Our Annual Report for 1982

Electricity

Natural Gas

ILLINOIS POWER COMPANY

ILLINOIS POWER COMPANY

Illinois Power Company is a public utility engaged primarily in the generation, transmission, distribution and sale of electric energy and the distribution and sale of natural gas in the State of Illinois.

Principal Office

Monticello, Illinois 61856

Executive Office

500 South 27th Street, Decatur, Illinois 62525
Phone (217) 424-6600

Transfer Agent and Registrar

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

Stockholder Records and Dividend Disbursing Office

Shareholder Services Section
Illinois Power Company
500 South 27th Street
Decatur, Illinois 62525
(217) 424-6609

Annual Stockholders' Meeting

The annual stockholders' meeting will be held April 21, 1983, at the executive office of the Company at 10 A.M. Proxies for this meeting will be requested by the Board of Directors. A proxy statement will be mailed to stockholders about March 17, 1983.

ILLINOIS POWER COMPANY

ANNUAL REPORT

1982

Contents

This report and the financial statements contained herein are submitted for the general information of the stockholders of the Company as such and are not intended to induce, or to be used in connection with, any sale or purchase of securities.

Highlights of 1982

1981	1982	% Increase	
14,213	**13,978**	**(1.7)**	Electric sales—kilowatt-hours (millions)
$620,968	**$ 685,544**	**10.4**	Electric revenues (thousands)
952	**1,008**	**5.8**	Gas sales—therms (millions)
$343,324	**$ 421,231**	**22.7**	Gas revenues (thousands)
$964,292	**$1,106,775**	**14.8**	Total operating revenues (thousands)
$127,413	**$ 156,395**	**22.7**	Net income (thousands)
$107,516	**$ 136,498**	**27.0**	Earnings available for common stock (thousands)
37,844	**44,840**	**18.5**	Average number of shares outstanding (thousands)
$2.84	**$3.04**	**7.0**	Earnings per share of common stock

We Received

1981	1982	1982 %	
(Thousands of Dollars)			
$620,968	**$ 685,544**	**61.9**	Sales of electricity
343,324	**421,231**	**38.1**	Sales of gas
$964,292	**$1,106,775**	**100.0**	

We Paid Out or Set Aside

1981	1982	1982 %	
(Thousands of Dollars)			
$ 79,105	**$ 84,116**	**7.6**	Payrolls and benefits to employees engaged in operations
257,427	**313,788**	**28.4**	Gas purchased for resale
18,970	**33,314**	**3.0**	Power purchased for resale
(55,684)	**(35,989)**	**(3.3)**	Power interchanged—net
245,626	**236,460**	**21.4**	Fuel for electric plants
59,772	**61,751**	**5.6**	Materials and other expenses
60,031	**61,521**	**5.6**	Recovery of cost of property due to wear and obsolescence
124,197	**148,165**	**13.4**	Taxes—federal, state and local
21,419	**22,227**	**2.0**	Investment tax credit deferred—net
			Use of funds invested in our business—
(61,411)	**(78,409)**	**(7.1)**	Allowance for funds used during construction
87,427	**103,436**	**9.3**	Interest—including short-term loans
19,897	**19,897**	**1.8**	Preferred stock dividends
92,814	**113,972**	**10.3**	Common stock dividends
14,702	**22,526**	**2.0**	Future use in our business
$964,292	**$1,106,775**	**100.0**	

To Our Stockholders:

Our earnings for 1982 were up 20¢ per share of common stock from the $2.84 we earned in 1981. The $3.04 earned in 1982 reflects increased electric rates and increased gas therm sales offset by a reduction in kilowatt-hour sales of electricity, higher operating costs, and increased financing costs.

On February 19, 1982 we filed for increases in both our electric and gas rates and presented testimony before the Illinois Commerce Commission in support of our need. On January 12, 1983 the Commission granted us increases of 10.3 percent in our electric rates and 7.2 percent in our gas rates. The Commission's decision includes $625 million of construction work in progress in our electric rate base.

With these increases in effect, our electric rates will continue to be the lowest of any major utility in the state, and our gas rates will be about average.

Our managerial efforts at the Clinton power station have been to proceed with the completion of construction with utmost urgency consistent with the Nuclear Regulatory Commission's standards of quality assurance. Construction at Clinton continued at a reduced pace during 1982 as a result of stop work orders issued during the first half of the year. Although plans have been implemented to permit a full resumption of construction, the Company will not be able to determine the extent of the impact upon the cost estimate and construction schedule until the stop work orders have been lifted.

Our internal Cost Reduction Task Force, established in 1981, again identified and recommended ways to improve cash flow by limiting and deferring expenditures wherever possible. Reductions in 1982 came to $48 million, with another $36 million expected for 1983.

The increase in our operating revenues—up 10.4 percent for electric and 22.7 percent for gas—is not indicative of the impact of the economic recession on our sales and consequent earnings.

Our kilowatt-hour sales were 1.7 percent lower than in 1981, when the decline began. Several factors were involved, including consumer conservation and temperate summer weather, but the main factor was the recession.

Due mainly to the severe cold of the first quarter, gas therm sales increased by 5.8 percent for the year, with industrial increases lagging behind those of residential and commercial.

The national economic recession has greatly affected business conditions in Illinois. Our service area did not escape this decline but continues to show its relative strength, due primarily to the diversity of industrial, educational, and commercial enterprises located here. Although we did experience a decline in total electric sales, our residential and commercial sales were up 0.8 percent and 1.2 percent, respectively, and industrial sales were down by 5.1 percent. Gas sales for residential and commercial customers were up 6.9 percent and 7.7 percent, respectively. Industrial sales were up 4.8 percent. To maintain and improve this valued diversity of business, we are committed to an active program to help communities retain and expand existing industry and to bring in new employers.

In addition to our ongoing efforts to help all classes of customers get more efficient use of electricity and gas, we have launched a new program that we believe is a unique way of helping elderly, handicapped, and economically-distressed customers better manage and pay their electric and gas bills. Our Board of Directors authorized an initial grant of $250,000 to launch the Energy Assistance Foundation, a not-for-profit corporation. With an independent Board of Directors—with me as the only representative of our Company—the Foundation plans to fund programs of existing community organizations to help needy individuals and families to reduce and better manage their utility bills. As the program develops, our Company is prepared to match contributions from individuals, companies, and charitable organizations with an additional grant of up to another $250,000.

These and other matters, together with financial and statistical information, are presented in detail in this report.

We proceed into the uncertainties of 1983, the 60th year of Illinois Power Company's service to the people of our territory, with realistic confidence that we can continue to maintain a fair and mutually beneficial balance between the needs of our customers and those of the owners of our business.

Sincerely,

Wendell J. Kelley

Wendell J. Kelley
Chairman and President

February 23, 1983

Earnings, Revenues, and Sales

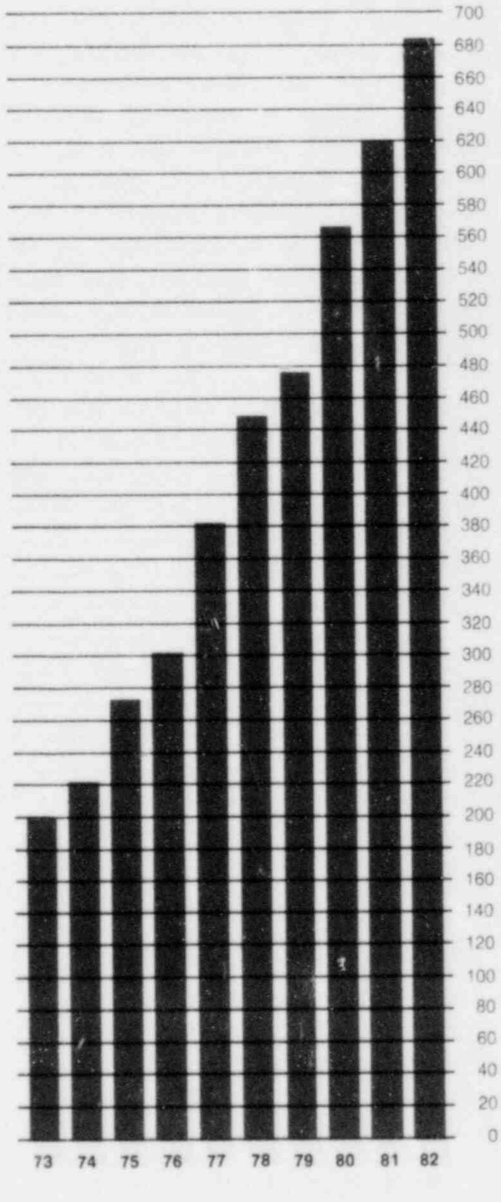
Earnings per common share were $3.04 for 1982, and represent a 7.0 percent improvement over the $2.84 per share earned in 1981. The major factors contributing to the 1982 earnings improvement were the electric rate increase authorized in July, 1981 by the Illinois Commerce Commission and the increase in gas therm sales. However, earnings per share also reflect the adverse effects of several other factors, including a decrease in electric kilowatt-hour sales to our industrial customers, a decrease in net interchange sales, higher operating costs, and the capital costs associated with the financing requirements for our ongoing construction program.

Operating revenues increased 14.8 percent over 1981, to $1.1 billion. In 1982 electric and gas revenues increased 10.4 percent and 22.7 percent, respectively. Electric revenues were $686 million and reflect the 1981 rate increase and the recovery of increased fuel costs, partially offset by reduced kilowatt-hour sales. The increase in gas revenues to $421 million resulted primarily from the recovery of higher natural gas costs through the purchased gas adjustment clause and increased therm sales.

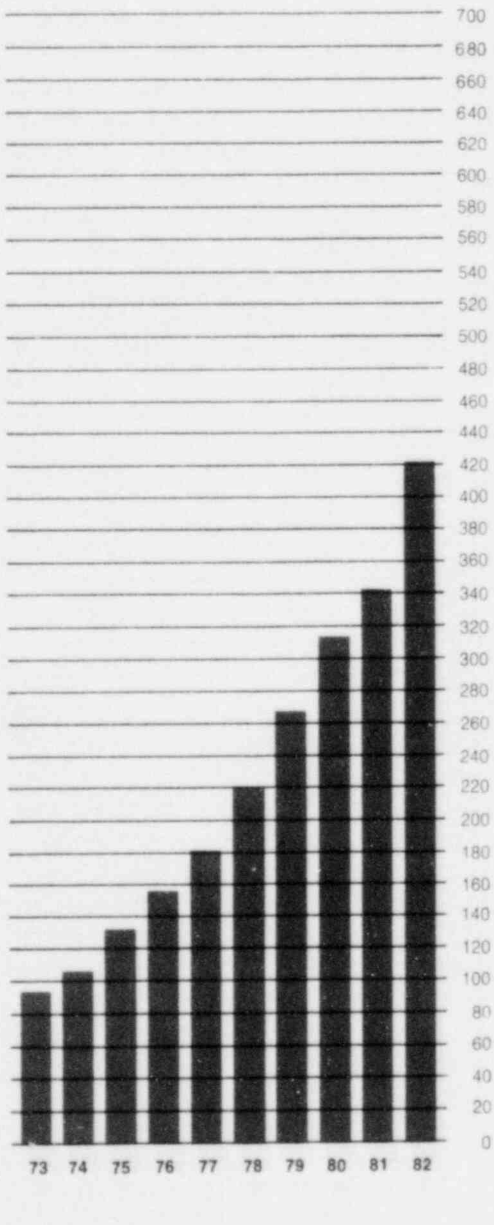
Kilowatt-hour sales of electricity decreased 1.7 percent in 1982, which has been a year marked by economic recession. This sales decline compares to a 1.9 percent decrease during 1981. The decrease in kilowatt-hour sales reflects such factors as the mild 1982 summer weather, customer conservation, and the continuing poor economy. Sales to residential, commercial, and wholesale customers were up 0.8 percent, 1.2 percent, and 2.8 percent, respectively, while sales to industrial customers decreased 5.1 percent. Net interchange sales of electricity decreased $19.7 million when compared to 1981, reflecting a weakened market for sales to other utilities.

Gas therm sales increased 5.8 percent from 1981. Sales to residential, commercial, and industrial customers increased 6.9 percent, 7.7 percent, and 4.8 percent, respectively, reflecting the impact of the severe winter weather during the first quarter of 1982, offset by poor economic conditions and customer conservation.

Electric Revenues
(MILLIONS OF DOLLARS)



Gas Revenues
(MILLIONS OF DOLLARS)



Financings

Money to finance our 1982 construction program and to retire $20 million of first mortgage bonds was raised through internally generated funds and outside financings consisting of the sale of common stock, debentures and first mortgage bonds, and proceeds from various reinvestment and stock purchase plans.

Four million shares of common stock were sold at $20 per share on March 1. Proceeds to us were $19.53 a share, or a total of $78 million.

We made our first entry into the European capital markets on June 2 through IPF (Illinois Power Finance) Company N.V., our Netherlands Antilles financing subsidiary. We sold $50 million of 14½ percent debentures due in 1989 through a group of European banks, with proceeds of $49 million.

We were the first utility in the country to issue bonds using the competitive bidding features of the new "shelf" registration. (A shelf registration allows a company to obtain advance approval from the Securities and Exchange Commission to sell securities, and later to take immediate advantage of favorable market conditions.) On July 9 we sold $75 million of 14½ percent first mortgage bonds due in 1990, with proceeds to us of $73 million.

A second "shelf" registration sale—$75 million of first mortgage bonds at 12 percent due in 2012—was made on November 5 for proceeds of $74 million.

