ILLINOVA 1995 ANNUAL REPORT

WE WILL BE THE BEST BY THE YEAR 2000

getting to the vision

95

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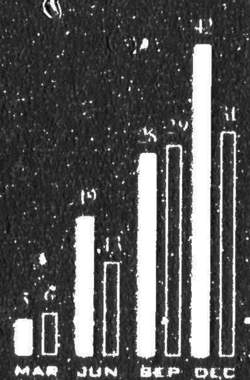
ILLINOVA 1995 ANNUAL REPORT

FINANCIAL HIGHLIGHTS

1995 TOTAL RETURN

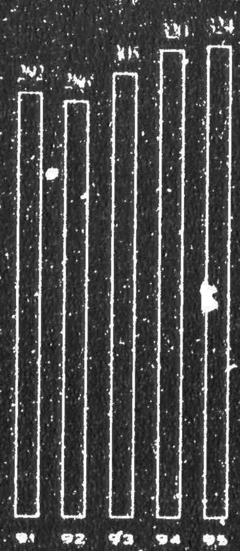
Illinova

S&P Utility Index



OPERATING INCOME

millions of dollars



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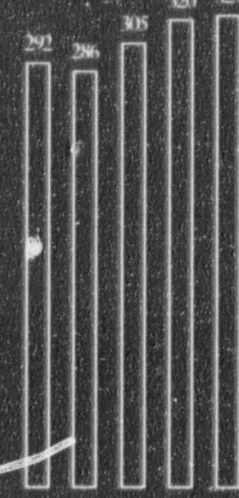
ILLINOVA 1995 ANNUAL REPORT

FINANCIAL HIGHLIGHTS

(Millions except per share amounts, common stock prices and employees)	1995	1994	% Increase (Decrease)
FINANCIAL HIGHLIGHTS			
Operating revenues			
Electric and electric interchange	$ 1,368.9	$ 1,287.5	6.3
Gas	$ 272.5	$ 302.0	(9.8)
Operating expenses and taxes	$ 1,317.0	$ 1,269.1	3.8
Operating income	$ 324.4	$ 320.4	1.2
Net income applicable to common stock	$ 148.1	$ 158.2	(6.4)
Net income (excluding enhanced retirement costs in 1995 and excluding carrying amount over (under) consideration paid for redeemed preferred stock of subsidiary in 1995 and 1994)	$ 174.4	$ 151.8	14.9
Total assets	$ 5,609.8	$ 5,576.7	0.6
COMMON STOCK DATA			
Average number of common shares outstanding (thousands)	75,644	75,644	—
Earnings per common share	$ 1.96	$ 2.09	(6.2)
Earnings per common share (excluding enhanced retirement costs in 1995 and excluding carrying amount over (under) consideration paid for redeemed preferred stock of subsidiary in 1995 and 1994)	$ 2.31	$ 2.01	14.9
Return on average common equity (including enhanced retirement costs in 1995 and including carrying amount over (under) consideration paid for redeemed preferred stock of subsidiary in 1995 and 1994)	10.2%	11.0%	—
Book value per common share	$ 20.19	$ 19.17	5.3
Common stock prices			
High	$ 30	$ 22⅜	—
Low	$ 21¼	$ 18⅛	—
Close	$ 30	$ 21 13/16	37.4
DIVIDENDS			
Cash dividends declared per common share	$ 1.03	$ .65	—
Cash dividends paid per common share	$ 1.00	$ .80	25.0
CAPITALIZATION			
Common stock	44%	39%	—
Preferred stock of subsidiary	6%	9%	—
Long-term debt of subsidiary	50%	52%	—
Total	100%	100%	—
EMPLOYEES AT YEAR-END	3,596	4,350	(17.3)

1995 TOTAL RETURN
(percent, year-to-date)

OPERATING INCOME
(millions of dollars)



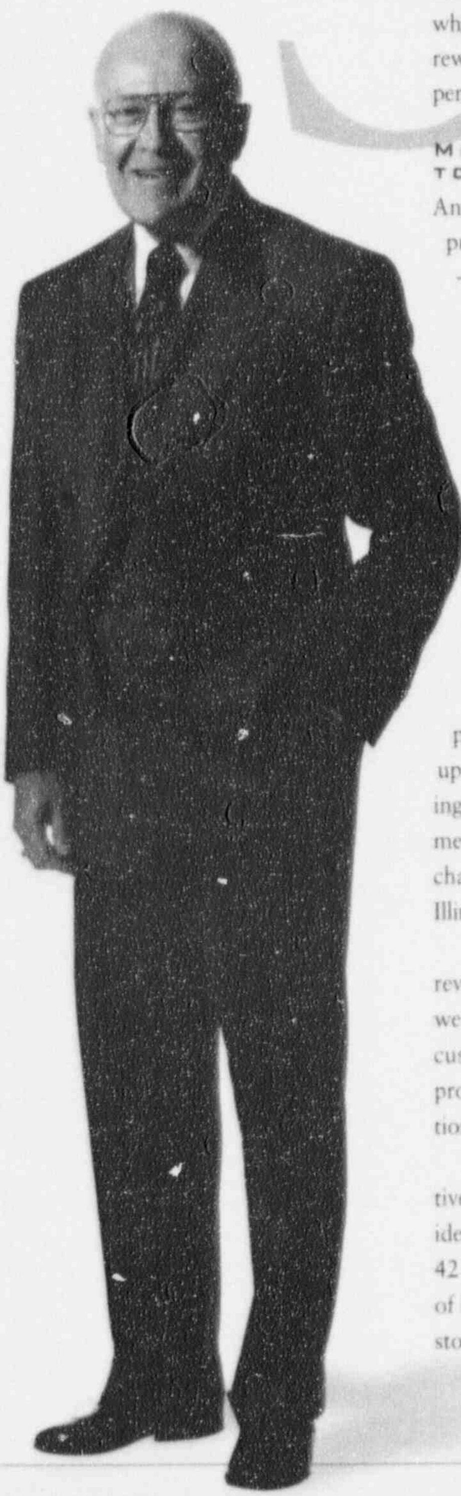
MEASURES OF OUR SUCCESS

IN 1995, BY NEARLY EVERY CONCEIVABLE MEASURE, WE WERE BETTER THAN WE WERE IN 1994.

TO BE THE BEST BY THE YEAR 2000, WE MUST BE BETTER THAN OUR COMPETITORS. THAT'S THE ONE MEASURE ALL OTHER MEASURES MUST LEAD US TO.

So much for sophomore jinx.

In our second year as an energy services holding company, the employees of Illinova turned in another outstanding performance. In fact our successes in 1995 were so comprehensive that the market, which had been skeptical of our prospects, rewarded Illinova stockholders with a 37-percent increase in their investment.



Measuring Progress Toward 2000

Annual reports have a reputation for putting the best possible face on things — emphasizing good points; downplaying or ignoring bad ones. But this year, I believe we can look at virtually any measure from almost any perspective and be pleased with the results.

From the financial community's perspective, we made the key numbers: we showed revenue growth without a rate increase, we reduced operating and maintenance expenses enough to absorb most of the cost of a refueling outage at our nuclear plant, and our earnings per share were up by a double-digit margin before reflecting our fourth-quarter enhanced retirement and severance programs and the charge for the premium for redeeming Illinois Power preferred stock.

From our customers' perspective, we revamped our approach to serving them, we earned improved overall scores on our customer satisfaction surveys, and we proposed legislation that would revolutionize electric service in Illinois.

And from our stockholders' perspective, our share price appreciation and dividend provided a total return in 1995 of 42 percent, and in December our Board of Directors voted to raise the common stock dividend 12 percent to $1.12 on an annualized basis beginning with the February 1, 1996, payment.

Yet not withstanding our many successes in 1995, I'm certain that we have potential for even greater results. We are still reshaping ourselves, re-engineering our processes, and redefining our markets. We're moving forward quickly, to be sure, but I don't think we've hit our stride yet.

