental Trust Financing (ETF) measure. ETF is expected to reduce the financing costs of environmental expenditures for our utility customers.

### Earnings Reconciliation

Adjusted earnings (non-GAAP earnings), which generally exclude nonoperational items as well as one-time charges or gains that are not associated with the company's ongoing operations, are provided as a complement to earnings presented in accordance with GAAP. These items are not indicative of the company's operating performance. Management believes that the presentation of earnings from adjusted operations is relevant and useful to investors to understand WEC's operating performance and uses such measures internally to evaluate the company's performance and manage its operations.

Year Ended December 31	2004	2003
<b>Adjusted Earnings</b>	<b>\$2.39</b>	<b>\$2.31</b>
Gain on Asset Sales	1.28	0.07
Impairment Charges	(0.81)	(0.32)
Debt Redemption Costs	(0.13)	-
Severance Costs	(0.16)	-
<b>GAAP Earnings</b>	<b>\$2.57</b>	<b>\$2.06</b>



This artist's rendering depicts the expansion of Oak Creek Power Plant, which will add two new coal-fueled units – one in 2009 and the other in 2010.

formation of CenterPoint Wispark Land Company LLC to consolidate and develop the parties' fully improved land holdings in the I-94 corridor north of Chicago, Illinois. Wispark also supports the development of urban housing complexes and the development (or restoration) of retail and commercial properties.

### Economic and Community Development

WEC's Power the Future plan is expected to benefit the region's economic development by meeting a growing demand for electricity, creating jobs and ensuring a diverse fuel mix while keeping electricity prices reasonable.

Wispark LLC also supports economic development in Wisconsin. During 2004, Wispark continued to focus on projects such as "infill" redevelopment within existing urban areas, completion of business park developments, and build-to-suit industrial, office and distribution facilities within its business parks. In December 2004, Wispark and CenterPoint Venture LLC announced the

## Environmental Performance



### Environmental Performance

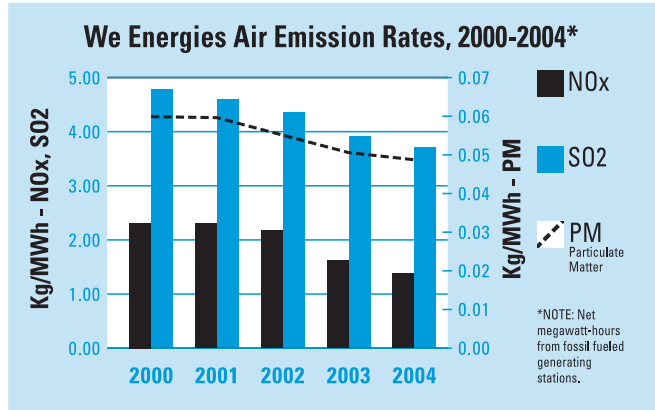
WEC again demonstrated continual improvement in environmental performance in 2004, reinforcing the corporation's commitment to provide cleaner sources of energy and an improved environment.

### Improving Air Quality

WEC's principal utility, We Energies, is implementing key portions of its integrated, multi-emission air quality strategy. A multi-emission approach was identified starting in 2001 as a means to address the many air quality issues (e.g., acid rain, climate change, mercury, ozone non-attainment, regional haze, New Source Review) confronting electric utilities and manufacturers. The company has taken actions to reduce air emissions because environmental improvements can be obtained at less cost by implementing a comprehensive emissions control plan. This approach is reflected in We Energies' commitments to achieve significant reductions in emissions from its Wisconsin coal-fueled power plants by 2013.

In 2003, We Energies announced a project estimated to cost \$320 million for improvements at its Pleasant Prairie Power Plant (P4). The upgrades are expected to further reduce SO<sub>2</sub> and NO<sub>x</sub> emissions by adding a second selective catalytic reduction (SCR) unit and flue gas desulfurization systems on both units. This will continue the trend toward lower emission rates for each of these pollutants both at P4 and across the We Energies generating system. Groundbreaking on this project occurred in May 2004 and is expected to be completed by the end of 2007.