The capital provided through our Automatic Reinvestment and Stock Purchase Plan, Employees Stock Ownership Plan, and Tax Reduction Act Stock Ownership Plan and Trust continues to increase. These plans provided about $54 million in 1982 from the sale of 2,770,769 shares of new common stock. Nearly 21,200 security holders are now participating in the Automatic Reinvestment and Stock Purchase Plan, an increase of about 7,800 over 1981, primarily due to more liberal provisions in the federal income tax laws. Effective for the years 1982 through 1985, the changes allow individual stockholders who reinvest dividends in common stock to defer payment of income taxes on such dividends up to $750 a year ($1,500 on a joint return). If these shares are held more than a year, the reinvested dividends will be taxed as a capital gain when the shares are sold.

We completed credit agreements in 1982 with four Chicago banks totaling $180 million, replacing former agreements with the same banks amounting to $140 million. Each of the new agreements provides three-year revolving credit with an annual renewal option and a provision for conversion to a three-year term loan.

We estimate construction requirements for 1983 to be $360 million and refunding requirements to be $20 million. We expect to fund these requirements with $245 million of outside financing, with the remainder coming from internal sources.

Rates

On January 12, 1983 the Illinois Commerce Commission granted us a 10.3 percent increase in electric rates and a 7.2 percent increase in gas rates. This is expected to provide additional annual revenues of about $70 million for electric and $36 million for gas. The Company and certain intervenors have petitioned the Commission for a rehearing of this decision.

The Commission authorized an overall rate of return on common equity of 15.5 percent based on a fully forecasted test year ending December 31, 1983. Also approved was the inclusion of a total of $625 million of construction work in progress in our electric rate base. This represents 44 percent of our investment in Clinton Unit 1 as of December 31, 1982.

Even with this increase, our electric rates will continue to be the lowest of the major utilities in Illinois.

During 1982 we implemented a new method to calculate the fuel adjustment clause. The fuel adjustment clause provides for the recovery of purchased power costs and nuclear fuel costs not included in the previous fuel adjustment clause. The Commission directed gas utilities to begin using a uniform method for calculating purchased gas adjustments by the spring of 1983. This new clause will improve the method of recovery of purchased gas costs.

The Federal Energy Regulatory Commission approved an increase in our wholesale rates to nine electric cooperatives of 8 percent, or $2 million annually, effective June 1, 1982.

A citation of the Illinois Commerce Commission required all Illinois gas utilities to show why the cost of certain high-cost gas supplies should be passed on to our customers. Commission hearings on this matter have been suspended pending a decision by federal agencies concerning high-cost liquefied natural gas supplies from certain of our pipeline suppliers.

Electric Service and Fuel Supply

Because of the economic recession, continued conservation by our customers, and a cooler than normal summer in 1982, our annual electric firm peak demand was 4.8 percent under the 1981 peak. The year's firm demand peaked at 2,950,822 kilowatts on August 3, 1982.

The 1981-82 winter peak on our system, coming on January 11, 1982, was 2,466,000 kilowatts, 0.2 percent less than the record winter peak of the previous year.

Tornado-like winds in April toppled about 10 miles of 345-kilovolt line between Decatur and Champaign. Extraordinary efforts were made to place the line back in service quickly because of its importance to our transmission system. The job was accomplished in 27 days at a cost of $2 million.

Coal was used to generate 99.2 percent of the electricity produced at our power plants. Oil, gas, and hydro accounted for the remainder. Our five power plants used 6.8 million tons of coal, of which 75.9 percent came from Illinois mines. Low-sulfur coal from Colorado and Kentucky was used at power plants which are under strict air emission standards.

Long-term contracts and extension clauses will provide us with about 112 million tons of coal, 97.5 percent of which will come from Illinois mines. Based on 1982 usage, this is enough to meet our needs for about 17 years.

Gas Service and Supply

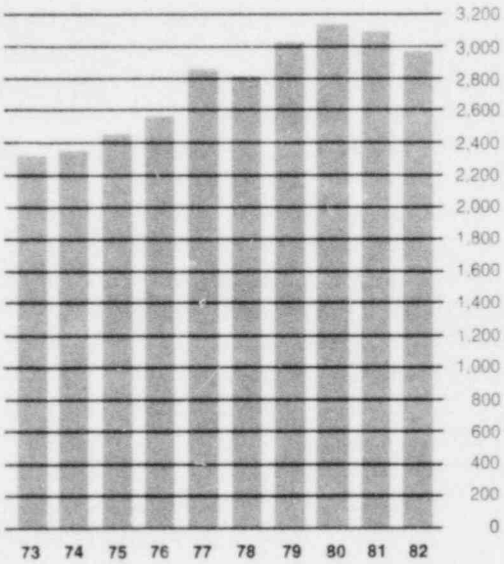
During the severe winter of 1981-82, our natural gas sales reached a record high on January 10, 1982 of 857,324,000 cubic feet per day, surpassing the 1981 level by 13 percent.

The availability of future gas supplies looks bright, but at escalating prices from our pipeline suppliers.

We have been an active participant in gas pipeline rate hearings, including those dealing with the effect of high-cost gas on the purchased gas adjustment clauses of our pipeline suppliers. We have opposed the importation of liquefied natural gas from Algeria by Trunkline Gas Company. We also have supported legislation to make the price we pay for gas more responsive to the market demand.

Our storage and interconnected gas systems enabled us to maximize purchases from the least costly of our five pipeline suppliers.

Electric Peak Loads
(IN THOUSANDS OF KW)



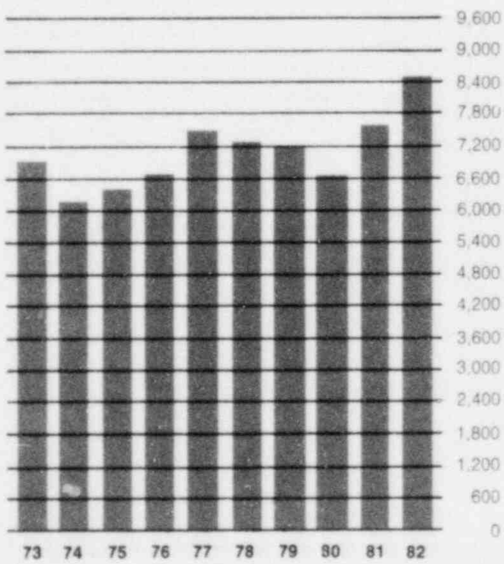
Customer Services

To lessen the effects of increasing energy prices on our customers, we continued to help them use energy more efficiently. Although we had performed free energy audits since 1977, starting in late 1981 we were required to charge a $15 fee and to change the program to comply with state and federal mandates. Some 2,500 residential audits were performed in 1982, for a total of 82,500 since 1977.

A program of free energy audits for community institutions was provided to churches in 1982. We audited 283 churches. In addition, we conducted energy management courses for 55 commercial and industrial customers.

We contacted 98 industries and businesses to encourage them to remain or expand operations in the communities we serve. Since 1981, about 1,200 businesses and industries have been contacted through this program. We also conducted industrial development training programs in fourteen communities to encourage economic development in their areas. Forty-seven communities have participated in these activities since 1974.

Gas Peak Loads
(IN THOUSANDS OF THERMS)



Cost Reduction Activities

We reduced expenditures in 1982 by $48 million through recommendations of an internal Cost Reduction Task Force.

The task force was formed in 1981 to determine ways for improving 1982 cash flow by eliminating or deferring expenditures wherever possible. Successful in the 1982 project, the task force's efforts were extended to determine cost reduction possibilities for 1983 and 1984.

In 1982 construction expenditures were reduced $20 million; oil inventories were reduced by $4 million; gas inventories were reduced approximately $18 million; and operation and maintenance expenditures were reduced by $6 million.

The task force identified possible savings of $36 million in 1983 and $48 million in 1984 by reductions in personnel, construction, and inventory. The elimination of 121 positions, a deferral of salary increases for a minimum of six months in 1983 for all non-union personnel, and retirement of eleven small diesel powered generating units should result in personnel savings of $5 million in 1983 and $5 million in 1984. A deferral of salary increases for non-union construction personnel at the Clinton power station for at least six months; reduction and deferral of Clinton architect/engineering and general contractor costs, plant operation and start-up costs, and Clinton Lake recreation costs; and the leasing of some equipment will reduce construction costs by $27 million in 1983 and $23 million in 1984. Changes in inventory levels and other items will reduce costs by $4 million in 1983 and $20 million in 1984.

Environmental Activities

Construction of the Kilngas coal gasification demonstration unit at our Wood River power station is proceeding toward expected start-up in 1983. The $137 million project is being funded by Allis-Chalmers Corporation, the State of Illinois, Electric Power Research Institute, and a consortium of 12 electric utilities. Our share is $5.5 million for a five-year period ending in 1984. This project will convert high-sulfur coal into clean burning low-Btu gas to be burned in the 50-megawatt Wood River power station Unit 3. The successful demonstration of the Kilngas technology could make use of high-sulfur coal more acceptable, provide a boost to the Illinois coal industry, and provide an alternative technology for the future production of electric energy.

As a part of the Kilngas unit, a combustion turbine program is being designed by Allis-Chalmers, Sargent & Lundy Engineers, and General Electric Company. The turbine would be placed at Wood River for further demonstration work following completion of the present program. On October 31, Gov. James R. Thompson announced that the State of Illinois would provide $6 million toward this $42 million (estimated) project. The remaining funds will come from other utilities.

We have again requested a rule change from the U.S. Environmental Protection Agency so we can continue to burn Illinois coal at the Baldwin power station.

Because of federal restrictions on the use of polychlorinated biphenyl (PCB) capacitors in areas accessible to the public, about half of our capacitors will be replaced in a six-year program estimated to cost $5 million.

We worked with utility industry organizations to achieve federal and state environmental regulations that protect the public at reasonable cost to our customers. We advised Congress that the actions being considered in pending federal legislation to combat "acid rain" are not justified by technical data.

We have implemented a self-auditing program to evaluate our efforts to comply with environmental regulations. This program is used to reinforce our compliance capabilities through education and identification of any potential systematic weaknesses before problems might develop.

Construction

Our construction and related expenditures in 1982 totaled $413 million, the most for any year in our history. Of the total, $297 million was for construction at the Clinton power station, $49 million for nuclear fuel, $50 million for other electric facilities, and $17 million for gas facilities. In 1983 we estimate $360 million will be spent on construction projects, of which $274 million will be for the Clinton power station, $5 million for nuclear fuel, $63 million for other electric projects, and $18 million for gas projects.

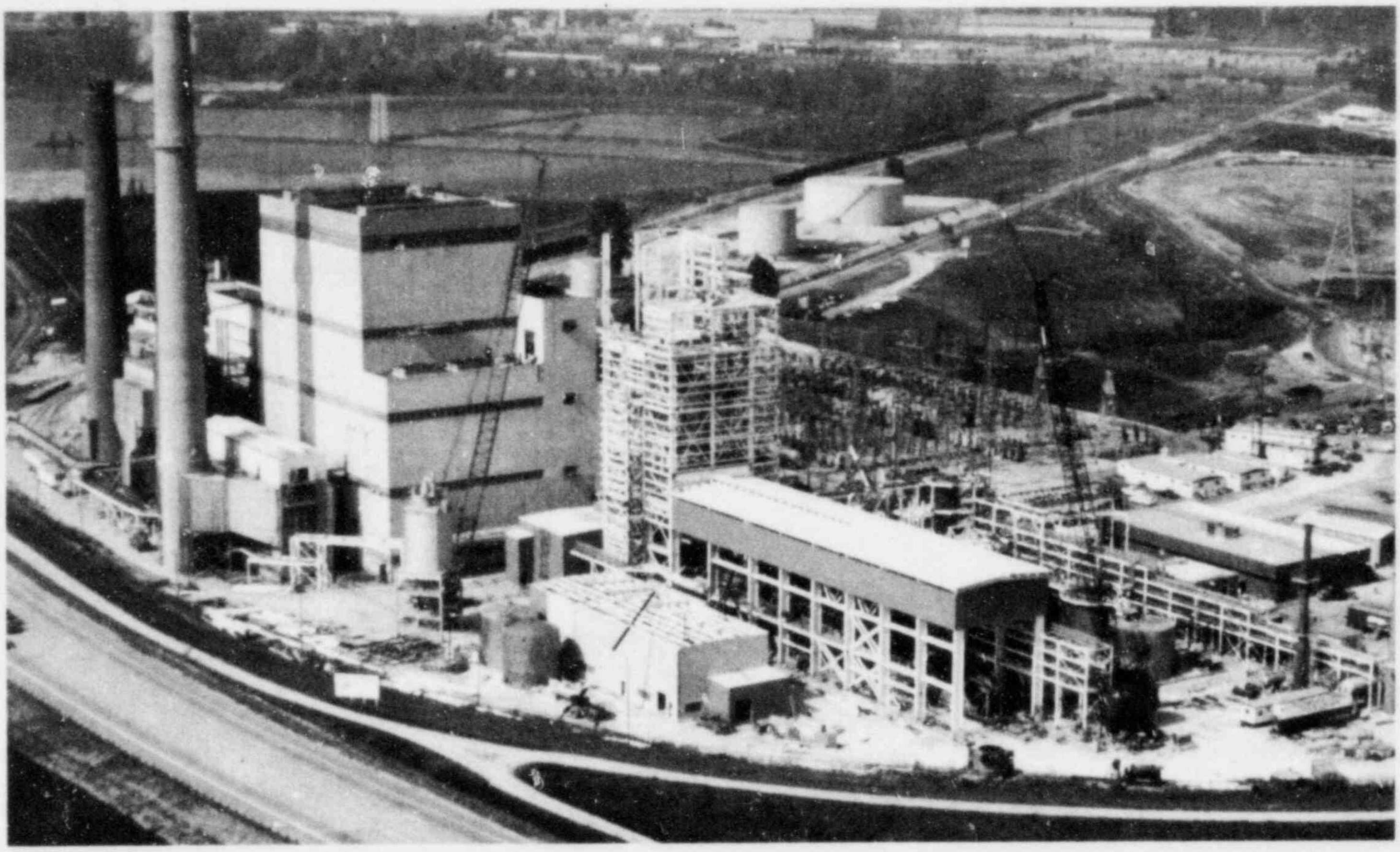
Our estimate for the five-year construction program from 1983 through 1987 is $990 million—$864 million for electric and $126 million for gas. This estimate is based upon commercial operation of Clinton Unit 1 in August, 1984. This estimate also includes no expenditures for additional generating facilities after Clinton Unit 1.