Laying Groundwork for Future Success

Over the past few years, we've proven our ability to reduce costs and we have completed many of our efforts to do so. Now, we have a solid foundation in place to build the human skills necessary to excel in a competitive marketplace, and our plans to grow our business through new subsidiaries and new energy services in our utility business are well underway.

I'm particularly optimistic about our potential because so much of what we accomplished in 1995 will have its biggest impact in subsequent years.

Perhaps the most prominent are our enhanced retirement and severance programs. The $38-million price tag of these programs in 1995 obscures their true value, which is $36 million in ongoing annualized savings beginning in 1996. Investors who have followed us for awhile will recall that in 1989 we also offered an early retirement program. That program was unsuccessful because we were not prepared to do the work left by retiring employees. This time, however, we re-engineered our processes to substantially reduce — and in some cases completely eliminate — the work proportional to the number of retiring or severed employees. This time we are prepared, and we will reap significant benefits.

Also, to help sharpen our focus on creating value for our shareholders, in 1995 we began implementing a financial per-

CHAIRMAN'S LETTER TO STOCKHOLDERS

formance measurement called shareholder value-added, and we should see increasing benefits in 1996 and beyond.

Last summer, we negotiated new contracts with our unions. Along with a good wages and benefits package, these new contracts include provisions that will allow our union employees to be more flexible and more responsive in meeting our customers' needs. These agreements are good for Illinova, good for our employees, and, especially, good for our customers.

In 1995, we also reorganized the way we interact with our customers. Instead of maintaining high-cost offices, we arranged with scores of local retailers to accept customers' bill payments.

We discuss these and our other efforts to improve operations later in the report, but you can see even from these few brief examples that we have much to look forward to in 1996 and beyond.

Our Vision, Our Beliefs

Implementing new systems and re-engineering old ones, searching out new business opportunities and servicing old ones will be exciting and challenging work. But I think our greatest challenge will come within Illinova, within ourselves. That challenge is focusing on our vision to be the best and maintaining our commitment to achieve that vision — keeping our eye on the prize. That challenge is for every individual employee to accept and to meet.

To help guide each of us toward our vision and to help us maintain our focus, we developed eight corporate beliefs:

- *Doing better today than we did yesterday*
- *Serving customers better than any other*
- *Making the company ours*
- *Knowing that our employees make the difference*
- *Working together as a team*
- *Finding new ways to do things*
- *Building trust based on integrity and honesty*
- *Being courageous*

Adopting these beliefs won't transform our company or our corporate culture overnight. But adopting them will help us make the transition to a company that longs to compete — and expects to win.

Looking Forward

As I said at the beginning of this letter, 1995 was a great year for Illinova: by almost every conceivable measure, we met or exceeded our own very high expectations. And we are poised to repeat that performance in 1996 with a third straight year of double-digit growth in earnings and common stock dividends.

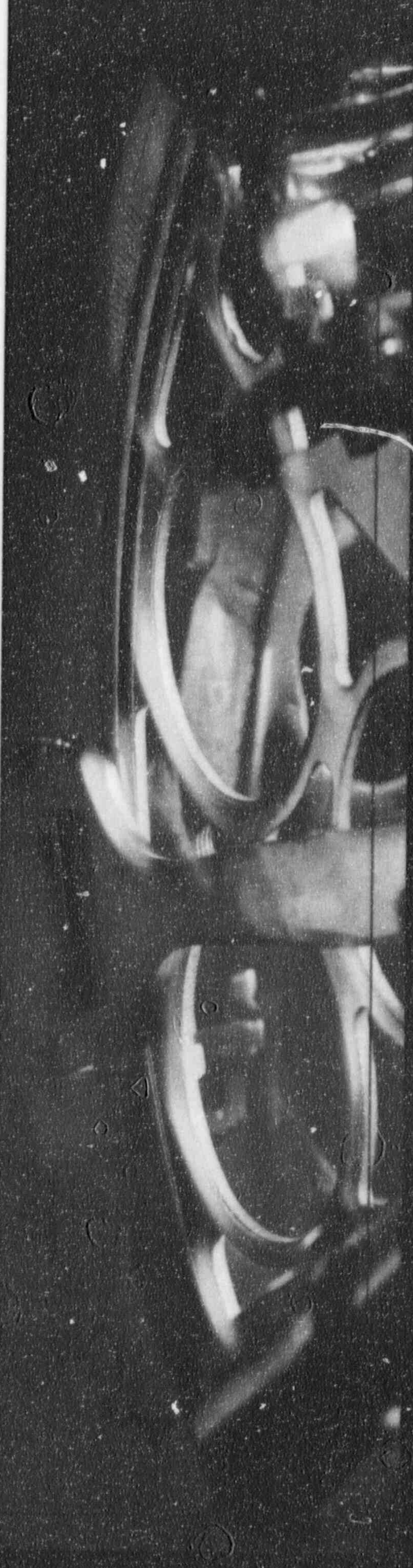
Still, in spite of the good results in 1995, there is work ahead of us. We remain committed to being the best by the year 2000. To do that, we must stick to our course, developing human resources with the necessary skills and abilities, becoming a low-cost and low-price provider, and identifying and exploiting new markets, new opportunities.

Because we have set a high standard for ourselves — that of being the best — I think we can look back at 1995 with enormous pride and a well earned sense of achievement, but perhaps not with complete satisfaction. I think we can look back with complete satisfaction only when we can also look back and see the rest of the industry — following us to be the best.

Sincerely,

Larry D. Haab

Larry D. Haab
Chairman, President, and Chief Executive Officer
February 15, 1996



1995: Another Step Toward Being the Best by the Year 2000

Last November, the Wall Street Journal quoted a bond analyst saying,

'There are now two types of utilities: Those having no upside, and those having only downside.'

Sorry, but he'd better make that three types of utilities.

For Illinova, 1995 was an exceptional year.

Earnings per share for the year were \$1.96. However, that figure includes a one-time expense of \$.30 per share, recorded in the fourth quarter, for our enhanced retirement and severance programs, as well as a \$.05 per share charge for the premium for redeeming IP preferred stock in December. Without those expenses, earnings per share for 1995 would have been \$2.31, a nearly 15-percent increase over the earnings per share from operations in 1994.

In 1995, we also maintained our policy of raising common stock dividends in step with our earnings growth. In December, the Illinova Board of Directors voted to increase dividends 12 percent to \$1.12 on an annualized basis beginning with the February 1, 1996, payment.

Even after raising the dividend, our dividend payout level remains at approximately 50 percent of earnings. We estimate this is the level at which we can sustain payments and still allow maximum flexibility to meet the challenges presented by the rapidly changing electric and natural gas utility industry.

In our industry, Illinova is unique for its ability in recent years to grow earnings at a double-digit rate and to make similar increases to its dividend while still maintaining a strong financial position.

Electric Sales Move Forward Modestly

Illinois Power, Illinova's electric and natural gas utility, had higher electric sales in 1995. The 2-percent increase, though, was modest compared to the 6-percent rise a year earlier. The increase in 1995 sales was led by strong growth in the commercial segment, where kilowatt-hour sales were up more than 8 percent, and the residential segment, where sales climbed almost 5 percent. These results received a boost from unusually warm weather during the third quarter.

Electric sales to the industrial segment, meanwhile, remained virtually flat as growth in the regional economy leveled off after two years of solid expansion.

Natural gas sales to commercial and residential customers declined nominally in 1995, 0.5 percent and 0.8 percent, respectively. But these results were offset by a better than 9-percent increase in therms sold to industrial customers (excluding gas transported for others).

WE ARE NOW POSITIONED AS A GROWTH STOCK

DORHN GANSON,
Shift Technician, Havana Power Station

"I L' (E THE OPPORTUNITY TO BROADEN MY SKILLS. IT OPENS LOTS OF DOORS."