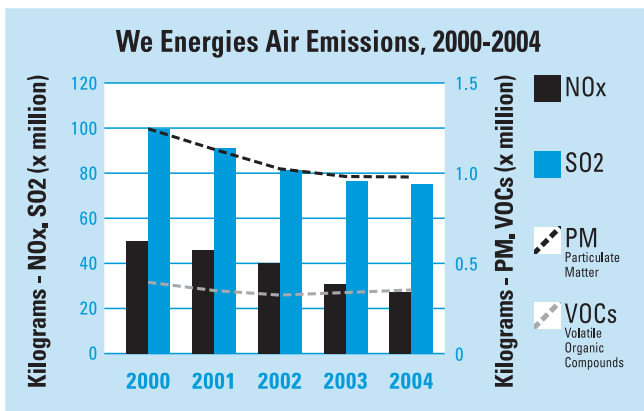
In September 2004, the last coal-fueled units at Port Washington Power Plant were retired to make room for the natural gas-fueled Port Washington Generating Station (PWGS). The first unit of the



PWGS went into commercial operation in July 2005. The second unit is expected to be in operation in 2008. When completed, PWGS will have more than 1,000 MW of natural-gas-fueled generation. This will be more than twice the 400 MW capacity of the original coal-fueled units, yet emissions of both NO<sub>x</sub> and SO<sub>2</sub> are expected to be reduced significantly.

### Actual Year 2001 PWPP Air Emissions Compared to the Total Facility Maximum Allowable Emissions for the PWGS Natural Gas Combined Cycle Facility

Pollutant (metric tons)	2001 PWPP Actual Emissions	Maximum Allowable Emissions PWGS	Emissions Increase (Decrease)
Nitrogen Oxides NO <sub>x</sub>	2,052	694	(1,358)
Sulfur Dioxide SO <sub>2</sub>	12,131	22	(12,109)
Organic Compounds OCs	16	89	73
Particulate Matter PM10	318	528	210
Mercury Hg	0.017	0	(0.017)

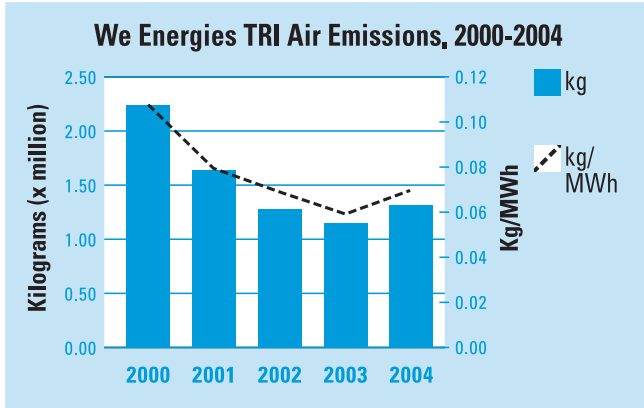


We Energies has submitted Toxics Release Inventory (TRI) reports annually to the EPA since reporting for this source sector became required in 1999. We Energies' releases to the air decreased by more than 40 percent between 2000 and 2004.

### Addressing Greenhouse Gas Emissions

We Energies continues to support flexible, market-based strategies to curb greenhouse gas emissions. These strategies include emissions trading, joint implementation projects and credit for early action. We Energies also supports a voluntary approach that encourages technology development and transfer, and

## Environmental Performance



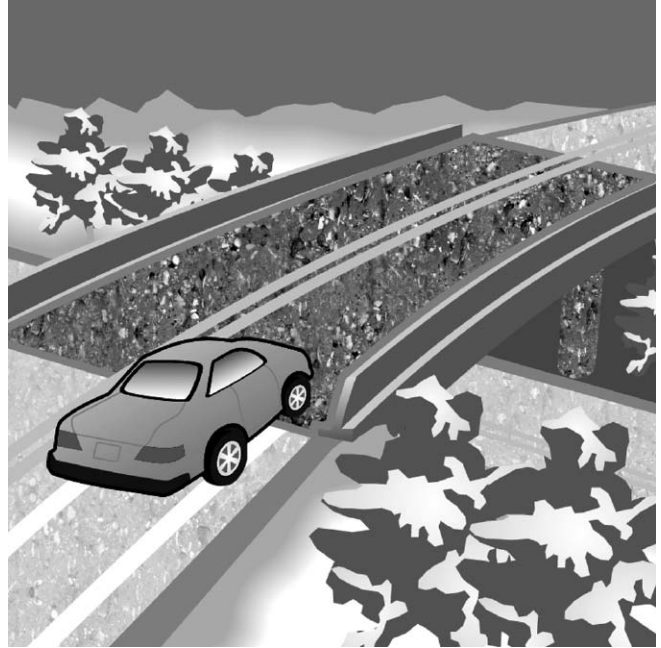
Note: We Energies' TRI air releases include: hydrochloric and sulfuric acid; hydrogen fluoride; benzo(ghi)perylene; and barium, chromium, copper, lead, manganese, mercury, nickel, polycyclic-aromatic, thallium, vanadium and zinc compounds.