After seven years of regulatory and court proceedings, we began construction in April on 35.5 miles of 345-kilovolt line between Sidney and Kansas, Illinois. The new line will provide a long-needed reinforcement to the major electric transmission systems in the Champaign and Danville service areas. Construction was halted in August pending further negotiations with property owners over the possible use of single pole structures on a 15-mile segment of the line.

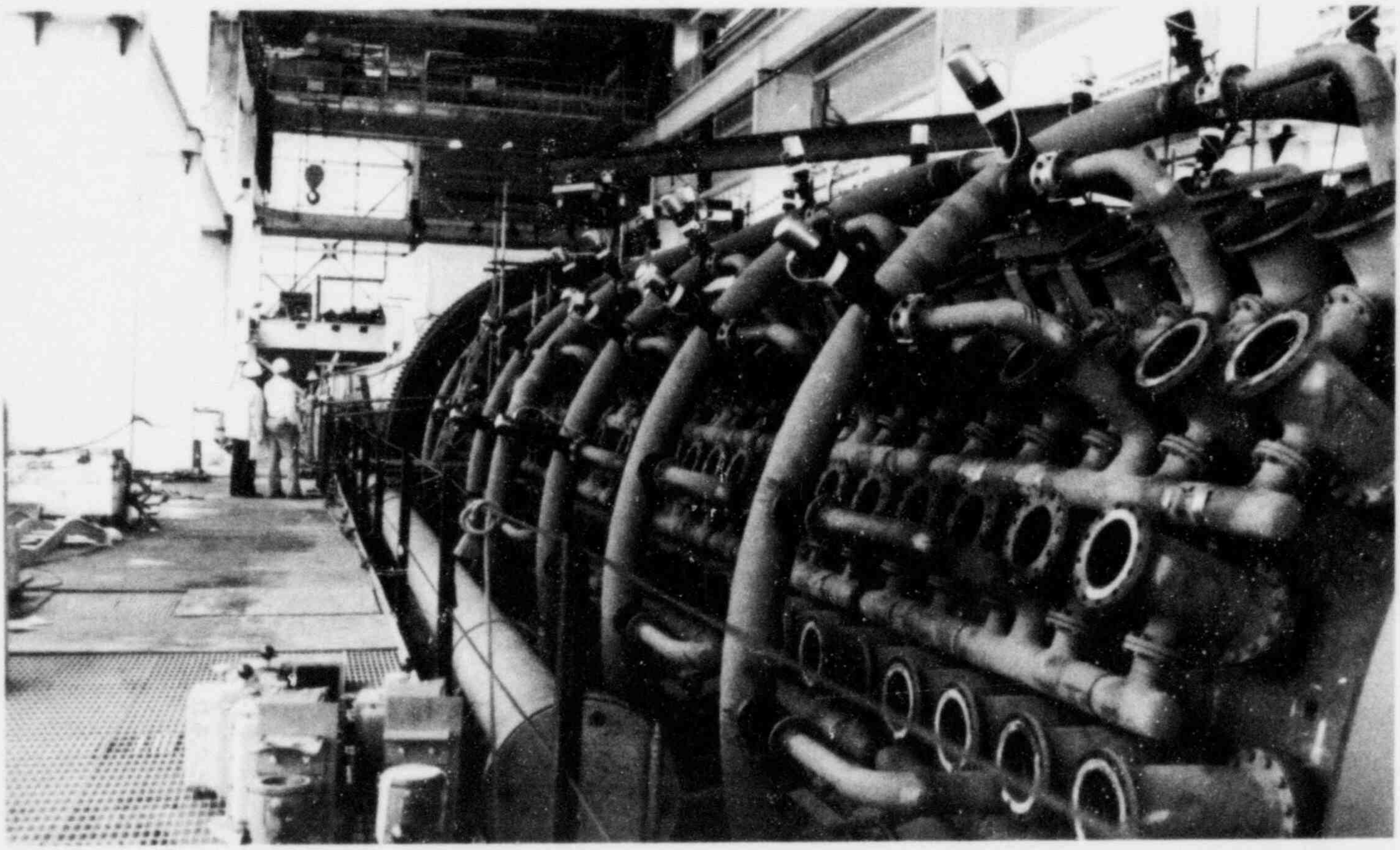
We expect construction to begin in 1983 on 17.5 miles of 138-kilovolt lines in the Belleville and LaSalle service areas.

Extension and replacement of 120 miles of gas mains and services were completed in 1982 in various locations throughout our service territory.

Construction of the new building for the central electric and gas dispatch center in Decatur is now complete. Remote terminals for the Supervisory Control and Data Acquisition System will be installed in 1983. The new center will enable us to dispatch our electric and gas systems more efficiently and provide better service.



The Kilngas coal gasification demonstration unit, scheduled for start-up during 1983, nears the completion of construction at our Wood River power station. A consortium of utilities, Allis-Chalmers Corp. and the State of Illinois are sponsoring the $137 million project to demonstrate the conversion of high-sulfur coal into gas for generating electricity. A rotating kiln, being inspected below, will convert the coal to low-Btu gas.



Clinton Power Station

Two major changes in management of construction at the Clinton nuclear power station site were made during the year. In September responsibility for all quality assurance programs was assigned to a new Company vice president, Mr. Donald P. Hall.

In October we obtained the services of Stone and Webster Engineering Corporation to augment project management at the construction site during the critical later phases of construction and preparation for operation of the plant. Stone and Webster personnel report to our management. Stone and Webster has completed ten nuclear plants for seven utilities and currently is working on five other nuclear plants.

Construction at the site proceeded at a reduced rate in several areas during much of the year because of several stop work orders affecting specific jobs. The stop work orders resulted from concerns that, in general, inspection and documentation of completed work was not adequately keeping pace with construction. The craft work force at the plant was reduced by about one-fourth because of the stop work orders. Although work is being resumed, with the Nuclear Regulatory Commission's approval, on an incremental basis in each of the areas affected by the orders, the Company will not be able to determine the extent of the impact upon the cost estimate and construction schedule until the stop work orders have been lifted. The current estimated cost is $1.8 billion for the Company's 80 percent interest in Clinton Unit 1, based on commercial operation of the plant in August, 1984; however, it is probable that the date of commercial operation will be delayed, and as a result the cost will be increased.

Two major licensing milestones were reached in 1982: the issuance of the Safety Evaluation Report by the NRC, followed by reviews and a favorable letter by the Advisory Committee on Reactor Safeguards. Each concluded the Clinton power station can be operated without undue risk to the health and safety of the public.

Energy Assistance Foundation

We pledged an initial $250,000 to launch the Energy Assistance Foundation, a not-for-profit organization, to help residential customers manage their gas and electric utility bills. In addition, we will match contributions to the Foundation from charitable groups, other companies, and individuals up to an additional $250,000. The Foundation's primary purpose is to provide funds to existing community organizations who will help reduce high-bill problems through home improvements.

The Foundation will achieve its objectives by working with social agencies, charitable and consumer groups, churches, and other community organizations throughout the general area served by Illinois Power Company.

Merger with Mt. Carmel Public Utility Co.

Illinois Commerce Commission hearings on our November, 1981 proposal to acquire the Mt. Carmel Public Utility Co. through merger ended in November, 1982. Central Illinois Public Service Company intervened in the proceedings to oppose the acquisition through the merger agreement. The Commission denied our proposal and stated that the acquisition was not in the public interest. In February, 1983 we and the Mt. Carmel utility filed suit in the circuit court of Wabash County challenging the Commission decision.

Research and Development

To better meet the future needs of our customers, we spent about $4 million for research in 1982. The major expenditure for the year was about $2.4 million for Electric Power Research Institute (EPRI) projects. EPRI was founded by electric utilities to develop and manage a technology research program to improve power production, distribution, and utilization.

Our internal electric research projects were aimed at controlling peak loads, shifting energy usage to off-peak periods, and utilizing waste heat as an energy source. These research projects can demonstrate the capability to defer future power plants and related system improvements through management of electric energy usage.

One of our natural gas projects involved the conversion of 35 service area vehicles to run on compressed natural gas. If this project is successful, it could lead to the conversion of the remainder of our vehicles and eventually the promotion of natural gas as a fuel for use by our customers.

In addition to the Kilngas project (see "Environmental Activities"), other research includes a greenhouse facility at our Baldwin power station in which the temperature control is assisted by condenser cooling water, and the re-use of water from the ash pond of our Wood River power station by an adjoining industry.

We are selling fly ash from the Baldwin power station for use as an ingredient in concrete. Boiler bottom ash is being sold for use as a substitute material for sandblasting, as a snow and ice antiskid abrasive, as roofing granules, and as a bituminous aggregate substitute for asphalt paving materials. The potential market for both fly ash and bottom ash is encouraging.

Responsibility for Information

The financial statements and all information in this annual report are the responsibility of management. The financial statements have been prepared in conformity with generally accepted accounting principles consistently applied. In the opinion of management, the financial statements fairly reflect the Company's financial position, results of operations, and sources of funds provided for gross property additions.

We maintain accounting and internal control systems which we believe are adequate to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition; and we believe that the financial records are reliable for preparing financial statements.

The financial statements have been audited by our independent accountants, Price Waterhouse, in accordance with generally accepted auditing standards. Such standards include the study and evaluation of internal control to establish a basis for developing the scope of the examination of the financial statements. In addition to the use of independent accountants, we maintain a professional staff of internal auditors who conduct financial, procedural, and special audits. The system of internal controls consists of several important elements, including selection and training of qualified personnel, continuing maintenance and use of accounting and administrative policies and procedures, and the internal auditing programs.

The Audit Committee of the Board of Directors, consisting solely of non-management directors, meets periodically with management, the internal auditors, and the independent accountants to discuss accounting, auditing, and financial reporting matters. To assure their independence, both Price Waterhouse and the internal auditors have direct access to the Audit Committee.

New Company Officer

On September 7 Mr. Donald P. Hall was named a vice president, with responsibility for Clinton power station quality assurance activities. Subsequently, he assumed responsibility for start-up and operations of the plant, and for the nuclear station engineering department. Mr. Hall is a retired U.S. Navy Rear Admiral with experience in management of the Defense Department's largest weapons program and civilian experience in the management of nuclear energy programs. He retired from the Navy after 36 years service.

Board of Directors

The Directors of the Company are elected each year by stockholders at the annual meeting. All twelve Directors were re-elected at the meeting on April 15, 1982.

Members of the Board of Directors serve on committees established to address various issues of management. Recommendations of the committees are presented to the full Board for discussion and final determination. Current committees and their memberships are:

Finance Committee—This committee meets to review the Company's financial forecast, financing plans, and pension fund investments, and it makes recommendations to the Board concerning such matters. Members of the committee are: Gordon R. Worley, chairman, William C. Gerstner, Grover J. Hansen, Wendell J. Kelley, Keith R. Potter, Boyd F. Schenk, Richard P. Stone, Charles W. Wells, and Vernon K. Zimmerman.

Audit Committee—This committee, which consists entirely of non-management directors, recommends the appointment of the Company's independent accountants, confers with the independent accountants, and reviews the scope of the audit, the results of auditors' examinations, and the activities of the Company's internal auditors. The members are: Vernon K. Zimmerman, chairman, Robert J. Burow, Grover J. Hansen, Donald E. Lasater, Eva Jane Milligan, and Richard P. Stone.

Compensation and Organization Committee—This committee reviews and recommends compensation of elected Company officers, reviews benefit plans, and recommends nominees to fill vacancies on the Board of Directors. The members are: Keith R. Potter, chairman, Robert J. Burow, Wendell J. Kelley, Donald E. Lasater, Eva Jane Milligan, Boyd F. Schenk, and Gordon R. Worley.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Reference is made to the Financial Statements and Electric and Gas Operating Statistics for information concerning financial condition and results of operations. The factors having significant impact upon financial condition, changes in financial condition and results of operations since January 1, 1980 are as follows:

Liquidity and Capital Resources

During the three-year period 1980 through 1982, construction expenditures were $315.6 million, $349.5 million and $412.9 million, respectively. In addition, $30 million was required for bond refunding during this period.

The major item of construction is the Clinton nuclear power station which accounted for approximately 74% of the total construction expenditures in this three-year period. Our 80% ownership interest in Clinton Unit 1 is estimated to cost $1.8 billion and will require additional capital expenditures of about $362 million based upon commercial operation in August, 1984. These expenditures are about 33% of the $1.1 billion projected capital requirements for the five-year period 1983-1987.

Cash flow from operations has provided sufficient liquidity to meet ongoing operating requirements and to provide a portion of the funds for the construction program. In addition, funds obtained from external sources during this three-year period totalled $660 million. When Clinton Unit 1 begins commercial operation, we anticipate a reduction in the need for external capital.

During this three-year period, we used short-term borrowings to meet interim cash requirements. These short-term obligations were repaid from long-term financings, and, at December 31, 1982 there were no outstanding short-term borrowings.

Lines of credit with commercial banks are maintained to meet interim cash requirements. At December 31, 1982 our total line of credit was $394 million. Included in our line of credit is $125 million to support our commitment to IP Fuel Company.