JEFF KOUSKI,
Refueling Project Manager, Clinton Power Station

"WE'RE USING MORE OF OUR OWN PEOPLE TO CONDUCT OUTAGES, AND WE'RE DEFINITELY MORE INTERESTED AND MOTIVATED."

COST MANAGEMENT CONTINUES TO EXCEL

Several years ago we mapped out a strategy to maintain solid earnings growth, despite the twin pressures of relatively slow growth in our utility territory and increasing hostility to rate increases from regulators and, of course, customers. Our strategy is three-fold, emphasizing human resources, aggressive cost management, and market expansion. As the benefits from cost management begin to diminish from natural limitations, the benefits from our market expansion efforts will grow to take their place.

In 1995, Illinova saw substantial benefits from its early efforts to trim costs. Perhaps the best example of this is last spring's refueling outage at Clinton Power Station.

Clinton replaced one-third of the fuel bundles in its reactor and completed an aggressive maintenance schedule in just 49 days, 35percent fewer than were necessary for its previous outage. Thanks to the shorter outage duration, the plant cut its outage expenditures by nearly a fifth.

The Clinton Power Station's extraordinary — and successful — efforts to trim costs did not come at the expense of efficiency or safety. In August, the Nuclear Regulatory Commission issued its latest Systematic Assessment of Licensee Performance in which it gave Clinton all 'excellent' and 'good' marks. In its report, the NRC boosted Clinton's rating for maintenance from good to excellent.

Clinton's outage performance was a company record, but our Havana plant did Clinton one better by setting a world record. The production team at the Havana Power Station started Unit 6 for the 2,500th time, a world record for coal-fired boilers of its size and type.

In all, the efforts to cut costs while maintaining high efficiency and excellent customer service reduced year-to-year O&M expenses by 3 percent excluding 1995's refueling outage at Clinton.

WHERE WE STAND ON JANUARY 1, 1996

After watching Illinova turn in two consecutive years of exceptional performances, investors who are familiar with our industry's history of conservative growth may be tempted to think that the best is now behind us. We couldn't disagree more.

We began 1995 with strong momentum, excellent cash flows, superior cost management, improving customer service, accelerating re-engineering, aggressive marketing, and growing independent subsidiaries. We finished 1995 exactly as we started — only better.

We begin 1996 poised to match and then surpass our 1995 performance, and we explain how we will do that in the following pages.

MAKING OUR TRADITIONAL BUSINESS BETTER

CRYSTAL ROSS-SMITH
Customer Relations Manager, East St. Louis

Several years ago, we recognized that the ground was shifting under our industry and that before it was finished shifting — if ever — the nature of our business would be dramatically different.

In this new industry, familiar ways of doing things will be replaced by new and difficult challenges. Regulated monopolies? Gone. Rate base, rate-of-return ratemaking? Gone. Friendly exchanges of technical and marketing ideas and data? Gone.

In their place: competition.

We're not there yet, not completely, but the movement in that direction is inexorable and it is picking up speed.

To prepare ourselves for the day when we must sink or swim in the free marketplace, we developed a model of the energy services company of the future — low-cost and low-price, opportunistic, entrepreneurial, customer-focused, fast, and flexible. We also created a vision:

To meet customers' energy and related service needs better than any other. *To be the best by the year 2000.*

We are making outstanding progress toward making ourselves into that model company and achieving that vision.

MAKING EVERY DOLLAR COUNT

Reducing the amount of money we spend to conduct our business is one way to increase shareholder value, but Illinova is taking cost reduction a step further.

Shareholder value-added, or SVA, is a financial performance measure that helps ensure that every dollar we spend achieves the maximum return for our shareholders by focusing our resources squarely on greater growth and more efficient asset management. We've developed three principal strategies for increasing our SVA. First, we will make decisions that grow economically profitable business. Second, we will invest more in existing businesses with higher rates of return. And third, we will reduce investments in projects that return less than our cost of capital.

SVA eventually will guide the disposition of every dollar at Illinova. This focus on shareholder value-added has been the springboard for outstanding financial performances at other large companies, and we expect nothing less than that at Illinova.

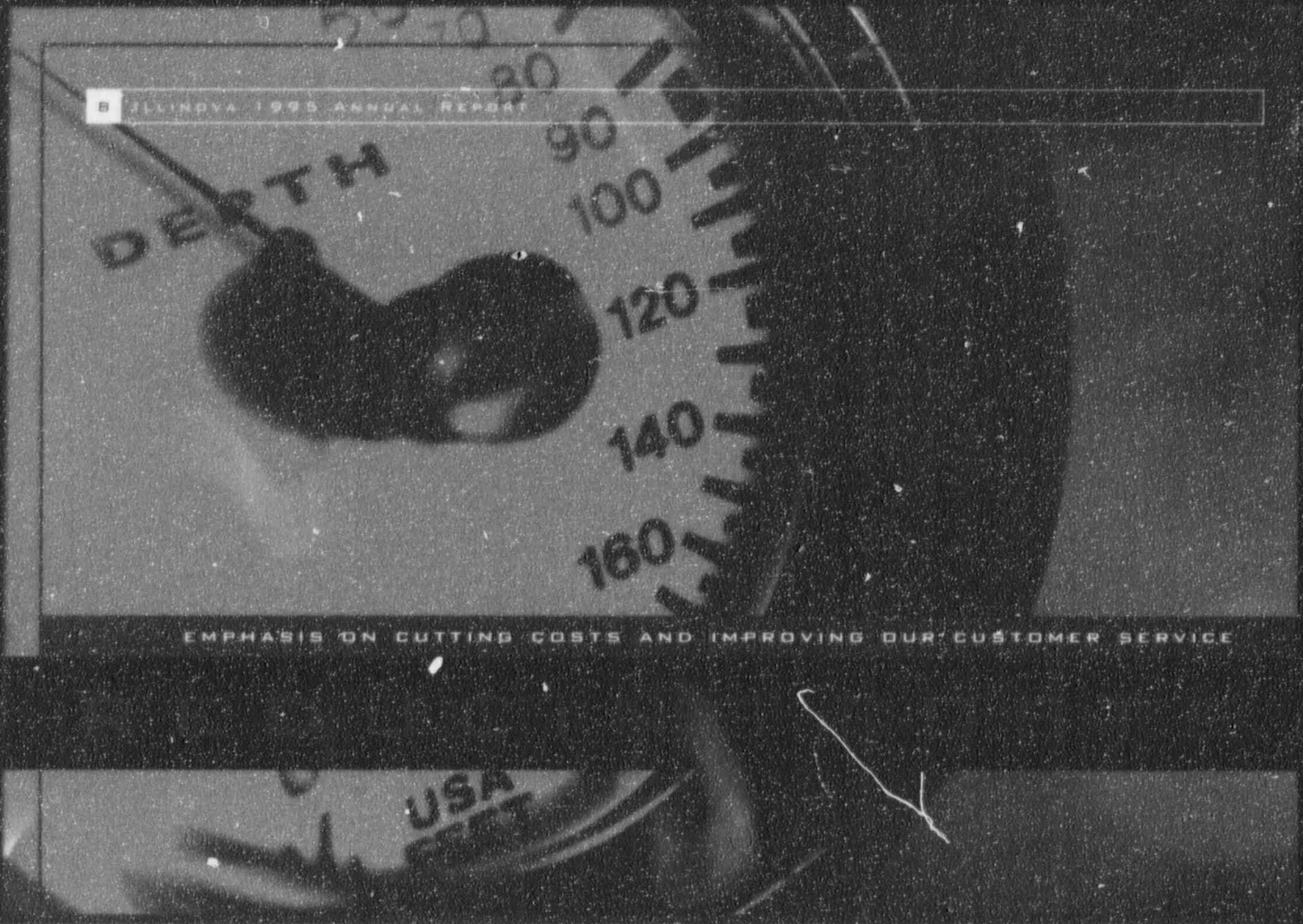
CUSTOMER SERVICE GETS RADICAL RE-ENGINEERING

In 1995, Illinois Power rolled out major portions of its ambitious project to re-engineer its business. The benefits — and challenges — of this project will emerge clearly in 1996.