includes all sectors of our economy and all significant global emitters.

We Energies' net greenhouse gas emissions and emission rate (metric tons/MWh) fluctuate from year to year depending on the amounts and types of fossil fuels burned and the efficiency of individual generating units. Increased use of non-emitting generation sources, such as renewables and nuclear, helped reduce the emission rate from 2003 to 2004. Total greenhouse gas emissions increased by about five percent from 2003 to 2004 as generation increased due to growing electricity demand.

### Continuing Innovation in Coal Combustion Product Utilization

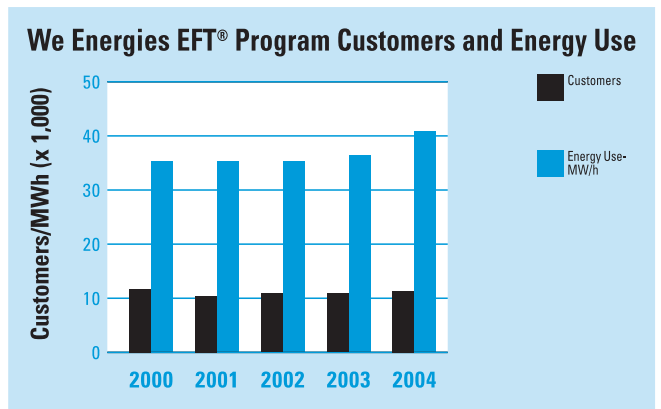
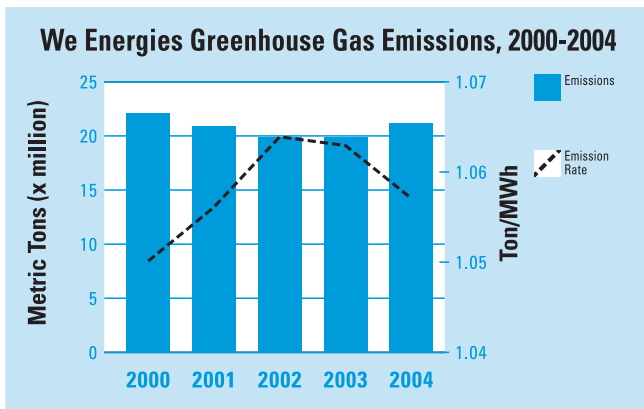
We Energies continues to demonstrate innovation and leadership in research and development to transform fly ash and bottom ash into commercially viable coal combustion products (CCP).



Ice prevention on highway bridges is one of the potential applications of the patented electrically conductive concrete product developed by We Energies.

These efforts were recognized in early 2004 when WEC received the Edison Award from the Edison Electric Institute. CCPs are now the third most abundant mineral resource (following sand/gravel and crushed stone/coal) produced annually in the United States.

An example of this innovation is the patent granted to We Energies in 2004 for electrically conductive concrete and controlled low strength materials having carbon fibers. These materials are not yet commercially available, but they have promising implications for various utility and construction applications. These include



## Environmental Performance



**We Energies' renewable energy program was recognized as one of only seven utility renewable energy programs in the U.S. certified by the Center for Resource Solutions.**

improved electrical grounding and lightning protection, as well as ice prevention on bridges, sidewalks and airport runways.