In addition to the above lines of credit, we established a foreign financing subsidiary, IPF (Illinois Power Finance) Company N. V. in October, 1981. The purpose of this new subsidiary is to provide the option of issuing lower cost debt in the European financial market. IPF issued $50 million of 14½% Guaranteed Debentures in June, 1982. In conjunction with the sale of the debentures, the Company obtained $17 million through the issuance of long-term bank notes, the proceeds of which were contributed to the capital of IPF and were subsequently reinvested by the subsidiary.

Obtaining the future capital necessary for our ongoing construction program will require the Company to achieve and maintain the financial standards necessary for flexible access to financial markets. While our common stock continues to be rated A-, our first mortgage bonds and preferred stock were reduced to AA- from AA in April, 1982 and to A in February, 1983 by Standard & Poor's Corporation. Moody's Investors Service rates our first mortgage bonds Aa3 and our preferred stock aa3. Duff and Phelps, Inc. rates our first mortgage bonds 3 and our preferred stock 4.

On January 12, 1983 we received a rate order from the Illinois Commerce Commission (ICC). The new electric and gas retail rates are estimated to provide additional annual revenue of $106 million, based upon a forecasted test year ending December 31, 1983. Also, the order provided for the inclusion of a total of $625 million of construction work in progress (CWIP) expenditures in electric rate base. The increase from $375 million to $625 million of CWIP expenditures included in the rate base is important because this ratemaking treatment will provide immediate cash to pay the construction financing costs on that portion of the construction expenditures. While we capitalize an allowance for funds used during construction (AFUDC) on CWIP expenditures not included in rate base, this non-cash credit to income does not provide immediate cash to pay the related construction financing costs.

It is important that we maintain our overall financial strength, particularly with respect to maintaining the interest coverage ratios required by the Mortgage and Deed of Trust for the issuance of additional first mortgage bonds. A deficiency could require alternative, and potentially higher cost, financing methods to provide the projected capital requirements associated with our ongoing construction program and other working capital needs. At December 31, 1982, based upon the most restrictive earnings test contained in the Company's Mortgage and Deed of Trust, approximately $188 million of additional first mortgage bonds could be issued at an assumed interest rate of 12%.

Results of Operations

Electric Operations—Electric revenues increased 43.1% from the beginning of 1980 through 1982, primarily resulting from rate increases, recovery of increased fuel costs, and the net impact of changes in kilowatt-hour sales. Components of the annual revenue increases were approximately as follows:

	1982	1981	1980
Revenue increase (Thousands of dollars)	$64,576	$53,612	$88,304
Components of revenue increase (%)—			
Rate increases	91%	88%	53%
Recovery of increased fuel costs	20	19	27
Kilowatt-hour sales	(11)	(7)	20
	100%	100%	100%

Revenue growth from rate changes reflects the general retail rate increases of 10.9% effective November, 1979 and 19.9% effective July, 1981, as granted by the ICC. The 1983 order granted a 10.3% increase in electric rates which is expected to provide additional annual revenues of about $70 million.

Kilowatt-hour sales increased 1.8% in 1980 and declined 1.9% in 1981 and 1.7% in 1982. Declining annual sales, or nominal growth, reflect the impact of the current economic recession, customer conservation efforts, and changes in seasonal weather such as we experienced with mild summers in 1981 and 1982 as contrasted to the abnormally hot summer of 1980. The most significant portion of the 1982 sales decline occurred in the industrial customer category which had a 5.1% decrease. The diversification of our industrial, commercial, and educational base moderated the effects of the recession.

The cost of fuel for electric plants increased $15 million in 1980 and $5 million in 1981, and decreased $9.2 million in 1982. Power purchased for resale increased $.4 million in 1980, $12.4 million in 1981, and $14.3 million in 1982. Changes in both fuel costs and power purchased for resale are affected by kilowatt-hour generation, availability of generating units, fuel price increases, prices paid for purchased power, and recovery of fuel costs through the fuel adjustment clause.

Kilowatt-hour generation decreased in 1980, 1981, and 1982 by 3.1%, 3.8%, and 8.3%, respectively. Coal, which is our primary fuel, constituted about 97.3%, 98.7%, and 99.2% of fuel used for generation in 1980, 1981, and 1982, respectively. The weighted average cost per ton of coal burned increased 13.4% in 1980, 6.7% in 1981, and 6.6% in 1982.

Fuel costs for 1981 reflect the impact of the United Mine Workers of America strike (March 27 through June 7) during which period it was necessary to utilize our higher cost generating units because of the unavailability of coal deliveries to the Baldwin power station, our most efficient generating station. This fuel cost increase was moderated by a decrease in generation and a $12.4 million increase in power purchased for resale as a result of the availability of additional power from Electric Energy, Inc.

During 1982 fuel for electric plants and power purchased for resale increased in the aggregate by $5.1 million. The principal factors affecting this increase were higher prices paid for fuel, additional power purchased from Electric Energy, Inc., and a decrease in deliveries to our customers and interchange markets.

In March, 1982 we implemented a new electric fuel adjustment clause, as ordered by the ICC. As a result, $4.1 million, subject to recovery through such clause in a later period, is not included in fuel costs.

Sales of interchange power fluctuate as a direct result of market demand based upon the needs of other utilities and the availability of our generating capacity to serve those needs. The credit for power interchanged-net decreased about $18 million in 1980, increased about $15.2 million in 1981, and decreased about $19.7 million in 1982. During 1982 the decline in sales to other utilities was primarily due to a weakened market for such "opportunity sales".

Gas Operations—Gas revenues increased in each of the years 1980, 1981, and 1982, principally reflecting recovery of the increased cost of natural gas through the purchased gas adjustment clause. Other factors affecting gas revenues were the 7.9% rate increase granted by the ICC in November, 1979 and changes in therm sales. The components of the annual revenue increases were approximately as follows:

	1982	1981	1980
Revenue increase (Thousands of dollars)	$77,907	$27,310	$43,244
Components of revenue increase (%)—			
Recovery of increased gas costs	84%	129%	100%
Rate increases	—	—	36
Therm sales	16	(29)	(36)
	100%	100%	100%

During this three-year period, improvements in availability of gas from our pipeline suppliers and conservation efforts of our customers have enabled significant volumes of gas to be available to meet all customer requests for additional gas service. We believe that, for the next few years, growth in therm sales will be affected by market demand rather than gas supply.

The increase in gas supply, changes in economic and weather conditions, and customer conservation efforts were the major factors affecting therm sales, which decreased 6.3% in 1980 and 3.4% in 1981, and increased 5.8% in 1982. The increase in 1982 therm sales primarily reflects the severe winter weather during the early part of the year.

The 1983 gas rate order from the ICC granted a 7.2% revenue increase, which is expected to provide additional annual revenues of about $36 million.

The cost of gas purchased for resale increased $27.7 million, $38.4 million, and $56.4 million in 1980, 1981, and 1982, respectively. The annual cost increases were primarily attributable to higher prices paid for gas. The average cost per therm delivered to our customers increased 20.2%, 22.8%, and 15.9% for 1980, 1981, and 1982, respectively. During 1982, the financial impact of both higher prices for gas purchased from pipeline suppliers and a 5.2% increase in customer requirements was lessened through greater withdrawals of lower priced gas from our storage fields.

Other Expenses and Taxes—Since 1980 the Company has experienced increases in other operating expenses, maintenance, and general taxes as follows:

	1982	1981	1980
	(Thousands of Dollars)		
Other operating expenses	$ 7,696	$9,567	$12,097
Maintenance	264	4,549	2,419
Depreciation	1,490	2,196	1,868
General taxes	10,155	6,348	17,164

Other operating and maintenance expense increases reflect increased employee wages and benefits as well as the continuing impact of inflation.

Inflation, as measured by the average Consumer Price Index, increased about 13.5% in 1980, 10.4% in 1981, and 6.1% in 1982.

During the period, through both the timing and scope of our rate requests, we have attempted to reduce the financial impact of inflation. In ICC rate orders received in both November, 1979 and July, 1981, we were allowed to adjust other operating and maintenance expenses to partially recover such expenses at the level projected through the first year of the new rates. The January, 1983 rate order also provides for the recovery of increases in expenses through the use of a 1983 forecasted test year.

During 1981 and 1982 we have continued to exert stringent budget control over operating and maintenance expenses through our internal Cost Reduction Task Force, established in 1981. The reduction in growth of operating expenses in 1982 reflects both the efforts of the task force and the reduction in the 1982 annual rate of inflation.

During each of the three years, we have incurred increases in both the state and municipal utility tax components of general taxes resulting from the growth in operating revenues. The most significant change in general taxes in 1980 reflected the implementation of the Illinois Corporate Personal Property Replacement Tax Law. This new law eliminated both personal property and capital stock taxes as of January 1, 1979. On July 1, 1979 these taxes were replaced with both a tax on invested capital and an additional tax on income.

The Company's effective federal and state income tax rate has been 36.2% for 1980, 34.4% for 1981, and 34.2% for 1982. For a detailed analysis of income tax components, see Note 5 of the "Notes to Financial Statements".

Other Income—Total AFUDC increased approximately $12.5 million, $10.2 million and $17.0 million during 1980 through 1982, respectively. Increases in AFUDC relate to the AFUDC rate, the amount of CWIP and discontinuance of the capitalization of AFUDC on CWIP amounts included in rate base.

During the three-year period, amounts of CWIP included in rate base related to Clinton Unit 1 amounted to $97.1 million through June, 1981, and $375 million since July, 1981. In accordance with the January, 1983 ICC rate order, a total of $625 million of CWIP is included in electric rate base effective January, 1983 and will be excluded from the capitalization of AFUDC.

The increased amounts of AFUDC also reflect increases in the AFUDC effective after-tax rate which was increased from 7% to 7¾% beginning May 1, 1980, and from 7¾% to 8¾% effective July 1, 1981 and continued through 1982.

The increases in miscellaneous-net reflect increased income tax reductions applicable to non-operating activities, principally construction projects.

Interest Charges—Interest charges have increased $13.2 million in 1980, $10.4 million in 1981, and $16.0 million in 1982. These increases primarily reflect the $342 million of long-term debt issued during the period at a weighted average interest rate of 13.0%. During this period we retired $30 million of long-term debt with a weighted average interest rate of 3.3%.

Earnings per Common Share—The increases in net income applicable to common stock in 1980 through 1982 resulted from the interaction of all the factors discussed herein, including the issuance of additional preferred stock. Changes in earnings per common share also reflect the increased number of common shares outstanding in each year. (See Notes 9, 10, and 11 in "Notes to Financial Statements").

Inflation

The high rates of inflation which have been experienced in recent years, particularly 1980 and 1981, have had an impact on our reported earnings, shareholders equity, and other financial information that is not measured by traditional accounting methods. For supplementary information to disclose the effects of changing prices, see pages 28 and 29.

BALANCE SHEETS

December 31,	1982	1981
	(Thousands of Dollars)	
ASSETS		
Utility Plant, at original cost		
Electric (includes construction work in progress of $1,469,018,000 and $1,191,374,000, respectively)	$3,136,774	$2,802,500
Gas (includes construction work in progress of $6,431,000 and $5,829,000, respectively)	357,106	343,596
	3,493,880	3,146,096
Less—Accumulated depreciation	709,329	660,623
	2,784,551	2,485,473
Nuclear fuel	48,717	—
Acquisition adjustment (less amortization of $2,171,000 and $1,925,000, respectively)	1,761	2,007
	2,835,029	2,487,480
Investments and Other Assets	25,616	8,651
Current Assets		
Cash	8,983	11,070
Temporary cash investments, at cost, which approximates market	8,000	2,000
Accounts receivable (less allowance for doubtful accounts of $4,000,000 and $3,500,000, respectively)	74,808	72,522
Materials and supplies, at average cost		
Fuel	54,487	51,099
Gas in underground storage	24,039	31,286
Operating materials	22,442	23,290
Prepayments and miscellaneous accounts receivable	32,188	30,242
	224,947	221,509
Deferred Charges		
Unamortized debt expense	5,647	3,566
Other	1,283	1,289
	6,930	4,855
	$3,092,522	$2,722,495

	1982	1981
CAPITAL AND LIABILITIES		
Capitalization		
Common stock—		
No par value, 60,000,000 shares authorized;		
46,858,457 and 40,087,688 shares outstanding, respectively, stated at	$ 798,706	$ 665,921
Retained earnings	220,288	197,762
Less—Capital stock expense	5,532	5,067
Total common stock equity	1,013,462	858,616
Preferred and preference stock	215,171	215,171
Redeemable preferred stock	36,000	36,000
Long-term debt	1,166,980	971,639
Total capitalization	2,431,613	2,081,426
Current Liabilities		
Accounts payable	105,495	86,106
Notes payable	—	70,500
Long-term debt maturing within one year	20,000	20,000
Dividends payable	34,162	29,947
Income taxes accrued	16,966	7,832
General taxes accrued	31,623	28,500
Interest accrued	39,492	28,747
Other	21,387	21,230
	269,125	292,862
Other		
Accumulated deferred income taxes	214,811	193,461
Accumulated deferred investment tax credit	176,973	154,746
	391,784	348,207
Commitments (Note 7)		
	$3,092,522	$2,722,495

See notes to financial statements which are an integral part of these statements.