Among the many steps we're taking to improve our customer service is the complete overhaul of our area offices.

"OUR CUSTOMERS REALLY APPRECIATE THE ONE-ON-ONE CONTACT WITH ILLINOIS POWER, AND IT'S A GREAT OPPORTUNITY FOR US TO GET TO KNOW THEM BETTER."

ILLINOIS POWER SERVICE TERRITORY



EMPHASIS ON CUTTING COSTS AND IMPROVING OUR CUSTOMER SERVICE

These offices, 32 in all, were scattered throughout our service territory and served mainly as bill collection centers. But because they served only a small percentage of our customers, we closed the offices and made arrangements for local merchants to collect bill payments for us. Now, instead of having to go to an Illinois Power office during daytime business hours, customers can go to any one of approximately 100 designated local retailers with extended hours. This new arrangement should be good for customers as well as for Illinois Power. An additional benefit is that the managers and other staff from many of those closed offices are now serving as ombudsmen and key parts of our sales force, visiting customers and local officials and acting generally as representatives at large for Illinois Power.

At the other end of the spectrum, we have customers who not only do not wish to pay their bills in person, but also find regular mail unsatisfactory. For them, we're putting electronic funds transfer, or EFT, through its paces. If the pilot EFT programs run smoothly, Illinois Power will offer EFT to all customers.

We're also implementing some innovative work practices. For example, some maintenance and construction crews will be driving directly to job sites, rather than first reporting to an Illinois Power facility and then driving to the site, in some cases saving more than an hour each day.

We're experimenting electronically, as well. In 1996, some of our trucks will be equipped with terminals that employees can use to record the work as soon as it's done, giving dispatchers real-time information to help send the crews to other jobs. We've also created a Central Dispatch Center to help respond to our customers' needs more efficiently and quickly.

PLANTS CHANGE, TOO

Our vision to be the best, as well as competitive pressures from neighboring utilities with low generation costs and from independent power producers with newer technology and lower O&M expenses, motivated us to undergo significant re-engineering of our own generating system.

The first major changes were made as a result of the effect our Clean Air Act compliance strategy had on plant operations. We closed down or sharply cut back operations at smaller units with high costs and emissions levels or plants with low production levels.

Next we tackled the structure of our fossil system, realigning major functions into three groups: plants, plant services,

and business center. These latter changes were made possible by a labor agreement whose centerpiece is efficiency, flexibility, teamwork, and customer service.

Now, using 20-percent fewer employees, the plants are leading the way by operating with empowered employees on multi-disciplinary teams, competitive maintenance forces freed from traditional craft and department boundaries, working supervisors, and engineering that is in the field, closer to the work.

At Clinton, our re-engineering efforts over the past 18 months have led to improved operations, including lower costs and an approximately 10-percent reduction in staff.

In the last two months of 1995, we conducted a diagnostic review of the plant. Based on the results of that diagnostic, in 1996 and beyond we expect to make significant improvements in our maintenance, modification, and commitment systems. In maintenance, we will continue to identify ways to make our activities more efficient and more cost-effective. We will also streamline the analysis and simplify the administrative procedures that go into our modification program, which involves the design of new or replacement equipment for the plant.

The third major area we'll seek to improve is our commitment systems. Clinton and all other nuclear facilities work with the Nuclear Regulatory Commission and other agencies to develop commitments — commitments for performance, maintenance, etc. Now, working with these agencies, Clinton is reviewing the administration of these commitments, as well as the commitments themselves, retaining those that add value to our operation of the plant and eliminating those of lesser value.

ENERGY CHOICE 2000 LEADS REGULATORY REFORM EFFORT

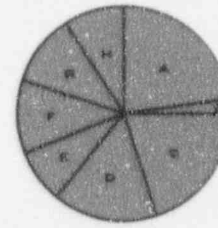
Illinois Power has been particularly aggressive in its efforts to reform the regulations and laws governing Illinois utilities. In the first half of the year, we proposed forming a generating division or company that would own all of Illinois Power's generating assets. We've also proposed abandoning the Uniform Fuel Adjustment Clause, which would provide incentives for utilities to better manage their fuel costs.

These efforts were ad hoc proposals, offering incremental improvements to a regulatory system decades old and ill-suited to accommodate an industry running headlong into competition.

Last spring, however, Illinois Power introduced legislation to make sweeping and comprehensive changes to the way Illinois electric utilities are regulated. The plan, called Energy Choice 2000, is unique among competing proposals within the state — and even nationwide — because it is comprehensive, it balances the interests of energy suppliers and their customers, and it was crafted in cooperation with representatives from large industrial customers throughout the state and supported by an alliance of more than 4,000 medium and large manufacturing companies.

Energy Choice 2000 offers alternative regulation, competitive services, direct access to suppliers, the formation of electric generating companies, recovery of transition costs, and a streamlined regulatory process. With Energy Choice 2000, Illinois Power hopes to clear the way for competing effectively in the emerging energy services marketplace.

1995 DISPOSITION OF REVENUE



A. Operations and maintenance — 22%
B. Enhanced retirement — 2%
C. Fuel and purchased power — 20%
D. Taxes — 16%
E. Gas purchased — 9%
F. Depreciation and amortization — 11%
G. Interest and other — 11%
H. Net income available to common stock — 9%

EXPANDING OUR UNIVERSE

Last November in a page 1 article titled 'New Blood Needed? Power Companies Look Outside for Executives,' the Wall Street Journal *noted*

"RALPH F. TSCHANTZ SOLD TIDE, PEPSI AND THEN KEEBLER COOKIES. NOW HE IS SELLING KILOWATT-HOURS AT ILLINOVA CORP., DECATUR, ILL."

UTILITY MARKETING: OXYMORON NO MORE

With the exception of a handful of large industrial companies, Illinois Power's customers aren't free to choose their energy services supplier. However, that will change sometime in the next decade, perhaps sometime in the next several years.

We have been anticipating the advent of choice in our industry for several years and recently we accelerated our efforts to adapt to the change. Our marketing organization is surveying customers to identify needs and discover opportunities, putting employees through rigorous sales training, assigning account executives to specific customer segments — all fairly ordinary marketing activities, except in the utility industry.

One illustration of our new approach is our research into a concept called "premise management." Years ago we conceived a time when, instead of purchasing kilowatt-hours and therms, customers would purchase something loosely defined as "energy comfort" — perhaps a package offering a consistent indoor temperature, appliances that are monitored and serviced, and other energy-related services. Whatever shape the future of energy services takes, Illinois Power is preparing to be the provider of choice.