### Expanded Use of Renewables

In 2004, We Energies' Energy for Tomorrow® renewable energy program was recognized as one of only seven utility renewable energy programs in the U.S. certified by the Center for Resource Solutions. During the year, the number of business customers enrolled in the program increased by more than 36 percent -- from 269 to 366. That makes Energy for Tomorrow® one of the largest and most successful programs of its kind in the nation as ranked by the U.S. Department of Energy's National Renewable Energy Laboratory.

We Energies recently purchased the development rights for two 80-megawatt wind farm projects from Navitas Energy Inc. We Energies had originally signed an agreement with Navitas to build the wind farms, but changes in circumstances made it possible for the company to develop, build and operate the facilities. The wind farms will support the company's commitment to have 5 percent of retail energy sales come from renewable sources by 2011.

### Enhancing Land Use

WEC subsidiaries actively manage properties to maximize both environmental and community value. This includes restoring previously used properties and managing other lands for their habitat and recreational value.

Many former industrial sites sit vacant in areas served by WEC companies. These "brownfield" sites are known or suspected to be contaminated, and many are in central urban areas. WEC applies smart growth principles to investigate, remediate and redevelop brownfields and to minimize development of previously undeveloped open spaces, or "greenfields."

From the early 1800s until the first natural gas pipeline reached Wisconsin around 1950, gas was manufactured by heating coal in ovens. The process also produced tars and oils that generally were sold as raw materials to other industries. We Energies has investigated and remediated several former manufactured gas plant sites in Wisconsin where coal tar or other by-product residues remain.

### Stewardship

WEC (often operating through the WEC Foundation) routinely makes financial contributions to organizations devoted to preserving and protecting lands and waters for future generations. The corporation supports stewardship efforts that reach beyond corporate properties across state and national borders.

One example of this commitment to environmental stewardship is our continuing support of the Belize & Beyond program. Initiated in 1995, this program presently consists of curriculum and field trips through which participants learn about energy conservation and why humans and other species need healthy habitats in both the tropical and temperate regions of the world. In the fall of 2004 the Belize & Beyond program was taught to more than 600 students in eight Wisconsin high schools.

## Social Performance



### Employment, Wages and Benefits

As of Dec. 31, 2004, WEC had 5,655 employees – a significant decrease from 2003, largely due to the sale of WICOR Industries, LLC in 2004. Seventy-two percent of all employees in its utility companies – Wisconsin Electric Power Company, Wisconsin Gas LLC and Edison Sault Electric Company – are represented by labor unions.

We Energies' 2004 turnover rate was 8 percent; which includes 3 percent from voluntary separation plans. A total of 174 management and represented employees left the company under the plans.

On average, benefits represent 29.35 percent of a We Energies' employee's total compensation.

### Health, Safety and Employee Engagement

Employee and public safety are of utmost importance. WEC's utility subsidiaries are committed to educating the public about the potential hazards of its energy delivery systems and products. We Energies' employee safety performance improved slightly in 2004. Unfortunately, Edison Sault experienced a significant increase in OSHA and lost-time injury rates in 2004. Edison Sault began discussions with We Energies' safety personnel in early 2004 to mitigate lost-time injuries. Major safety program enhancements are currently ongoing at Edison Sault, with the expectation that lost-time injury statistics will improve.

We Energies launched several initiatives in 2004 to continue educating the public about safe practices. The company hosted

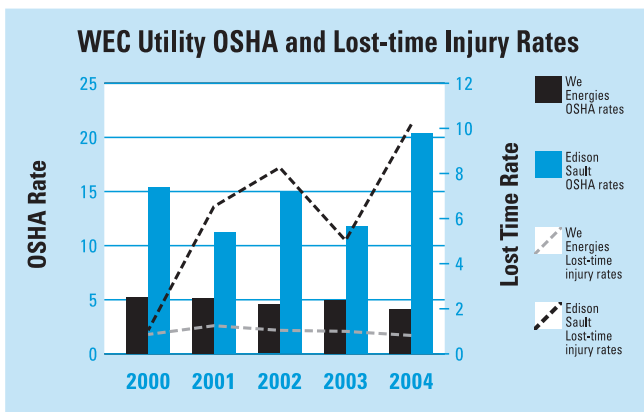


Lifestyle Rewards is a program that gives employees multiple options to improve their health behaviors.

an OSHA Electric Generation-Distribution training session attended by OSHA representatives from the United States and Puerto Rico. The company also provided emergency first responder electrical safety training for local police and fire departments. Meetings were held across the state in the fall to deliver gas pipeline information to fire and police personnel, as well as public officials. A feature was added to the We Energies Web site to educate contractors and consumers about safe practices. We Energies also teaches local contractors how to identify and work safely around utility facilities.