STATEMENTS OF INCOME

For the Years Ended December 31,	1982	1981	1980
Operating Revenues*			
Electric	$ 685,544	$620,968	$567,356
Gas	421,231	343,324	316,014
Total	1,106,775	964,292	883,370
Operating Expenses and Taxes			
Fuel for electric plants	236,460	245,626	240,601
Power purchased for resale	33,314	18,970	6,527
Power interchanged—net	(35,989)	(55,684)	(40,452)
Gas purchased for resale	313,788	257,427	218,998
Other operating expenses	102,891	95,195	85,628
Maintenance	44,995	44,731	40,182
Depreciation	61,521	60,031	57,835
General taxes	88,892	78,737	72,389
State income taxes—current	11,257	8,014	7,983
deferred (net)	2,384	3,239	3,169
Federal income taxes—current	50,909	32,215	27,210
deferred (net)	14,202	17,594	15,683
Investment tax credit—deferred (net)	22,227	21,419	23,071
Total	946,851	827,514	758,824
Operating income	159,924	136,778	124,546
Other Income			
Allowance for funds used during construction—			
All funds—prior to January 1, 1977	—	—	—
Other funds—after December 31, 1976	57,841	45,101	36,567
Miscellaneous—net	21,498	16,651	14,798
Total	79,339	61,752	51,365
Income before interest charges	239,263	198,530	175,911
Interest Charges			
Interest on long-term debt	93,599	82,318	72,952
Other interest charges	9,837	5,109	4,050
Allowance for borrowed funds used during construction—after December 31, 1976	(20,568)	(16,310)	(14,653)
Total	82,868	71,117	62,349
Net income	156,395	127,413	113,562
Preferred dividend requirements	19,897	19,897	19,069
Net income applicable to common stock	$ 136,498	$107,516	$ 94,493
Weighted average number of common shares outstanding during the period	44,839,807	37,843,513	32,906,017
Earnings per common share	$3.04	$2.84	$2.87
Cash dividends declared per common share	$2.48	$2.405	$2.355

* *Includes revenue related taxes added to customer billings in each of the years 1973 through 1982. In 1982, 1981 and 1980 these revenue related taxes were $27,860,000, $23,162,000 and $20,643,000, respectively.*

RETAINED EARNINGS

For the Years Ended December 31,	1982	1981	1980
		(Thousands of Dollars)	
Balance at Beginning of Year	$ 197,762	$183,060	$168,553
Net Income	156,395	127,413	113,562
	354,157	310,473	282,115
Less—			
Cash dividends—			
Preferred stock	19,897	19,897	19,419
Common stock	113,972	92,814	79,636
	133,869	112,711	99,055
Balance at End of Year	$ 220,288	$197,762	$183,060

See notes to financial statements which are an integral part of these statements.

1979	1978	1977	1976	1975	1974	1973
	(Thousands of Dollars)					
$479,052	$452,207	$383,567	$303,066	$275,809	$221,126	$199,489
272,770	219,807	183,820	158,595	133,142	108,789	94,953
751,822	672,014	567,387	461,661	408,951	329,915	294,442
225,621	207,082	148,553	123,782	88,725	63,013	41,408
6,171	5,505	8,664	7,092	5,591	4,727	4,179
(58,498)	(47,078)	(30,855)	(51,484)	(29,522)	(18,321)	(10,547)
191,296	145,486	117,812	91,476	71,288	56,539	47,728
73,531	70,463	59,827	53,295	49,631	41,083	37,649
37,763	33,954	28,919	25,726	19,506	17,584	16,131
55,967	51,569	47,188	45,556	42,911	39,282	36,103
55,225	54,325	46,974	40,368	37,036	31,210	28,833
4,820	2,697	3,188	2,444	2,381	1,717	1,732
2,090	1,846	980	1,199	1,166	817	813
14,231	6,812	15,760	16,001	11,575	15,831	14,099
15,329	18,638	9,053	11,433	11,681	7,367	7,199
21,958	22,793	19,573	10,994	15,034	1,706	5,118
645,504	574,092	475,636	377,882	327,003	262,555	230,445
106,318	97,922	91,751	83,779	81,948	67,360	63,997
—	—	—	10,503	7,459	7,960	7,189
27,520	21,321	15,137	—	—	—	—
10,043	9,402	5,709	3,174	1,967	2,231	2,143
37,563	30,723	20,846	13,677	9,426	10,191	9,332
143,881	128,645	112,597	97,456	91,374	77,551	73,329
62,005	52,453	42,091	35,927	33,144	28,779	25,237
1,752	1,439	1,888	1,744	1,508	4,122	891
(11,211)	(7,608)	(5,046)	—	—	—	—
52,546	46,284	38,933	37,671	34,652	32,901	26,128
91,335	82,361	73,664	59,785	56,722	44,650	47,201
15,699	15,699	13,257	10,606	7,229	7,229	7,229
$ 75,636	$ 66,662	$ 60,407	$ 49,179	$ 49,493	$ 37,421	$ 39,972
27,979,606	24,302,139	22,521,013	20,369,958	18,277,397	16,544,110	15,940,000
$2.70	$2.74	$2.68	$2.41	$2.71	$2.26	$2.51
$2.28	$2.28	$2.22	$2.20	$2.20	$2.20	$2.20

Price Waterhouse

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of Illinois Power Company:

In our opinion, the accompanying balance sheets and the related statements of income, of retained earnings and of sources of funds provided for gross property additions present fairly the financial position of Illinois Power Company at December 31, 1982 and 1981, and the results of its operations and the sources of funds provided for gross property additions for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles consistently applied. Also, in our opinion, the statements of income and of sources of funds provided for gross property additions for each of the seven years in the period ended December 31, 1979, which have been prepared from the applicable statements covered by our reports on each of those years, present fairly the financial information included therein. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

February 1, 1983

Price Waterhouse

STATEMENTS OF SOURCES OF FUNDS PROVIDED FOR GROSS PROPERTY ADDITIONS

For the Years Ended December 31,	1982	1981	1980
Funds Provided from Operations			
Net income	$ 156,395	$127,413	$113,562
Items not requiring working capital—			
Depreciation and amortization	64,520	62,659	59,967
Deferred income taxes—net	21,350	20,240	19,922
Investment tax credit—deferred (net)	22,227	21,419	23,071
Allowance for funds used during construction	(78,409)	(61,411)	(51,220)
Total funds provided from operations	186,083	170,320	165,302
Dividends on—Preferred stock	(19,897)	(19,897)	(19,419)
Common stock	(113,972)	(92,814)	(79,636)
Net funds provided from operations	52,214	57,609	66,247
Funds Obtained from External Sources			
Proceeds from sales of—Common stock	132,785	93,236	82,146
Preferred stock	—	—	36,000
Capital stock expense	(465)	(427)	(845)
Proceeds from sales of bonds	150,000	—	125,000
Proceeds from sale of debentures	50,000	—	—
Proceeds from sale of nuclear fuel	—	39,810	—
Proceeds from long-term bank notes	17,000	—	—
Pollution control construction funds held by trustee	—	—	—
Proceeds from sale of ownership interests in the Clinton power station	—	—	—
Net increase (decrease) in notes payable	(70,500)	70,500	(34,145)
Retirement of bonds	(20,000)	—	(10,000)
Total funds obtained from external sources	258,820	203,119	198,156
Other Funds Provided (Used)			
Net decrease (increase) in working capital*	43,325	23,565	414
Investment in long-term bank notes	(17,440)	—	—
Miscellaneous—net	(2,444)	3,811	(474)
Total other funds provided (used)	23,441	27,376	(60)
Total funds from above sources	334,475	288,104	264,343
Allowance for funds used during construction	78,409	61,411	51,220
Gross Property Additions	$ 412,884	$349,515	$315,563
Decrease (Increase) in Components of Working Capital*			
Cash and temporary investments	$ (3,913)	$ 3,371	$ (3,406)
Accounts receivable	(2,286)	(8,656)	4,328
Materials and supplies	4,707	2,200	1,707
Accounts payable	19,389	21,092	(22,799)
Dividends payable	4,215	4,299	4,825
Accrued taxes	12,257	1,612	12,148
Interest accrued	10,745	31	7,202
Other—net	(1,789)	(384)	(3,591)
	$ 43,325	$ 23,565	$ 414

** Excluding notes payable and long-term debt maturing within one year.*

GROSS PROPERTY ADDITIONS AND RETIREMENTS

For the Years Ended December 31,	1982	1981	1980
Additions —Electric	$ 396,233	$330,470	$297,157
Gas	16,651	19,045	18,406
	$ 412,884	$349,515	$315,563
Retirements—Electric	$ 12,027	$ 7,420	$ 5,607
Gas	2,869	3,139	2,943
	$ 14,896	$ 10,559	$ 8,550

See notes to financial statements which are an integral part of these statements.

1979	1978	1977	1976	1975	1974	1973
	(Thousands of Dollars)					
$ 91,335	$ 82,361	$ 73,664	$ 59,785	$ 56,722	$ 44,650	$ 47,201
57,653	53,003	49,761	49,845	44,810	41,216	37,532
18,635	20,275	14,099	12,632	12,847	8,184	8,012
21,958	22,793	19,573	10,994	15,034	1,706	5,118
(38,731)	(28,929)	(20,183)	(10,503)	(7,459)	(7,960)	(7,189)
150,850	149,503	136,914	122,753	121,954	87,796	90,674
(15,699)	(15,699)	(13,590)	(10,979)	(7,229)	(7,229)	(7,229)
(64,615)	(56,252)	(50,051)	(45,226)	(41,338)	(36,993)	(35,068)
70,536	77,552	73,273	66,548	73,387	43,574	48,377
85,451	67,870	3,788	63,712	47,256	27,894	—
—	—	50,450	50,100	—	—	—
(368)	(379)	(275)	(525)	(186)	(139)	—
100,000	100,000	118,700	100,000	—	58,500	60,000
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	2,999	(2,999)	—	—	—	—
—	33,926	42,855	27,199	—	—	—
24,145	10,000	—	(10,000)	(12,000)	19,000	(6,000)
(15,000)	(15,000)	—	(45,000)	—	—	—
194,228	199,416	212,519	185,486	35,070	105,255	54,000
(11,048)	7,345	(23,480)	(13,177)	7,378	(27,781)	4,546
—	—	—	—	—	—	—
(835)	(814)	1,371	965	(407)	(1,238)	(1,743)
(11,883)	6,531	(22,109)	(12,212)	6,971	(29,019)	2,803
252,881	283,499	263,683	239,822	115,428	119,810	105,180
38,731	28,929	20,183	10,503	7,459	7,960	7,189
$291,612	$312,428	$283,866	$250,325	$122,887	$127,770	$112,369
$ (5,146)	$ 22,231	$ (534)	$(17,997)	$ 1,996	$ (3,873)	$ 1,985
(11,673)	(10,466)	(3,632)	(8,313)	12,749	(25,792)	1,842
(19,226)	(14,253)	(24,868)	(11,149)	(9,134)	(11,944)	(1,348)
27,781	10,884	9,832	6,429	6,983	3,186	(2,896)
2,365	1,650	1,528	2,533	1,210	962	—
(3,455)	178	(4,466)	5,529	(6,330)	5,101	4,094
3,286	3,711	692	6,520	(402)	2,827	379
(4,978)	(6,590)	(2,032)	3,271	306	1,752	490
$(11,048)	$ 7,345	$(23,480)	$(13,177)	$ 7,378	$(27,781)	$ 4,546

1979	1978	1977	1976	1975	1974	1973
	(Thousands of Dollars)					
$270,606	$296,597	$272,462	$239,936	$112,234	$116,637	$ 98,646
20,806	15,831	11,404	10,389	10,653	11,133	13,723
$291,612	$312,428	$283,866	$250,325	$122,887	$127,770	$112,369
$ 5,748	$ 6,247	$ 5,040	$ 8,010	$ 7,420	$ 6,264	$ 5,742
2,218	2,280	1,746	2,034	1,695	2,014	2,126
$ 7,966	$ 8,527	$ 6,786	$ 10,044	$ 9,115	$ 8,278	$ 7,868

NOTES TO FINANCIAL STATEMENTS

Note 1—Summary of Accounting Policies:

The Company is subject to regulations of the Illinois Commerce Commission (ICC) and the Federal Energy Regulatory Commission. Because of the rate-making process, certain differences arise in the application of generally accepted accounting principles as between regulated and non-regulated businesses. Such differences concern mainly the time at which various items enter into the determination of net income in order to follow the principle of matching costs and revenues. The Company's principal accounting policies are described below.

Utility Plant—The cost of additions to utility plant and replacements for retired property units is capitalized. Cost includes labor, material and an allocation of general and administrative costs plus an allowance for funds used during construction as described later in this note. Maintenance and repairs, including replacement of minor items of property, are charged to maintenance expense as incurred. When units of depreciable property are retired, the original cost and dismantling charges, less salvage, are charged to accumulated depreciation.

Depreciation—For financial statement purposes, depreciation is provided over the estimated lives of the various classes of depreciable property by applying composite rates on a straight-line basis. Provisions for depreciation of electric utility plant in 1982, 1981, and 1980 were equivalent to 3.4% of the average depreciable cost. Provisions for depreciation of gas utility plant, as a percent of the average depreciable cost, were equivalent to 3.0% in 1982 and 2.9% in 1981 and 1980.

Income Taxes—For income tax purposes, the Company computes depreciation using the most liberalized lives and methods allowed by the Internal Revenue Code.

The tax effect of additional deductions for income tax purposes, which result from (a) the use of liberalized depreciation methods and use of different book and tax depreciable lives, including the Class Life (ADR) System for assets placed in service prior to 1981 and the ACRS system for assets placed in service subsequent to 1980, and (b) the amortization of certain facilities, is deferred and recognized in determination of net income for financial statement purposes when book provisions exceed deductions taken for tax purposes.

Certain overhead, dismantling and other costs which are capitalized for book purposes, but claimed currently as deductions for income tax purposes, are normalized.

For income tax return purposes, net depreciable utility plant does not include the allowance for funds used during construction which is capitalized for financial statement purposes. The tax effect resulting from this difference and certain other differences in the depreciation bases is reflected currently in net income.