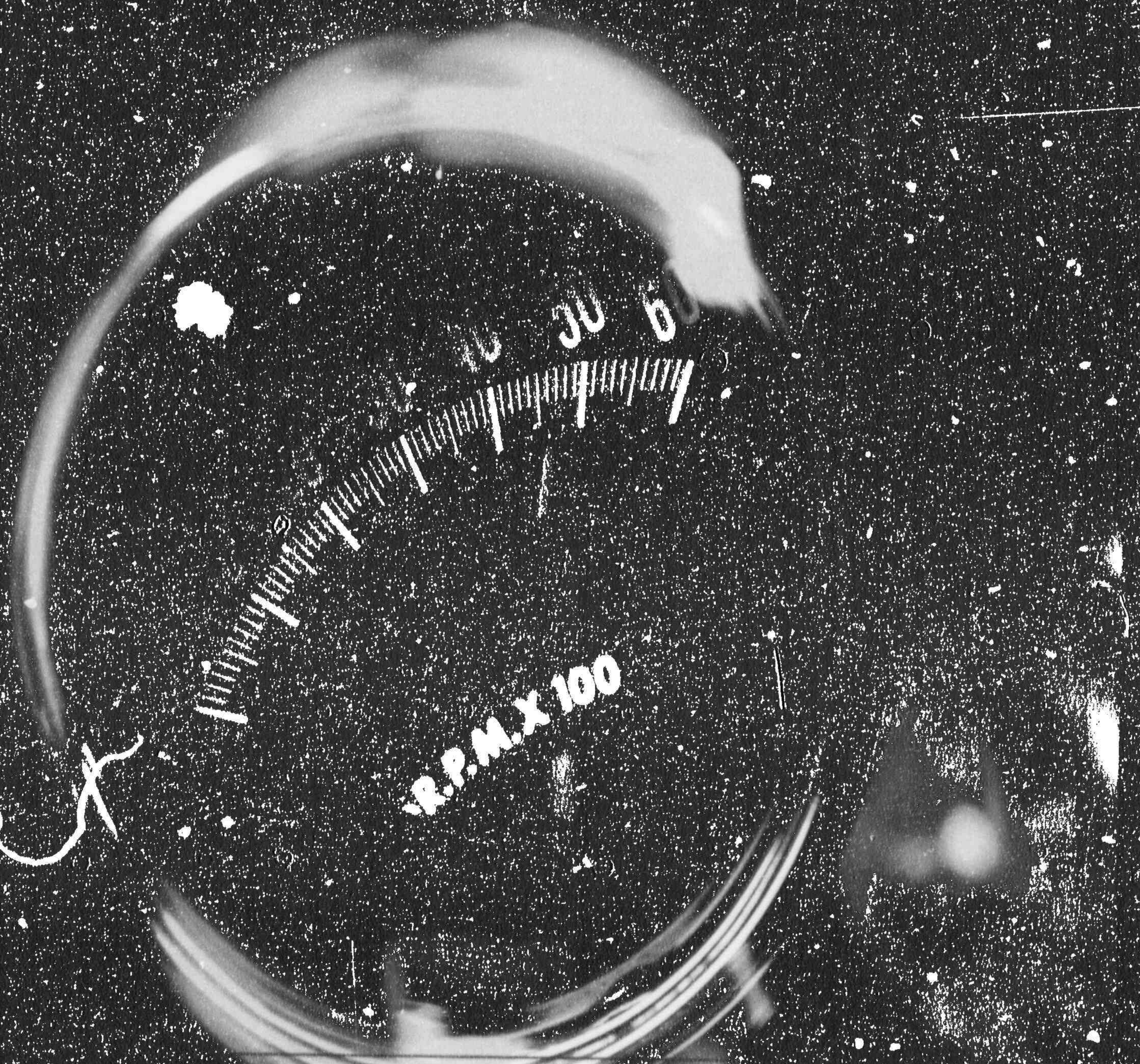
ILLINOVA ENERGY SERVICES RESPONDS TO CUSTOMER NEEDS

In a further effort to expand its markets, Illinova launched the Energy Services division to seek opportunities inside as well as outside our traditional service territory.

Illinova Energy Services is going beyond the delivery of kilowatt-hours and therms to provide customers with custom, turnkey solutions to their energy-related needs. Concentrating on the commercial and industrial customer markets, Illinova Energy Services is offering engineering, construction, operations and maintenance, and financing services related to lighting, motors, energy management systems, and heating and cooling systems at customers' facilities.

Commercial and industrial customers faced with increasingly constrained capital and human resource budgets are looking for alternate ways to manage their energy-related needs. This presents Illinova Energy Services with a significant opportunity for growth.

We have accelerated our efforts to adapt to — and lead — change



"COMPANIES ARE GOING TO HAVE TO COMBINE TO SURVIVE. THERE ARE 150 COMPANIES IN THE INDUSTRY, AND THERE SHOULD BE 50."

Edward Tirello, an analyst at NatWest Securities who predicts at least one merger announcement per month, quoted in the August 5, 1995, St. Louis Post-Dispatch.

BOB FLIDER
Regulatory Reform Project Manager, Financial Business Group

MERGERS COMMONPLACE, BUT NOT COMPULSORY

Years ago when we first began talking about competition in the electric utility industry, we pointed to the airline, trucking, telecommunications, natural gas, and banking industries as examples of what to look forward to. In each of those industries we saw an explosion of product offerings and a decline in prices, as well as a spate of mergers and acquisitions. For instance, of the 50 less-than-truckload trucking companies operating in 1967, fewer than 10 remained in 1990.

In 1995, consolidation in the electric utility industry began in earnest. Some mergers were far flung, as when Texas Utilities Co. purchased Eastern Energy, a state-owned Australian electricity distributor. Others were closer to home: Union Electric, headquartered in St. Louis, announced it would merge with Springfield, Ill.-based CIPSCO, two utilities whose service territories adjoin our own.

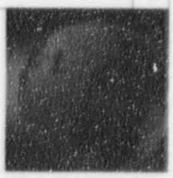
One of the traditional reasons for merging with or acquiring another company is the prospect of creating substantial savings from eliminating duplicate functions. This is a valid consideration. However, our re-engineering efforts over the past few years will produce cumulative savings over the next 10 years of more than $600 million. This relative level of O&M savings exceeds that projected for virtually every one of the more than 20 utility mergers that have already been announced or completed in our industry.

We believe that the real benefit of a merger is its adding significant value to our primary strategy of becoming a premier energy services company.

ILLINOVA GENERATING GOES GLOBAL

Two years ago, Illinova announced the formation of a subsidiary to operate in the independent power industry. Today, Illinova Generating Company has investments totaling more than 300 megawatts of electric generating capacity stationed in seven countries on four continents. In the last half of 1995 alone, the company closed deals in the U.S., China, Jamaica, and Peru.

"WE'RE TRYING TO REFORM STATUTES AND REGULATORY LAWS, AND TO DO THAT, ALL OF THE STAKEHOLDERS MUST ALSO BE PARTNERS IN THE REFORM."



"THIS IS EXCITING AND CHALLENGING WORK BECAUSE WE'RE DOING SOMETHING DIFFERENT EVERY DAY."

PAUL WOOLARD
Finance Manager, Illinova Generating

Despite its relatively short existence, the independent power producer industry is crowded with players. Illinova Generating is keeping its principal focus on three regions — Latin America, the Far East, and the U.S. — and it is distinguishing itself from competitors by its small but broadly experienced staff. Illinova Generating's employees have significant technological experience in natural gas and coal generation and extensive expertise in orchestrating difficult and complex transactions.

The subsidiary's staff has set a goal to be among the top 25 independent power producers in the world by the year 2000, and they are well on their way to achieving that goal.

By limiting its investments to projects in which the risk-adjusted return is greater than that offered by similar investments in Illinois Power's business, Illinova Generating expects to begin making contributions to Illinova's bottom line as soon as 1997.

ILLINOVA POWER MARKETING, INC.

Last summer, Illinova Power Marketing, our energy marketing subsidiary, began executing wholesale electric transactions. Later, IPMI established a presence in the natural gas market by taking a 50-percent ownership and management position in Omaha-based Tenaska Marketing Ventures, a firm whose natural gas sales in 1995 exceeded $360 million. In short, IPMI has already positioned itself to be a strong energy and energy services marketer in the Western United States.

In 1996 and beyond, IPMI will significantly expand its wholesale electric business and will begin marketing energy and energy-related services to retail customers throughout the United States.

In January 1996, IPMI announced the formation of a consortium with North American Energy Services and Utility Network Services that will bring a utility resource management service — covering electric, gas, water, and waste — to industrial and commercial customers under the service mark SourceCom. This service will include real-time measurement and monitoring of utility usage and two-way interactive communications systems to help the customer become a more sophisticated utility resource consumer. SourceCom℠ will also provide billing consolidation, two-way paging, real-time wireless messaging or dispatching, and security monitoring. The first SourceCom℠ customers are the Hospital Association of Northern and Central California's 200 member hospitals.

IPMI will continue to promote deregulation of the electric utility markets and will work closely with other Illinova subsidiaries to expand the portfolio of value-added energy services offered to customers.