We Energies offers a variety of resources to encourage employee health, including the Lifestyle Rewards (LSR) program, which rewards employees for positive health behaviors. In 2004, approximately 3,100 employees registered for the program. Employees who completed the program receive up to \$300 paid in equal monthly installments over the following calendar year.

In 2004, We Energies partnered with the Gallup organization to measure how much employees feel valued and to what degree they are engaged in their work activities. Survey results



## Social Performance



A Wisconsin Energy Web site dedicated to the corporation's Supplier Diversity Initiative was part of an overall effort that led to investments of more than \$15.5 million in minority and women-owned businesses.

revealed several areas for improvement. Departmental and business unit plans were developed to address those areas, and a follow-up to the benchmark survey is planned for fall 2005.

### Community Investment

In 2004, the WEC Foundation invested \$6.4 million in communities in which WEC does business. This includes giving more than \$1 million to United Way agencies, and matching over \$840,000 in active and retired employee gifts.

### Workforce Diversity

WEC encourages development of a diverse work force by fostering inclusion and equal opportunity. We Energies held its Fifth Annual Diversity Summit in 2004. The summit seeks to expand employees' knowledge of different cultures and the challenges companies face in attracting and retaining employees. In 2004, the WEC board of directors approved

the inclusion of work force diversity strategies as a key enterprise goal to be reflected in management compensation.

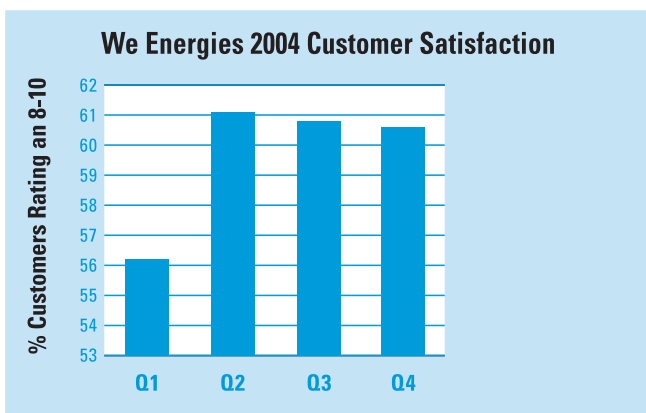
### Supplier Diversity

In 2003, WEC's Supplier Diversity Initiative (SDI) became a company-wide performance goal. The company exceeded the 2004 spend goal, purchasing more than \$15.5 million of products and services from minority and women-owned businesses.

### Customer Satisfaction

In 2004, We Energies began measuring its customer satisfaction using transaction-based surveys. Transaction-based survey research is the primary means We Energies uses to determine customers' perceptions of its products and services. Eight different transactions are measured and tracked to determine the customers' satisfaction with We Energies as a result of their interaction with the company. The results from these "active customer" surveys help measure progress in moving toward excellence in customer service. It also enabled We Energies' leadership to prioritize projects and resources affecting performance based on what the customer identified as having the greatest value and importance. The company showed an improvement in the percent of customers rating We Energies an 8, 9 or 10 on a 10 point scale over the course of 2004.

A number of initiatives were launched in 2004 to help improve customer satisfaction, including: customer campaigns communicating the availability of customer assistance programs; managing price perception; launching the Employee Customer Care Line; introducing an online energy calculator; and initiating the "Stay Connected" effort to help customers understand payment options. The company also is providing customers with a Personal Energy Report so they can review their past energy usage and learn tips about how to help lower their bills.



## Governance Structure and Management Systems



### Corporate Governance Overview

WEC is committed to conducting its business with the highest level of integrity, a business value which is the foundation for all of its decisions and actions. The corporation has established a governance structure accountable to key stakeholders, as well as policies and management systems that contribute to its efficient and effective operation.