The Company records revenue as billed to its customers on a monthly cycle billing basis. At the end of each month, there is an undetermined amount of unbilled electric and gas service which has been rendered from the latest date of each cycle billing to the month end. Revenues as determined by meters read but not billed at year end are subject to income taxes. The income tax effect of this book-tax timing difference in the recognition of revenues is normalized as are other minor book-tax timing differences.

Investment tax credits which reduce federal income taxes have been deferred and are being amortized to income over the life of the property which gave rise to the investment tax credits.

Federal and state income taxes are allocated between operating and non-operating income and expenses. The tax effects relating to non-operating activities are included in Other Income—Miscellaneous-net.

Allowance for Funds Used During Construction—The Federal Energy Regulatory Commission (FERC) Uniform System of Accounts defines Allowance for Funds Used During Construction (AFUDC) as the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. AFUDC is capitalized at a rate which is related to the approximate weighted average cost of capital reduced by the income tax effect of the interest portion thereof. While cash is not realized currently from such allowance, it is realized under the rate-making process over the service life of the related property through increased revenues resulting from higher rate base and higher depreciation expense.

The rate used in computing AFUDC by the Company, which is an after-tax rate compounded semi-annually, was 7% from January through April, 1980, 7¾% from May, 1980 through June, 1981, and 8¾% through December, 1982.

In accordance with ICC rate orders, the Company excluded $97,064,000 of electric plant construction work in progress (CWIP) from the base on which AFUDC is computed for the Clinton power station Unit 1 from January, 1980 through June, 1981 and $375,000,000 from that date through December, 1982. Since these orders authorized the inclusion of such expenditures in the rate base upon which the Company realized revenues, there was no material effect on net income.

Note 2—Investments:

Included in the financial statements are $17,440,000 of Guaranteed Floating Rate Bank Notes owned by IPF (Illinois Power Finance) Company N.V. (IPF), the Company's wholly-owned financing subsidiary. These bank notes, maturing in 1994, earn interest at a rate which varies with the London interbank and Euro-dollar rates. IPF, organized under the laws of the Netherlands Antilles, was established for the purpose of borrowing funds outside of the United States (see "Note 12—Long-term Debt"). The accounts of IPF are consolidated in the financial statements and all intercompany balances and transactions have been eliminated.

IP Gas Supply Company, a wholly-owned subsidiary, was organized for the purpose of exploration to increase available natural gas supplies through one of the Company's pipeline suppliers. In accordance with an order from the ICC, the accounts of the subsidiary are accounted for as an investment on the equity accounting method. The Company's investment at December 31, 1982 and 1981 was $3,990,000 and $3,809,000, respectively.

Note 3—Short-Term Loans and Compensating Balances:

The Company had total lines of credit represented by bank commitments amounting to $394 million at December 31, 1982. These bank commitments support the amount of commercial paper outstanding at any time.

On April 1, 1982 the Company replaced its $80 million line of credit and $60 million loan agreement with a $180 million three-year revolving loan agreement which has a provision for conversion to an additional three-year term loan. No borrowings were made under this agreement in 1982. For the unused portion of the commitment, the Company pays an annual fee of ¼%, partially offset by a credit related to average balances maintained at the banks. The interest rate on borrowings under this agreement is, at the Company's option, based upon the lending banks' prime rate, their 90-day Certificate of Deposit rate, or the borrowing rate of key banks in the London interbank market.

In addition, the Company has a credit agreement which provides for a revolving loan commitment of $125 million through December 31, 1985. The Company intends to maintain this agreement to support its commitment to Illinois Power Fuel Company (Fuel Company). See "Note 7—Commitments". Fees for this agreement are primarily based on ¼% of the loan commitment. Interest rates on borrowings are, at the Company's option, based upon the banks' prime rate, or the borrowing rate at key banks in the London interbank market. At December 31, 1982 and 1981, Fuel Company had commercial paper outstanding of $96,000,000 and $57,040,000, respectively.

Another credit agreement provides for a revolving loan commitment of $50 million through December 7, 1984. No borrowings have been made under this agreement through 1982. The agreement is on a fee basis of ¼% of the unused line of credit. The interest rate under this agreement is based upon the borrowing rate of key banks in the London interbank market.

The Company also has lines of credit totaling approximately $39 million with commercial banks for short-term bank borrowings. Bank borrowings under such commitments have a maximum 360-day maturity from the time of issuance and carry an interest rate equivalent to the prime rate in effect at the time of issuance, adjusted to the prime rate in effect on the first day of each calendar quarter thereafter.

At December 31, 1982 and 1980 there were no outstanding notes payable. At December 31, 1981 notes payable consisted of $70,500,000 in commercial paper bearing interest at an average rate of 12.6% which matured between January 4, 1982 and January 29, 1982.

The maximum aggregate amount of short-term borrowings at any month end during 1982, 1981, and 1980 was $105.0 million, $70.5 million, and $77.6 million, respectively. The average daily short-term borrowings during these periods approximated $56.4 million, $21.2 million, and $30.1 million, respectively (calculated as an average of the daily borrowings outstanding), with a weighted average interest rate of 13.3%, 15.6%, and 11.8%, respectively (calculated by dividing the interest expense during the period for such borrowings by the average short-term borrowings indicated above).

Note 4—Jointly Owned Facilities:

Pursuant to agreements entered into in August, 1976, Soyland Power Cooperative, Inc. and Western Illinois Power Cooperative, Inc. have a 10.5% and a 9.5% interest in the Clinton power station, respectively. Each party is responsible for its portion of financing and construction expenditures. The Company's 80% interest in the power station including land, nuclear fuel in process, and allowance for funds used during construction applicable to the Company's interest at December 31, 1982 and 1981 was $1,524,334,000 and $1,176,743,000, respectively. The agreements include the provisions that the Company will exercise control

Notes (Continued)

over construction and operation of the generating station, the parties will share electricity generated in proportion to their interests, and the Company will have certain obligations to provide replacement power to the Cooperatives when the units are out of service.

Note 5—Income Taxes:

Income taxes included in the Statements of Income consist of the following components:

	Year Ended December 31,		
	1982	1981	1980
	(Thousands of Dollars)		
Current taxes—			
Included in Operating Expenses and Taxes	**$62,166**	$40,229	$35,193
Included in Other Income—Miscellaneous—net	**(19,522)**	(15,648)	(12,685)
Total current taxes	**42,644**	24,581	22,508
Deferred taxes—			
Book-tax depreciation differences—net	**13,284**	10,673	14,398
Certain overhead, dismantling and other costs capitalized—net	**9,497**	9,144	5,524
Book-tax revenue recognition differences	**(6,195)**	1,016	(1,070)
Total deferred taxes	**16,586**	20,833	18,852
Investment tax credit—deferred (net)	**22,227**	21,419	23,071
Total income taxes	**$81,457**	$66,833	$64,431

Income taxes are less than the amount which would be computed by applying the statutory federal and state income tax rates to pre-tax income; the principal differences are as follows:

	Year Ended December 31,		
	1982	1981	1980
	(Thousands of Dollars)		
Computed tax expense at statutory federal and state income tax rates	**$117,632**	$96,066	$88,356
Reductions (increase) in income taxes resulting from—			
Allowance for funds used during construction	**38,778**	30,371	25,425
Other—net	**(2,603)**	(1,138)	(1,500)
Total income taxes	**$ 81,457**	$66,833	$64,431

Note 6—Pension Costs:

The Company has pension plans covering all officers and employees. Pension costs, which are funded as accrued, include current service costs plus unfunded prior service costs which are being amortized over a period of about 25 years. Actuarial assumptions were revised in 1981 upon recommendations by the Company's independent actuary to reflect both actual Plan experience and actuarial projections resulting in a decrease of approximately $8,600,000 in unfunded prior service costs. The cost of the pension plans was $7,332,000, $5,808,000 and $6,839,000 during 1982, 1981 and 1980, respectively.

Following is a comparison of accumulated plan benefits and plan net assets as of January 1, the most recent information date for which the data is available:

	1982	1981
	(Thousands of Dollars)	
Actuarial present value of accumulated plan benefits—		
Vested	**$ 79,923**	$ 70,172
Non-vested	**10,178**	8,996
	$ 90,101	$ 79,168
Net assets available for benefits	**$123,244**	$124,713

The assumed rate of return used in determining actuarial present value was 7%.

Note 7—Commitments:

Illinois Power Fuel Company, which is 50% owned by the Company, was formed in January, 1981 for the purpose of financing a portion of the nuclear fuel requirements of the Clinton power station. The Company entered into a lease agreement with the Fuel Company under which the Company will lease nuclear fuel. Lease payments, which will be equal to the Fuel Company's cost of fuel as consumed, will begin when the Clinton power station commences pre-commercial operation. The Company is obligated to make subordinated loans to the Fuel Company at any time the obligations of the Fuel Company which are due and payable exceed the funds available to the Fuel Company. The Company's investment of $50,000 is accounted for under the equity method and the lease is accounted for as an operating lease in accordance with an ICC order. Had the Company accounted for the nuclear fuel lease as a capital lease, both total assets and liabilities would have been increased by approximately $97,000,000 at December 31, 1982.

Reference should be made to "Construction" in the forepart of this annual report for information concerning construction expenditures.

Note 8—Quarterly Financial Information (Unaudited):

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	1982	1981	1982	1981	1982	1981	1982	1981
	(Thousands of Dollars Except Earnings Per Common Share)							
Operating revenues	$340,855	$271,252	$245,517	$198,693	$245,119	$239,724	$275,284	$254,623
Operating income	49,775	38,535	37,913	25,580	43,365	43,228	28,671	29,435
Net income	47,012	37,078	37,003	25,130	43,226	39,351	29,154	25,854
Net income applicable to common stock	42,038	32,104	32,029	20,156	38,252	34,377	24,179	20,879
Earnings per common share	$1.01	92¢	71¢	54¢	83¢	88¢	52¢	52¢

Quarterly earnings per common share are based on weighted average number of shares outstanding during the quarter and the sum of the quarters may not equal annual earnings per common share.

Note 9—Common Stock and Retained Earnings:

The Company has an Automatic Reinvestment and Stock Purchase Plan and an Employees Stock Ownership Plan (ESOP) for which 2,620,985 and 39,976 shares, respectively, of common stock were designated for issuance at December 31, 1982.

The Company also has a Tax Reduction Act Stock Ownership Plan (TRASOP), permitting the Company a maximum additional investment tax credit of 1% provided common stock of the Company equal in value to the additional credit is contributed to the Trust. The TRASOP allows an additional investment tax credit up to ½% provided that such amount is matched by employee contributions and that common stock of the Company equal in value to the additional credit and the employee contributions is contributed to the Trust. Under this plan, 920,582 shares of common stock were designated for issuance at December 31, 1982.

Changes in common stock during 1982, 1981, and 1980 were as follows:

	1982		1981		1980	
	Shares	Amount*	Shares	Amount*	Shares	Amount*
Balance beginning of year	40,087,688	$665,921	34,507,851	$572,685	29,487,643	$490,539
Public offerings	4,000,000	78,120	3,000,000	48,165	3,000,000	45,075
Automatic Reinvestment and Stock Purchase Plan	2,375,662	46,162	2,222,506	38,399	1,676,155	30,369
ESOP	33,014	667	33,020	595	31,053	569
TRASOP	362,093	7,836	324,311	6,077	313,000	6,133
Balance end of year	46,858,457	$798,706	40,087,688	$665,921	34,507,851	$572,685

* Thousands of dollars

None of the Company's retained earnings at December 31, 1982, was restricted with respect to the declaration or payment of dividends.

Note 10—Preferred and Preference Stock:

The following tabulation shows preferred and preference stock, issued and outstanding at December 31, 1982, 1981, and 1980, and the redemption prices (exclusive of accrued dividends) applicable to each series.

Serial preferred stock, cumulative, $50 par value—

Authorized and outstanding 5,000,000 shares (including 720,000 shares of redeemable preferred stock—see Note 11):

Series	Shares	Redemption prices	1982	1981	1980
			(Thousands of Dollars)		
4.08%	300,000	$51.50	**$ 15,000**	$ 15,000	$ 15,000
4.26%	150,000	51.50	**7,500**	7,500	7,500
4.70%	200,000	51.50	**10,000**	10,000	10,000
4.42%	150,000	51.50	**7,500**	7,500	7,500
4.20%	180,000	52.00	**9,000**	9,000	9,000
8.24%	600,000	52.93 prior to August 1, 1986 51.90 thereafter	**30,000**	30,000	30,000
7.56%	700,000	52.63 prior to July 1, 1987 51.685 thereafter	**35,000**	35,000	35,000
8.94%	1,000,000	54.25 prior to March 1, 1986 52.90 thereafter and prior to March 1, 1991 51.60 thereafter	**50,000**	50,000	50,000
8.00%	1,000,000	54.29 prior to August 1, 1987 53.29 thereafter and prior to August 1, 1992 52.29 thereafter	**50,000**	50,000	50,000
Premium on preferred stock			**1,171**	1,171	1,171
Serial preferred stock, cumulative, without par value—					
Authorized 5,000,000 shares; none outstanding			**—**	—	—
Total preferred stock			**215,171**	215,171	215,171
Preference stock, cumulative, without par value—					
Authorized 5,000,000 shares; none outstanding			**—**	—	—
Total preferred and preference stock			**$215,171**	$215,171	$215,171

The above outstanding issues of preferred stock, $50 par value, are redeemable at the option of the Company in whole or in part at any time upon not less than thirty days and not more than sixty days notice by publication.

Note 11—Redeemable Preferred Stock:

On March 13, 1980 the Company issued 720,000 shares of 11.66% serial preferred stock (par value $50), subject to mandatory redemption in an amount sufficient to retire on each February 1, beginning in 1988, 19,800 shares and February 1, 2020, 86,400 shares at $50 per share plus accrued dividends. The Company has after February 1, 1988 the noncumulative option to redeem up to 19,800 additional shares in each such year.