ILLINOVA'S INCREASINGLY GLOBAL REACH:

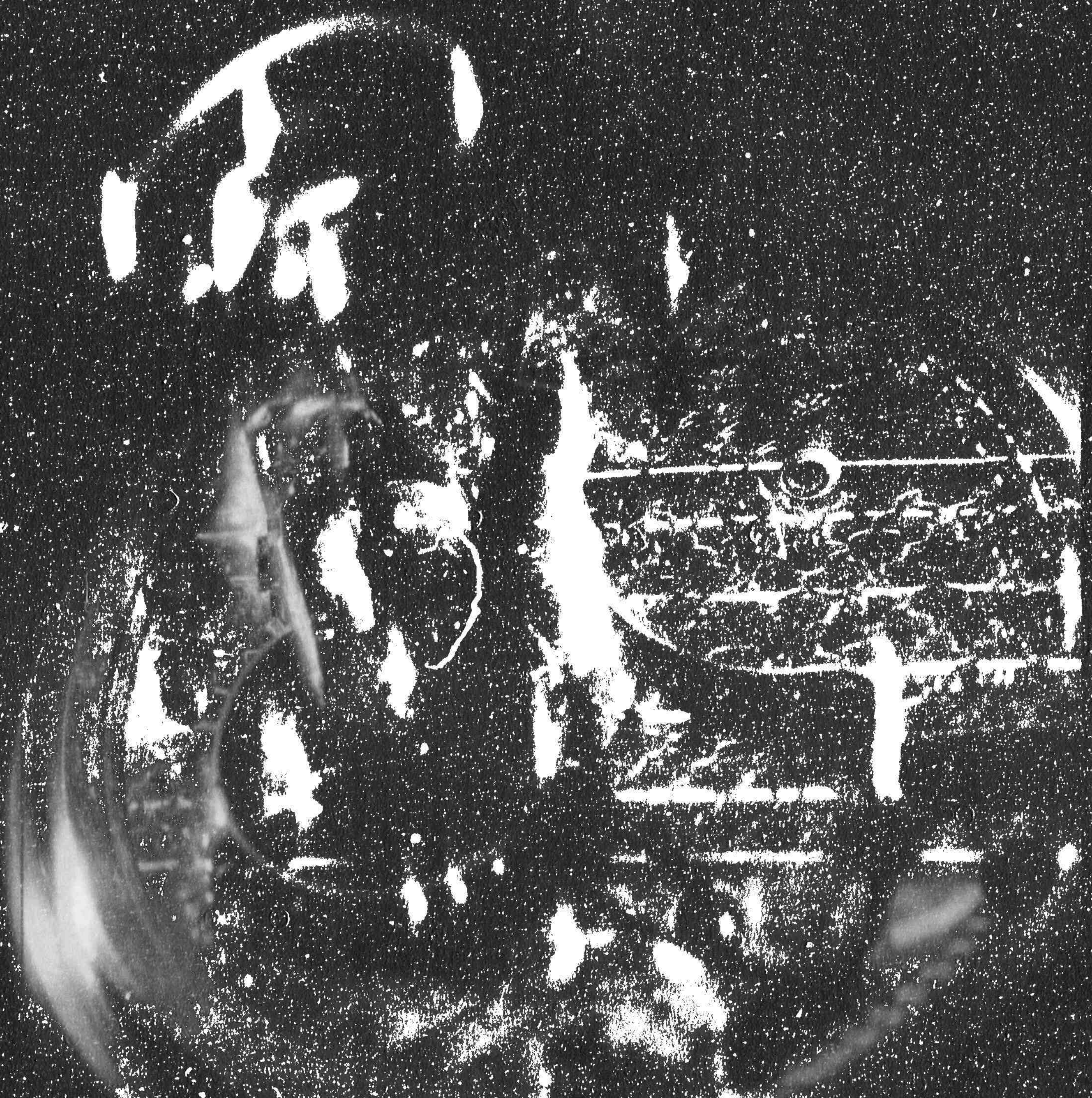
Headquarters:

DECATUR, ILL.
LONGITUDE 89° W,
LATITUDE 40° N

Latest Deal:

XINCHANG, CHINA
LONGITUDE 121° E,
LATITUDE 29° N,
OR ROUGHLY HALF A WORLD AWAY.

PUTTING MORE RESPONSIBILITY AND AUTHORITY IN THE HANDS OF EMPLOYEES



POWER TO THE PEOPLE

It's a delightful irony that one of the catchphrases of the '60s counter-culture — Power to the people — should find itself embraced, a generation later, by an electric and gas utility, the epitome of corporate conservatism. It's not quite so ironic as it appears, though, because Illinova, while not exactly counter-culture, is increasingly something very different from the traditional utility.

No one at Illinova — no one we're aware of, anyway — uses the slogan "Power to the people." But regardless of how we describe it, that is exactly what we're doing: giving power to the people, to our employees. We're doing it through empowerment and through dozens of other sma[illegible], unnamed, unheralded, inconspicuous ways, all with the goal of putting more responsibility and authority in the hands of the people closest to the work.

Getting empowerment to work requires flattening the organization. When decisions are being made at the front line, managers who traditionally made those decisions are freed to do other things. The result is a structure that requires far fewer traditional managers and that consequently has far fewer "career tracks" — which is another way of saying there are fewer carrots to motivate employees.

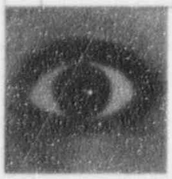
We're replacing those old carrots with such new ones as broader salary bands. By reducing the number of salary bands from 16 to just four, we've created plenty of room within each band for employees to continue increasing their financial rewards without necessarily changing jobs. The new salary bands also allow employees to move within the company to explore different interests or to broaden their base of experience. This system obviously is good for employees, and it's also good for the company because it encourages employees to gain broad experience and it also rewards specialists who otherwise might have felt forced to go into management to advance their fortunes.

TERRY FIRNKES, *Service Fitter, Belleville*

"COMMUNICATIONS AND COOPERATION ARE THE KEYS TO OUR SUCCESS."

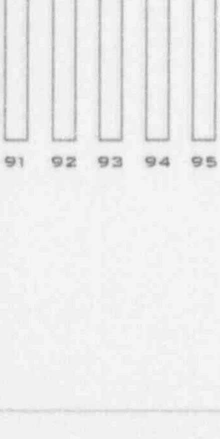
DOF TOLIVER, *Lineman, Champaign*

"WE'RE ALL WORKING HARD TO MAKE THIS NEW SYSTEM WORK."



PREFERRED DIVIDEND REQUIREMENT
(millions of dollars)

TOTAL INTEREST EXPENSE
(millions of dollars)