WEC's corporate governance strives to provide the highest standards of independence, transparency and oversight. Stockholders wishing to provide recommendations to the board of directors may write to the directors in care of:

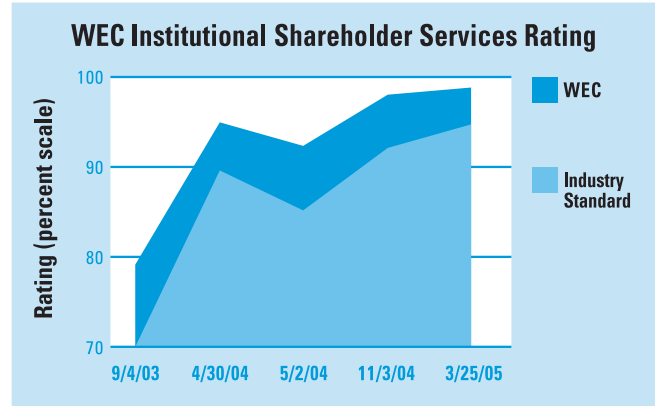
**Anne K. Klisurich**  
**Vice President and Corporate Secretary**  
**Wisconsin Energy Corporation**  
**231 West Michigan Street, P.O. Box 1331**  
**Milwaukee, WI 53201**

WEC is one of only seven U.S. companies to receive three consecutive "10" ratings from Governance-Metrics International (GMI), a corporate governance research and ratings agency. In February and September 2004, and again in March 2005, WEC earned perfect 10's from GMI in its ratings of 2,100, 2,588, and 3,220 global companies, respectively. WEC also has consistently placed in the top 10 in Institutional Shareholder Services' (ISS) ratings of companies in the S&P 400. ISS is the world's leading provider of corporate governance services to more than 1,000 institutional investors and corporations.

Since 1996, the WEC board of directors has maintained Corporate Governance Guidelines (the "Guidelines") that provide a framework in which it conducts business. The Guidelines are reviewed annually to ensure that the board is providing effective governance over the affairs of the corporation.

### Independence of the Board

No director qualifies as "independent" unless the board affirmatively determines that the director has no material relationship with the corporation. The WEC Corporate Governance Guidelines provide that the board of directors should consist of at least a two-thirds majority of independent directors. As of July 21, 2005, WEC had 10 directors, including eight independent directors. The board's standards of



Institutional Shareholder Services consistently rates Wisconsin Energy governance in the top 10 among S&P 400 companies.

independence are more comprehensive than the standards established by the New York Stock Exchange. The board annually conducts a formal review of whether its directors meet the independence guidelines. The results of the review are published in the corporation's proxy statement.

### Board Declassification

At the WEC annual meeting on May 5, 2004, stockholders approved an amendment to the corporation's bylaws requiring that each director be elected annually. The proposal received the required vote of 80 percent of the outstanding shares. Declassifying the board gives stockholders a stronger voice in evaluating the performance of the directors each year, and is another indicator of WEC's commitment to strong corporate governance practices. The amendment to declassify the board became effective at the 2005 annual meeting on May 5. All directors elected at the meeting will hold office for a one-year term expiring at the 2006 annual meeting. Subsequently, Thomas Fischer was initially elected as a director by the Board of Directors effective July 21, 2005, to hold office until the 2006 Annual Meeting of Stockholders.

For additional information regarding WEC's governance practices, please visit our Corporate Governance Web site at: <http://www.wisconsinenergy.com/governance/index.htm>

### Stakeholder Consultation

WEC's key stakeholders include customers, employees, investors/stockholders, regulatory agencies, community and political leaders, and the news media. Stakeholders

## Governance Structure and Management Systems



**Responding to customer feedback, We Energies developed an appliance calculator on its Web site to help customers better understand and manage energy costs.**

are subdivided into smaller groups and segmented according to common characteristics. This helps WEC and its subsidiaries communicate most effectively with their stakeholders, and to develop and apply appropriate services, programs and policies on their behalf. Departments or areas within the companies manage relationships with the various stakeholders. WEC typically decides which stakeholder groups to engage, at what level, and when and how, based on their involvement in a particular project; the extent to which they may be affected by any action; and the influence they will or may have on the success or failure of a specific initiative.