Note 12—Long-Term Debt:

Long-term debt was represented by:

	December 31, 1982	December 31, 1981
	(Thousands of Dollars)	
First mortgage bonds—		
3½% series due 1982	**$ —**	$ 20,000
3½% series due 1983	**20,000**	20,000
3¾% series due 1986	**20,000**	20,000
11⅜% series due 1987	**75,000**	75,000
4% series due 1988	**25,000**	25,000
14½% series due 1990	**75,000**	—
4¼% series due 1993	**35,000**	35,000
5.85% series due 1996	**40,000**	40,000
6⅜% series due 1998	**25,000**	25,000
6¾% series due 1998	**45,000**	45,000
8.35% series due 1999	**35,000**	35,000
9% series due 2000	**35,000**	35,000
7.60% series due 2001	**35,000**	35,000
7⅝% series due 2003	**60,000**	60,000
6.60% series due 2004 (Pollution Control Series A)	**8,500**	8,500
9⅞% series due 2004	**100,000**	100,000
10½% series due 2004	**50,000**	50,000
8⅝% series due 2006	**100,000**	100,000
6% series due 2007 (Pollution Control Series B)	**18,700**	18,700
8¼% series due 2007	**100,000**	100,000
8⅞% series due 2008	**100,000**	100,000
12⅝% series due 2010	**50,000**	50,000
12% series due 2012	**75,000**	—
Total first mortgage bonds	**1,127,200**	997,200
14½% debentures due 1989*	**50,000**	—
Long-term bank notes due 1987**	**17,000**	—
Total long-term debt	**1,194,200**	997,200
Unamortized premium and discount on debt	**(7,220)**	(5,561)
	1,186,980	991,639
Less first mortgage bonds maturing within one year	**20,000**	20,000
	$1,166,980	$971,639

** The debentures, issued by IPF, are guaranteed as to payment of principal and interest by the Company.*

*** Interest rate, which is based upon the borrowing rate of key banks in the London interbank market plus a margin of ⅜%, is adjusted quarterly and was 9⅞% at December 31, 1982.*

Certain supplemental indentures to the Mortgage and Deed of Trust require that the Company, beginning in 1985, deposit annually in cash as a sinking and property fund, $5,000,000 for the 9⅞% series due 2004 and $100,000, and increasing $25,000 every two years, for the 6.60% series due 2004 (Pollution Control Series A), which amounts are not subject to reduction. Certain other supplemental indentures require that the Company deposit annually in cash as a sinking and property fund amounts not to exceed $2,950,000 in 1983, $3,550,000 in 1984, $4,050,000 in 1985, $3,850,000 in 1986 and $4,850,000 in 1987, which amounts are subject to reduction in accordance with certain terms of the mortgage; historically these requirements have been met by pledging property additions.

The above bonds are secured by a first mortgage lien on substantially all of the fixed property, franchises and rights of the Company with certain minor exceptions expressly provided in the mortgage securing the bonds. The remaining balance of net bondable additions at December 31, 1982 was approximately $918,000,000.

Notes (Continued)

Note 13—Segments of Business:
The Company is a public utility engaged in the generation, transmission, distribution and sale of electric energy and the distribution and sale of natural gas.

	1982			1981			1980		
	Electric	Gas	Total Company	Electric	Gas	Total Company	Electric	Gas	Total Company
	(Thousands of Dollars)			(Thousands of Dollars)			(Thousands of Dollars)		
Operating information—									
Operating revenues	$ 685,544	$421,231	$1,106,775	$ 620,968	$343,324	$ 964,292	$ 567,356	$316,014	$ 883,370
Operating expenses, excluding provision for income taxes	456,179	389,693	845,872	419,079	325,954	745,033	401,517	280,191	681,708
Pre-tax operating income	229,365	31,538	260,903	201,889	17,370	219,259	165,839	35,823	201,662
Allowance for funds used during construction (AFUDC)	78,216	193	78,409	61,356	55	61,411	51,032	188	51,220
Pre-tax operating income, including AFUDC	$ 307,581	$ 31,731	339,312	$ 263,245	$ 17,425	280,670	$ 216,871	$ 36,011	252,882
Other (income) and deductions			(21,498)			(16,651)			(14,798)
Interest charges			103,436			87,427			77,002
Provision for income taxes			100,979			82,481			77,116
Net income per accompanying statements of income			$ 156,395			$ 127,413			$ 113,562
Other information—									
Depreciation	$ 51,581	$ 9,940	$ 61,521	$ 50,522	$ 9,509	$ 60,031	$ 48,838	$ 8,997	$ 57,835
Capital expenditures	$ 396,233	$ 16,651	$ 412,884	$ 330,470	$ 19,045	$ 349,515	$ 297,157	$ 18,406	$ 315,563
Investment information—									
Identifiable assets*	$2,651,015	$284,929	$2,935,944	$2,307,598	$285,489	$2,593,087	$2,088,962	$269,619	$2,358,581
Nonutility plant and other investments			25,616			8,651			8,596
Assets utilized for overall Company operations			130,962			120,757			100,014
Total assets			$3,092,522			$2,722,495			$2,467,191

* Utility plant, nuclear fuel and acquisition adjustment less accumulated depreciation and amortization, fuel, natural gas stored underground, and materials and supplies.

Two-Year Dividends and Stock Prices by Quarters

The common stock is listed on the New York Stock Exchange and the Midwest Stock Exchange. The prices below are the prices reported on the Composite Tape. The preferred stocks are listed on the New York Stock Exchange and the prices below are the prices on that Exchange.

		1982 Stock Prices							
		1		2		3		4	
	Dividends*	High	Low	High	Low	High	Low	High	Low
Common	**	22	18⅝	21⅞	19⅝	22⅞	18⅞	23⅞	20⅝
4.08% Pfd.	$ .51	14¾	13½	16	14	16½	13¾	18	15¾
4.26% Pfd.	.53¼	16½	13½	16	13¾	18	14½	20	16¼
4.70% Pfd.	.58¾	17¼	14½	17⅝	16	18½	16	20½	18¾
4.42% Pfd.	.55¼	17¼	14	16½	15⅜	18	15	19¾	16¼
4.20% Pfd.	.52½	15¾	13½	17	15	18	14½	19⅝	17¾
8.24% Pfd.	1.03	29¾	24¼	32½	28¾	34	28	37	31¼
7.56% Pfd.	.94½	27⅜	24⅛	29½	25⅝	31	25¾	33¾	29
8.94% Pfd.	1.11¾	32	28½	33¾	30	36½	31	39¾	35
8.00% Pfd.	1.00	28½	25½	30¼	27⅜	32¾	27	35½	30⅜
11.66% Pfd.	1.45¾	45	43¾	49	42⅜	48	45⅝	54½	49

	1981 Stock Prices							
	1		2		3		4	
	High	Low	High	Low	High	Low	High	Low
Common	19⅛	17	19¾	16⅝	20	17⅞	21⅜	17⅝
4.08% Pfd.	16½	14¼	16	14⅛	16	13½	15½	14
4.26% Pfd.	16½	14½	17	15¾	17	15¼	16	14¼
4.70% Pfd.	18½	16	18½	16¼	17½	15½	17¼	15¼
4.42% Pfd.	17	15½	17	15½	17½	14¾	16	14¼
4.20% Pfd.	16½	14½	15⅝	14½	15½	14½	15¾	14
8.24% Pfd.	31½	29	30¼	28¼	30½	27	30	25¼
7.56% Pfd.	31	27	28	26¾	27¾	25½	27½	24
8.94% Pfd.	33½	32	34½	31	31⅞	29	32½	28⅞
8.00% Pfd.	30¾	27½	31½	28	29¾	28	28	26
11.66% Pfd.	50¾	49	48¾	48¼	49	46	47⅝	43½

* *The amount declared in each quarter during 1981 and 1982.*

** *$.59½ per common share in first quarter 1981 through third quarter 1981 and $.62 in fourth quarter 1981 through fourth quarter 1982.*

There were 80,005 registered record holders of common stock at January 10, 1983.

Selected Financial Data*

	1982	1981	1980	1979	1978
Total operating revenues	$1,106,775	$ 964,292	$ 883,370	$ 751,822	$ 672,014
Net income	$ 156,395	$ 127,413	$ 113,562	$ 91,335	$ 82,361
Net income applicable to common stock	$ 136,498	$ 107,516	$ 94,493	$ 75,636	$ 66,662
Earnings per common share	$ 3.04	$ 2.84	$ 2.87	$ 2.70	$ 2.74
Cash dividends declared per common share	$ 2.48	$ 2.405	$ 2.355	$ 2.28	$ 2.28
Total assets	$3,092,522	$2,722,495	$2,467,191	$2,214,652	$1,938,506
Long-term debt	$1,166,980	$ 971,639	$ 991,402	$ 866,747	$ 776,559
Redeemable preferred stock	$ 36,000	$ 36,000	$ 36,000	—	—
Ratio of earnings to fixed charges**	3.04	3.16	3.25	3.15	3.34

* *Thousands of dollars except earnings per common share, cash dividends declared per common share and ratio of earnings to fixed charges.*

** *The ratio of earnings to fixed charges represents the number of times that earnings before income taxes and fixed charges cover the fixed charges. Earnings used in the calculation of the above ratios include allowance for funds used during construction and are before the deduction of income taxes and fixed charges which include interest on long-term debt, related amortization of debt discount, premium and expense, other interest, and that portion of rent expense which is estimated to be representative of the interest component.*

Supplementary Information to Disclose the Effects of Changing Prices

The unaudited supplementary information presented herein is intended to provide a perspective as to the approximate effect of inflation upon our Company as a regulated utility. This information is not intended as a substitute for earnings reported on a historical cost basis. The information has been prepared as prescribed by the Statement of Financial Accounting Standards No. 33, Financial Reporting and Changing Prices. This statement requires adjustments to historical costs to estimate the effects that general inflation (Constant Dollar) and changes in specific prices (Current Cost) have had on the Company's results of operations.

Utility Plant and Depreciation

For the following presentation, utility plant has been restated on both a constant dollar and a current cost basis. Constant dollar amounts represent historical costs stated in terms of dollars of equal purchasing power as measured by the Consumer Price Index for all Urban Consumers (CPI-U). Current cost amounts reflect the changes in specific prices of plant from the date the plant was acquired to the present and are an estimate of the cost of currently reproducing existing plant. Constant and current dollar amounts differ to the extent that specific prices of utility plant have increased more or less rapidly than prices in general.

The current cost of utility plant, which includes land, land rights, intangible plant, property held for future use, construction work in progress, and nuclear fuel was determined by indexing surviving plant using the Handy-Whitman Index of Public Utility Construction Costs. Accumulated depreciation was calculated by applying the historical depreciation rates to the estimated current costs of depreciable properties by year of addition. The current year's provision for depreciation stated in constant dollars and current costs was determined by applying the Company's composite depreciation rates to the indexed utility plant amounts.

The increase in depreciation expense on utility plant, restated for the effects of changing prices, represents the excess of depreciation expense in terms of constant dollars and current cost over historical depreciation expense ($61.5 million) used for financial statement purposes.

Reduction to Net Recoverable Cost

Under the rate-making procedures prescribed by the regulatory commissions, to which the Company is subject, the historical cost of utility plant has been reflected in the rate base used in recent years to determine the amount of return to which the Company is entitled. Therefore, the excess of the cost of utility plant stated in terms of constant dollars or current cost that exceeds the historical cost of utility plant is not presently being recovered in the Company's rates, and is reflected as a reduction to net recoverable cost.

Both the January, 1983 and the July, 1981 ICC rate orders considered both the "fair value" and historical cost of utility plant. However, since the allowed depreciation was based upon historical cost, the need to reflect a reduction to net recoverable cost remains unchanged.

Gain from the Decline in Purchasing Power of Net Amounts Owed

To properly reflect the economics of rate regulation in the Statement of Income Adjusted for Changing Prices, the reduction of net utility plant to net recoverable cost should be offset by the gain from the decline in purchasing power of net amounts owed. During a period of inflation, holders of monetary assets (such as receivables) suffer a decline in general purchasing power because the amounts of cash received for these items in the future will purchase less. Conversely, issuers of monetary liabilities (such as long-term debt, preferred stock and accounts payable) experience a gain because future payments will be made with dollars having less purchasing power. The Company has substantial amounts of debt and preferred stock and, therefore, for purposes of these calculations, has a net gain from holding monetary liabilities in excess of monetary assets.

Inventories and Taxes

Fuel inventories, the cost of fuel used in generation and gas purchased for resale have not been restated from their historical costs. Regulation limits the recovery through the operation of adjustment clauses in basic rate schedules to the actual costs of fuel and purchased gas. For this reason, fuel inventories are considered monetary assets.

As prescribed in the Statement of Financial Accounting Standards No. 33, income taxes were not adjusted. Present income tax laws ignore the effects of inflation in measuring taxable income. Higher depreciation expense under constant dollar and current cost accounting is not tax deductible. Therefore, the Company's effective federal and state income tax rate, when adjusted for inflation, is 52.8% under constant dollar and 57.8% under current cost for 1982 each of which exceeds the reported effective tax rate of 34.2% and the statutory federal and state rate of 49.5%.