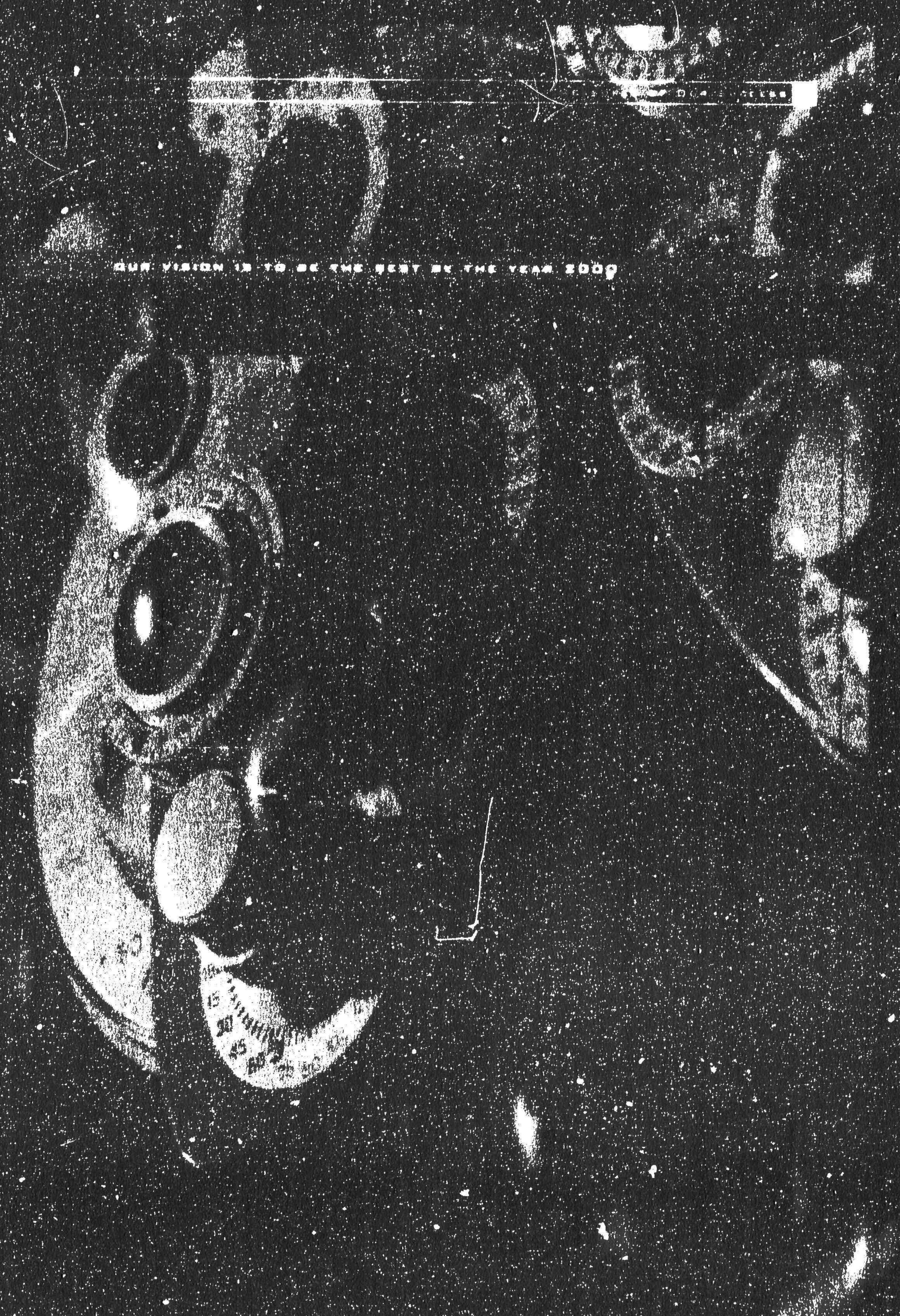
We're also placing a strong emphasis on teamwork, and we're trying to facilitate it in a number of ways. One way is by establishing teamwork as a basis for part of our employee incentive compensation program. Another is that we're using Full Circle Feedback™, a tool that, unlike the traditional top-down review, allows team members to receive input on their work from each other, from the bottom up, and from the top down.

We're dissolving the barriers between managers and line employees, and we're also dissolving the barriers between departments.

Many tasks at Illinova require input from more than one department or even more than one business group. Whether it's linemen working with gas crews to install utility service in a new subdivision or Financial Services working with Public Affairs to publicize an increase in stock dividends, we're breaking down the walls between employees who need to work with each other to get the job done fast, cost-effectively, and right.

These new ways of doing things redefine the traditional relationship between companies in our industry and their employees. Utilities customarily provided relatively steady, predictable work. But Illinova has ambitions higher than being steady and predictable. We expect great things from our employees. In return, we offer employees the chance to grow through training and cross-functional experience, to become owners of the company through 401(k) matches, and to receive healthy incentive compensation payouts.

In short, we recognize that for Illinova to meet its commitment to be the best, our employees must also be the best. To us, the best employees are the ones who are multi-skilled, flexible, competitive-spirited, and team-oriented, and we certainly are trying to attract and retain employees who are all of those things. We will do whatever it takes to build and retain a work force that is committed and prepared to be the best by the year 2000.


OUR VISION IS TO BE THE BEST BY THE YEAR 2000

ILLINOVA CORPORATION

RESPONSIBILITY FOR INFORMATION

The condensed consolidated financial statements in this summary annual report were derived from the consolidated financial statements that appear in the Appendix to the proxy statement for the 1996 annual meeting of shareholders. Management is responsible for preparing the consolidated financial statements and for maintaining and monitoring Illinova's system of internal accounting controls. The consolidated financial statements are in conformity with generally accepted accounting principles applied on a consistent basis and include amounts based on management's best estimates and judgments. Management also prepared the other information in the annual report and is responsible for its accuracy and consistency with the consolidated financial statements. In the opinion of management, the consolidated financial statements fairly reflect Illinova's financial position, results of operations, and cash flows.

Illinova believes its accounting and internal accounting control systems provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that the financial records are reliable for preparing the consolidated financial statements.

The consolidated financial statements have been audited by Illinova's independent accountants, Price Waterhouse LLP, in accordance with generally accepted auditing standards. Such standards include the evaluation of internal accounting controls to establish a basis for developing the scope of the examination of the consolidated financial statements. In addition to the use of independent accountants, Illinova maintains a professional staff of internal auditors who conduct financial, procedural and special audits. To assure their independence, both Price Waterhouse LLP and the internal auditors have direct access to the Audit Committee of the Board of Directors.

The Audit Committee is composed of members of the Board of Directors who are not active or retired employees of Illinova. The Audit Committee meets with Price Waterhouse LLP and the internal auditors and makes recommendations to the Board of Directors concerning the appointment of the independent accountants and services to be performed. Additionally, the Audit Committee meets with Price Waterhouse LLP to discuss the results of their annual audit, Illinova's internal accounting controls and financial reporting matters. The Audit Committee meets with the internal auditors to assess the internal audit work performed, including tests of internal accounting controls.

Larry D. Haab

Larry D. Haab
Chairman, President, and Chief Executive Officer

Larry F. Altenbaumer

Larry F. Altenbaumer
Chief Financial Officer, Treasurer, and Controller

ILLINOVA CORPORATION

REPORT OF INDEPENDENT ACCOUNTANTS

PRICE WATERHOUSE LLP

TO THE BOARD OF DIRECTORS
OF ILLINOVA CORPORATION

We have audited, in accordance with generally accepted auditing standards, the consolidated financial statements of Illinova Corporation and its subsidiaries as of December 31, 1995 and 1994, and for each of the three years in the period ended December 31, 1995, appearing in the Appendix to the proxy statement for the 1996 annual meeting of shareholders of the Corporation (which statements are not presented herein); and in our report dated February 2, 1996, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated financial statements appearing on pages 19 through 22, when read in conjunction with the consolidated financial statements from which it has been derived, is fairly stated in all material respects in relation thereto.