WEC consults stakeholders regularly using a variety of vehicles, including surveys, focus groups, community panels, corporate advisory panels, written communication, media communication, advertising, Web sites, corporate intranet site, management/union structures, private meetings and public presentations. WEC uses the information derived from these consultations to tailor customer service offerings, refine key messages and strategies, improve internal processes and practices, and develop plans for the future. For example, employee feedback has helped focus and improve communication with employees. WEC also recognizes employees as important communicators to customers. All messages provided to customers are made available to employees through the corporate intranet and internal print publications.

The key customer concern continues to be the volatility of natural gas prices and the rate of increase of electric prices. We Energies continues to monitor customers' comments about

these topics through customer satisfaction surveys and focus groups. We Energies has developed additional educational material on its Web site and through other media to help customers better understand energy pricing, as well as providing tips to help customers manage their energy costs. Internally, the company continues to emphasize financial discipline and the importance of controlling costs, and improving processes aimed at increasing customer satisfaction while reducing costs.

The Power the Future initiative has been successful thus far due to the involvement and support from neighbors, business customers, local residents, local officials, state officials, employees, represented labor, retirees, stockholders and community groups. These stakeholders supported the project in a variety of ways, including: testifying at public hearings; attending information meetings; writing letters; and educating and informing the public. WEC strived to develop public understanding and support for this project through a campaign to educate and inform stakeholders. To achieve this, a multi-faceted communication approach was utilized. Quarterly and monthly dinner meetings were held with local residents, employees and retirees to provide information and answer questions or concerns. One-on-one visits were conducted with residents, local and state officials, business customers, and labor and community groups throughout the process to keep them updated and informed. Information also was provided through newsletters, direct mail, news media, e-mail updates and dedicated Web sites.

## Corporate Profile



Wisconsin Energy Corporation (NYSE: WEC), based in Milwaukee, Wisconsin, U.S.A., is a Fortune 500 energy company serving more than 1.1 million electric customers in Wisconsin and Michigan's Upper Peninsula and more than one million natural gas customers in Wisconsin. The company's principal utilities are We Energies (the trade name for Wisconsin Electric Power Company and Wisconsin Gas LLC) and Edison Sault Electric Company. The company's nonutility businesses include energy development, recycling and renewable energy, and real estate development. One of the Midwest's premier energy companies, WEC has approximately 5,600 employees, about 58,000 registered stockholders and more than \$9 billion of assets. Of the 116,985,822 million shares outstanding as of Dec. 31, 2004, about 60 percent were held by institutional investors and 40 percent by individual stockholders.



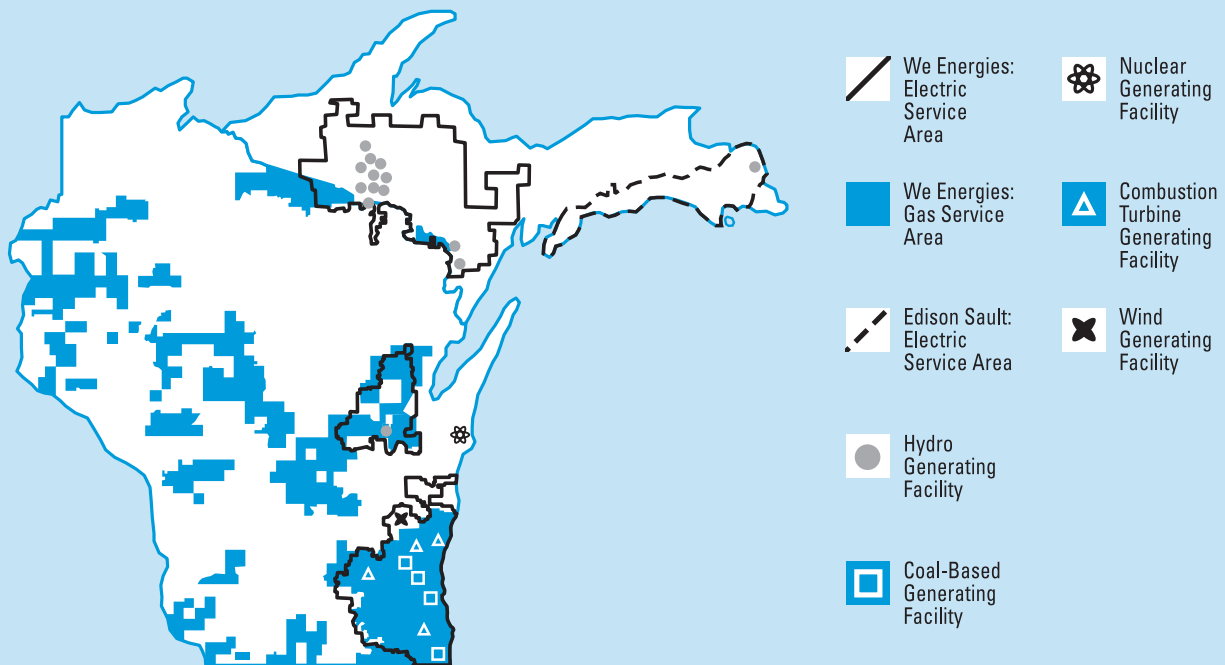
We Energies ranked first in the U.S. for electric reliability in 2004.