Statement of Income Adjusted for Changing Prices

	For the Year Ended December 31, 1982	
	Constant Dollar Average 1982 Dollars	Current Cost Average 1982 Dollars
	(Thousands of Dollars)	
Net income, as reported	$156,395	$156,395
Increase in depreciation expense on utility plant as restated for the effects of changing prices	83,398	97,038
Net income (excluding reduction to net recoverable cost)	$ 72,997*	$ 59,357
Increase in specific prices (current cost) of utility plant held during the year**		$133,828
Less increase in cost of utility plant adjusted for changes in general price level		160,149
Excess of increase in general price level over increase in specific prices		(26,321)
Reduction to net recoverable cost	$(18,182)	21,779
		(4,542)
Gain from decline in purchasing power of net amounts owed	58,884	58,884
Net price level adjustment	$ 40,702	$ 54,342

* *Including the reduction to net recoverable cost, the net gain on a constant dollar basis would have been approximately $55 million for 1982.*

** *At December 31, 1982, current cost of utility plant, net of accumulated depreciation, was approximately $4.4 billion, while net historical cost recoverable through depreciation was approximately $2.8 billion.*

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

	For the Years Ended December 31,				
	1982	1981	1980	1979	1978
Operating revenues—					
Historical cost	$1,106,775	$ 964,292	$ 883,370	$751,822	$672,014
Adjusted for general inflation	1,106,775	1,023,410	1,034,774	999,778	994,264
Historical cost information adjusted for general inflation					
Income from operations (excluding reduction to net recoverable cost)	72,997	54,951	53,102	50,063	
Income per common share (after preferred stock dividend requirements and excluding reduction to net recoverable cost)	1.18	.89	.93	1.04	
Net assets at year end at net recoverable cost	1,003,182	883,000	840,343	821,269	
Current cost information					
Income from operations (excluding reduction to net recoverable cost)	59,357	41,928	34,468	27,110	
Income per common share (after preferred stock dividend requirements and excluding reduction to net recoverable cost)	.88	.55	.36	.22	
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost	4,542	168,973	178,563	233,433	
Net assets at year end at net recoverable cost	1,003,182	883,000	840,343	821,269	
General information					
Gain from decline in purchasing power of net amounts owed	58,884	129,527	168,646	204,569	
Cash dividends declared per common share—					
Historical cost	2.48	2.405	2.355	2.28	2.28
Adjusted for general inflation	2.48	2.55	2.76	3.04	3.37
Market price per common share at year end—					
Historical cost	23.75	20.625	17.88	19.13	22.75
Adjusted for general inflation	23.48	21.18	20.00	24.06	32.42
Average consumer price index	289.1	272.4	246.8	217.4	195.4
Year-end consumer price index	292.4	281.5	258.4	229.9	202.9

* *In thousands of average 1982 dollars except per share data and indices.*

ELECTRIC OPERATING STATISTICS

	1982	1981	1980	1979	1978
Revenues (Thousands of Dollars)					
Residential	**$ 232,066**	$ 209,310	$ 199,124	$ 160,355	$ 159,493
Commercial and small power	**151,167**	134,968	123,463	105,262	102,170
Large power and light	**243,016**	223,950	198,177	174,315	158,611
Other	**13,587**	11,430	9,897	8,137	7,631
Revenues—ultimate consumers	**639,836**	579,658	530,661	448,069	427,905
Rural cooperatives and municipal utilities	**40,648**	35,826	33,236	27,790	21,448
Other electric utilities	**66**	47	68	59	66
Miscellaneous	**4,994**	5,437	3,391	3,134	2,788
	$ 685,544	$ 620,968	$ 567,356	$ 479,052	$ 452,207
Customers at End of Year					
Residential	**470,318**	469,452	466,546	461,966	455,014
Commercial and small power	**54,873**	54,895	54,546	53,804	53,051
Large power and light	**348**	361	359	374	368
Other	**712**	718	715	714	699
	526,251	525,426	522,166	516,858	509,132
Sales in KWH (Thousands)					
Residential	**3,772,690**	3,741,175	4,003,563	3,737,245	3,770,703
Commercial and small power	**2,479,246**	2,449,342	2,492,930	2,408,131	2,383,521
Large power and light	**6,218,009**	6,555,190	6,507,468	6,738,321	6,271,872
Other	**304,168**	295,922	290,851	282,848	271,853
Sales—ultimate consumers	**12,774,113**	13,041,629	13,294,812	13,166,545	12,697,949
Rural cooperatives and municipal utilities	**1,201,814**	1,169,163	1,189,702	1,057,113	874,452
Other electric utilities	**1,772**	1,758	1,961	1,874	2,004
	13,977,699	14,212,550	14,486,475	14,225,532	13,574,405
Generated and Purchased in KWH (Thousands)					
Generated—					
Steam	**14,431,747**	15,710,540	16,306,993	16,840,214	15,770,060
Hydro and internal combustion	**10,122**	35,447	61,914	55,241	38,039
Total generated	**14,441,869**	15,745,987	16,368,907	16,895,455	15,808,099
Purchased and interchanged—net	**452,761**	(616,437)	(838,615)	(1,666,889)	(1,256,163)
Total output	**14,894,630**	15,129,550	15,530,292	15,228,566	14,551,936
Less—used and unaccounted for	**916,931**	917,000	1,043,817	1,003,034	977,531
	13,977,699	14,212,550	14,486,475	14,225,532	13,574,405
Firm Peak Demand (native load) in KW (Thousands)	**2,951**	3,100	3,150	3,019	2,825
Net Generating Capability in KW (Thousands)	**3,806**	3,815	3,815	3,815	3,815

GAS OPERATING STATISTICS

	1982	1981	1980	1979	1978
Revenues (Thousands of Dollars)					
Residential —without space heating	**$ 2,347**	$ 2,372	$ 2,201	$ 2,056	$ 1,758
with space heating	**189,389**	156,378	142,050	124,354	105,484
Commercial—without space heating	**4,160**	4,040	2,265	2,858	1,722
with space heating	**73,055**	57,602	52,976	46,010	37,536
Industrial —non-interruptible	**147,446**	114,944	76,743	43,714	30,910
interruptible	**3,516**	6,803	31,951	51,354	40,906
Revenues—ultimate consumers	**419,913**	342,139	308,186	270,346	218,316
Interdepartmental revenues—interruptible	**281**	1,074	1,825	2,365	1,058
Miscellaneous	**1,037**	111	6,003	59	433
	$ 421,231	$ 343,324	$ 316,014	$ 272,770	$ 219,807
Customers at End of Year					
Residential —without space heating	**12,480**	13,470	16,040	18,251	19,834
with space heating	**337,011**	336,504	332,695	326,816	319,968
Commercial—without space heating	**1,556**	1,624	1,891	2,048	2,112
with space heating	**31,567**	31,387	30,725	30,032	29,522
Industrial —non-interruptible	**477**	482	474	480	470
interruptible	**6**	7	24	58	80
	383,097	383,474	381,849	377,685	371,986
Sales in Therms (Thousands)					
Residential —without space heating	**3,848**	4,487	5,165	6,231	6,172
with space heating	**414,062**	386,282	414,405	459,329	469,906
Commercial—without space heating	**8,742**	10,792	6,749	10,586	7,986
with space heating	**176,976**	161,720	168,563	182,212	181,960
Industrial —non-interruptible	**394,635**	363,633	280,471	194,310	181,029
interruptible	**8,716**	21,183	101,935	186,264	180,138
Sales—ultimate consumers	**1,006,979**	948,097	977,288	1,038,932	1,027,191
Interdepartmental sales—interruptible	**801**	4,360	8,853	13,141	8,034
	1,007,780	952,457	986,141	1,052,073	1,035,225
Purchased and Produced—Therms (Thousands)					
Purchased	**994,815**	1,040,091	980,426	1,118,246	1,087,749
Storage—net of (injected) and withdrawn	**48,400**	(48,047)	55,525	(30,203)	(14,998)
Purchased gas delivered	**1,043,215**	992,044	1,035,951	1,088,043	1,072,751
Produced	**279**	21	99	69	24
Total	**1,043,494**	992,065	1,036,050	1,088,112	1,072,775
Less—used and unaccounted for	**35,714**	39,608	49,909	36,039	37,550
	1,007,780	952,457	986,141	1,052,073	1,035,225

Board of Directors

Robert J. Burow
Consultant and Retired Publisher of
The Commercial-News
Danville, Illinois

William C. Gerstner
Executive Vice President of the Company
Decatur, Illinois

Grover J. Hansen
President and Chief Operating Officer of
First Federal Savings & Loan Association
of Chicago
Chicago, Illinois

Wendell J. Kelley
Chairman and President of the Company
Decatur, Illinois

Donald E. Lasater
Chairman of the Board and
Chief Executive Officer of
Mercantile Bancorporation Inc.
(a bank holding company)
St. Louis, Missouri

Eva Jane Milligan
Consultant to and Retired
Senior Vice President, General Personnel
Manager of Marshall Field & Company
(a retailer); President of Pro Lines, Inc.
(a merchandise service organization)
Chicago, Illinois

Keith R. Potter
Consultant and Retired Vice Chairman of
International Harvester Company
(manufacturer of trucks; agricultural, construction,
and industrial equipment; and gas turbines)
Easton, Maryland

Boyd F. Schenk
President and Chief Executive Officer of
Pet Incorporated
(processor and marketer of food products
and other consumer goods)
St. Louis, Missouri

Richard P. Stone
Grain and Seed Farm Operator
Springfield, Illinois

Charles W. Wells
Executive Vice President of the Company
Decatur, Illinois

Gordon R. Worley
Executive Vice President—Chief Financial
Officer of Montgomery Ward & Co.,
Incorporated (a retailer)
Chicago, Illinois

Vernon K. Zimmerman
Dean, College of Commerce
and Business Administration
University of Illinois
Urbana, Illinois

Note: The principal occupation of each director and officer of Illinois Power Company is that listed.

Officers

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Chairman and President

William C. Gerstner
Executive Vice
President

Charles W. Wells
Executive Vice
President

Arthur E. Gray
Vice President and
Secretary

Larry D. Haab
Vice President and
Treasurer

Donald P. Hall
Vice President

Leonard J. Koch
Vice President

James O. McHood
Vice President

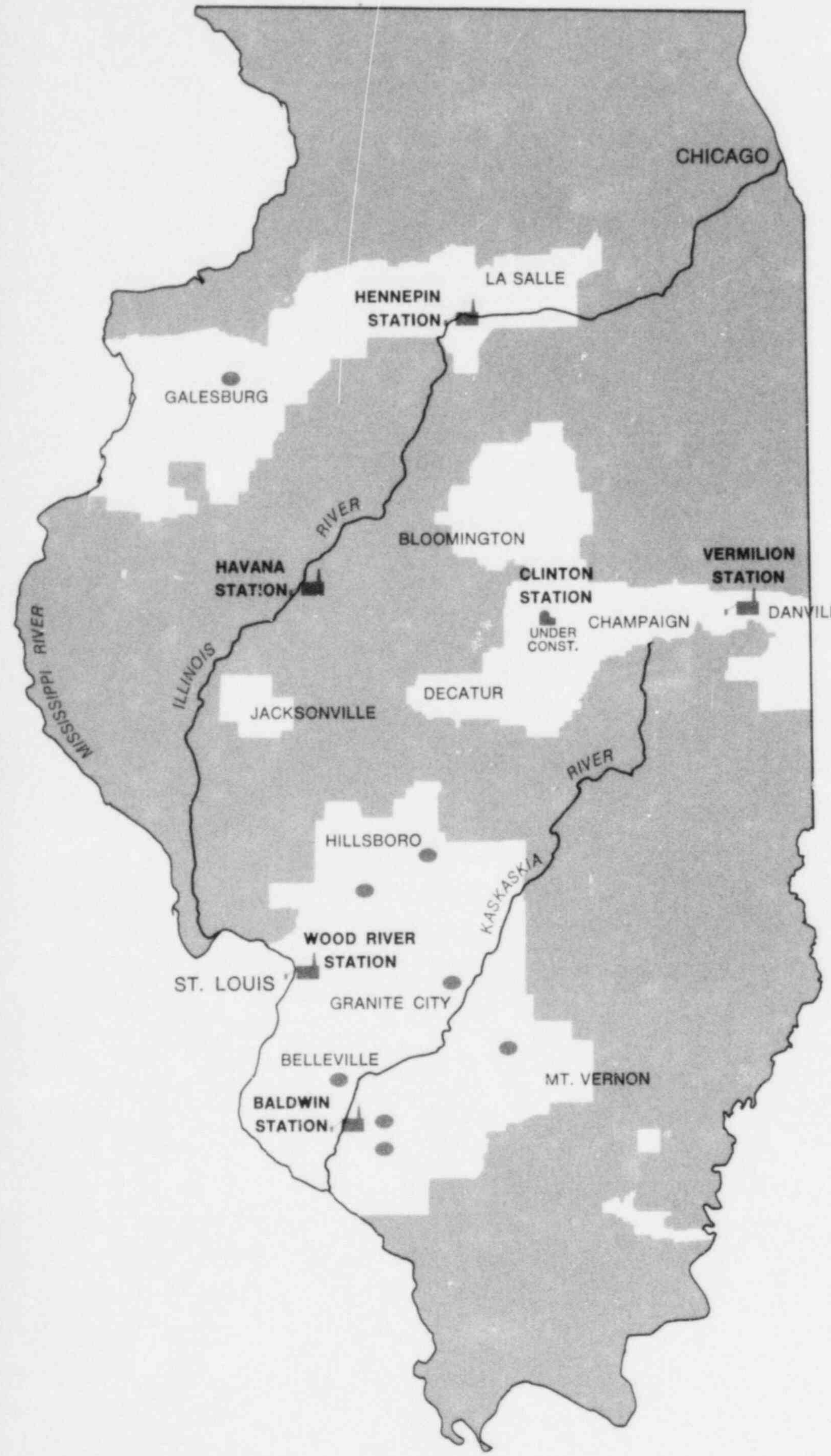
William E. Warren
Vice President

Porter J. Womeldorff
Vice President

Larry F. Altenbaumer
Assistant Treasurer

John B. Burdick
Assistant Secretary

Illinois Power Company



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