### Utility Energy Business

In addition to its electric and natural gas customers, We Energies serves approximately 460 steam customers in

the Milwaukee metropolitan area, and about 2,660 water customers in suburban Milwaukee. As of Dec. 31, 2004, Edison Sault Electric Company served approximately 23,000 electric customers in the Upper Peninsula of Michigan.

## WEC Utility Service Areas and Facilities



## Corporate Profile



### Nonutility Businesses

Through its nonutility subsidiaries – Minergy Corp., W.E. Power, LLC (We Power), Wispark LLC and Wisvest Corporation – WEC is involved in energy development; recycling and renewable energy; and real estate management.

For a portion of 2004, WEC's nonutility businesses also included WICOR Industries, LLC, a pump and water systems manufacturer, which was sold in July 2004.

### In 2004, WEC's nonutility businesses included:

**Minergy Corp.:** This business specializes in developing and marketing proprietary technologies designed to convert high volume industrial and municipal wastes into renewable energy and value-added products. Its strategic focus is to license that technology and sell equipment to domestic and foreign operators or industrial/municipal users through its patented GlassPack® process as a component of larger scale waste processing solutions.

**W.E. Power, LLC:** This subsidiary was created in November 2001 to design, construct and finance 2,320 megawatts of new generating capacity in the state of Wisconsin proposed as part of WEC's Power the Future plan. Two unaffiliated entities together are expected to own approximately 17 percent or 200 megawatts of capacity in two coal units to be constructed in Oak Creek, Wisconsin. We Power will own the remaining 2,120 megawatts of generating capacity and lease this capacity to Wisconsin Electric.

**WICOR Industries, LLC:** This subsidiary manufactured pumps, water treatment products and fluid-handling equipment through its subsidiaries – Sta-Rite Industries, LLC, SHURflo, LLC, and Hypro, LLC. Effective July 31, 2004, WEC sold this business to Pentair, Inc. for more than \$850 million and the assumption of approximately \$25 million of debt.

**Wispark LLC:** This business develops and invests in real estate. From September 2000 through Dec. 31, 2004, Wispark reduced its overall holdings from \$373.1 million to \$125.4 million. Wispark will maintain its remaining portfolio for investment and potential sale. Formed in 1987, Wispark's initial purpose was to help create jobs and support tax base growth

in the areas surrounding Kenosha and Racine, Wisconsin, which at the time were experiencing significant plant closures and job losses. In May 2000, WEC decided to significantly reduce Wispark's real estate holdings and concentrate its efforts on projects such as "infill" redevelopment within existing urban areas, completion of previously initiated, successful business park developments, and build-to-suit industrial, office and distribution facilities within business parks it presently owns.

**Wisvest Corporation:** Wisvest originally was formed to develop, own and operate electric generating facilities and to invest in other energy-related entities. As a result of the change in corporate strategy to focus on the Power the Future plan, Wisvest has discontinued its development activity. WEC has divested, or is in the process of divesting, the majority of Wisvest's assets.

# 2004 Performance Report

## EXECUTIVE SUMMARY



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