Price Waterhouse LLP

Price Waterhouse LLP
St. Louis, Missouri
February 2, 1996

ILLINOVA CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Millions of dollars except per share amounts)

For the Years Ended December 31,	1995	1994	1993
OPERATING REVENUES			
Electric	$ 1,252.6	$ 1,177.5	$ 1,135.6
Electric interchange	116.3	110.0	130.8
Gas	272.5	302.0	314.8
Total	1,641.4	1,589.5	1,581.2
OPERATING EXPENSES AND TAXES			
Fuel for electric plants	273.9	266.6	235.1
Power purchased	59.5	52.6	78.5
Gas purchased for resale	138.8	172.4	187.3
Other operation and maintenance	359.7	349.6	370.0
Enhanced retirement and severance	37.8	—	—
Depreciation and amortization	186.5	179.3	172.9
General taxes	135.0	130.3	125.6
Income taxes	125.8	118.3	106.5
Total	1,317.0	1,269.1	1,275.9
Operating income	324.4	320.4	305.3
OTHER INCOME AND DEDUCTIONS			
Allowance for equity funds used during construction	—	3.8	2.7
Disallowed Clinton costs	—	—	(271.0)
Income tax effects of disallowed costs	—	—	70.6
Miscellaneous-net	(7.1)	(9.1)	(3.0)
Total	(7.1)	(5.3)	(200.7)
Income before interest charges	317.3	315.1	104.6
INTEREST CHARGES			
Interest expense	148.0	143.9	164.9
Allowance for borrowed funds used during construction	(6.0)	(5.5)	(4.5)
Preferred dividend requirements of subsidiary	23.7	24.9	26.1
Total	165.7	163.3	186.5
Net income (loss)	151.6	151.8	(81.9)
Carrying amount over (under) consideration paid for redeemed preferred stock of subsidiary	(3.5)	6.4	—
Net income (loss) applicable to common stock	$ 148.1	$ 158.2	$ (81.9)
Earnings (loss) per common share	$ 1.96	$ 2.09	$ (1.08)
Cash dividends declared per common share	$ 1.03	$ .65	$ .40
Cash dividends paid per common share	$ 1.00	$ .80	$ .80
Weighted average common shares	75,643,937	75,643,937	75,643,937

See the accompanying Condensed Notes to Condensed Consolidated Financial Statements

ILLINOVA CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Millions of dollars)

	December 31, 1995	December 31, 1994
ASSETS		
Plant and property	$ 6,814.9	$ 6,629.2
Less — accumulated depreciation	2,251.7	2,102.7
Net utility plant	4,563.2	4,526.5
Nuclear fuel under capital lease	100.9	117.7
Investments and other assets	65.8	37.4
Cash and cash equivalents	11.3	50.7
Other current assets	389.3	388.7
Deferred charges	479.3	455.7
Total	$ 5,609.8	$ 5,576.7
CAPITAL AND LIABILITIES		
Common stock	$ 1,415.8	$ 1,414.9
Deferred compensation — ESOP	(18.4)	(23.5)
Retained earnings	129.6	58.8
Preferred stock of subsidiary	125.6	224.7
Mandatorily redeemable preferred stock of subsidiary	97.0	133.0
Long-term debt of subsidiary	1,739.3	1,946.1
Total capitalization	3,488.9	3,754.0
Current liabilities	747.5	530.4
Deferred credits and other noncurrent liabilities	1,373.4	1,292.3
Total	$ 5,609.8	$ 5,576.7

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of dollars)

	For the Years Ended December 31, 1995	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ 151.6	$ 151.8	$ (81.9)
Items not requiring (providing) cash, net	260.9	209.4	437.7
Changes in assets and liabilities	.7	(92.6)	13.9
Net cash provided by operating activities	413.2	268.6	369.7
CASH FLOWS FROM INVESTING ACTIVITIES			
Construction expenditures	(203.3)	(184.4)	(270.5)
Other investing activities	(34.9)	(19.7)	(8.2)
Net cash used in investing activities	(238.2)	(204.1)	(278.7)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends on common stock	(75.6)	(60.5)	(60.5)
Retirement of bonds and other debt of subsidiary	(353.3)	(580.3)	(1,180.9)
Issuances of bonds and other debt of subsidiary	209.5	622.6	1,190.0
Other financing activities	5.0	(5.5)	(38.4)
Net cash used in financing activities	(214.4)	(23.7)	(89.8)
Net change in cash and cash equivalents	(39.4)	40.8	1.2
Cash and cash equivalents at beginning of year	50.7	9.9	8.7
Cash and cash equivalents at end of year	$ 11.3	$ 50.7	$ 9.9

See the accompanying Condensed Notes to Condensed Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT)

(Millions of dollars)

For the Years Ended December 31,	1995	1994	1993
Balance (deficit) at beginning of year	$ 58.8	$ (64.6)	$ 41.0
Net income (loss) before dividends	175.3	176.7	(55.8)
	234.1	112.1	(14.8)
Less-			
Dividends-			
Preferred stock of subsidiary	23.6	11.1	20.1
Common stock	77.4	48.6	29.7
Plus-			
Carrying amount over (under) consideration paid for redeemed preferred stock of subsidiary	(3.5)	6.4	—
	(104.5)	(53.3)	(49.8)
Balance (deficit) at end of year	$ 129.6	$ 58.8	$ (64.6)

See the accompanying Condensed Notes to Condensed Consolidated Financial Statements

CONDENSED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

This 1995 Summary Annual Report to Shareholders provides an overview of the consolidated financial position and results of operations of Illinova Corporation and its subsidiaries. More detailed financial information appears: 1) within the Illinova Proxy Statement mailed with this Summary Annual Report to all common shareholders of record at the close of business on February 12, 1996, and 2) within the Illinois Power Company Information Statement mailed with this Summary Annual Report to all Illinois Power Company preferred shareholders of record at the close of business on February 12, 1996, in accordance with the regulations of the Securities and Exchange Commission.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION The consolidated financial statements include the accounts of Illinova, Illinois Power (IP), Illinova Generating Company (IGC) and Illinova Power Marketing, Inc. (IPMI). IP, the primary business and subsidiary of Illinova, is engaged in the generation, transmission, distribution, and sale of electric energy and the distribution, transportation, and sale of natural gas in the State of Illinois. IP's consolidated financial position and results of operations are currently the principal factors affecting Illinova's consolidated financial position and results of operations. IGC is a wholly owned subsidiary of Illinova that invests in energy-related projects and competes in the independent power market. IPMI is a wholly owned subsidiary of Illinova that is in the business of marketing energy and energy-related services to various customers outside the Illinois Power franchise territory.

REGULATION IP is subject to regulation by the Illinois Commerce Commission (ICC) and the Federal Energy Regulatory Commission (FERC) and, accordingly, prepares its consolidated financial statements based on the concepts of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," which requires that the effects of the ratemaking process be recorded. Accordingly, IP records various regulatory assets and liabilities to reflect the actions of regulators. Illinova's principal accounting policies are:

UTILITY PLANT The cost of additions to utility plant and replacements for retired property units is capitalized. Cost includes labor, materials, and an allocation of general and administrative costs, plus the cost of borrowed funds used for construction purposes and a reasonable rate on other funds when so used (AFUDC).

REGULATORY ASSETS Significant regulatory assets include deferred Clinton Power Station (Clinton) post-construction costs, unamortized losses on reacquired debt, recoverable income taxes and manufactured-gas plant site cleanup costs.

DEPRECIATION For financial statement purposes, IP depreciates the various classes of depreciable property over their estimated useful lives by applying composite rates on a straight-line basis.

REVENUE AND ENERGY COST IP records revenue for services provided but not yet billed. IP is allowed to recover fuel- related costs, purchased power and gas purchased from its customers pursuant to the electric fuel and purchased gas adjustment clauses.

INCOME TAXES Under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," deferred tax assets and liabilities are recognized for the tax consequences of transactions treated differently for financial reporting and tax return purposes, measured on the basis of the statutory tax rates.

NOTE 2 — CLINTON POWER STATION

IP owns 86.8% of Clinton, which was placed in service in 1987 and represents approximately 18% of IP's installed generation capacity. The investment in Clinton and its related deferred costs represented approximately 51% of Illinova's total assets at December 31, 1995. Clinton-related costs represented 34% of Illinova's total 1995 other operating, maintenance and depreciation expenses.

Ownership of an operating nuclear generating unit exposes IP to significant risks, including increased and changing regulatory, safety and environmental requirements and the uncertain future cost of closing and dismantling the unit. IP expects to continue to operate Clinton; however, if any unforeseen or unexpected developments prevent IP from doing so, Illinova and IP would be materially adversely affected.

NOTE 3 — COMMITMENTS AND CONTINGENCIES

DECOMMISSIONING AND NUCLEAR FUEL DISPOSAL COSTS IP is responsible for its ownership share of the costs of decommissioning Clinton and for spent nuclear fuel disposal costs. A liability for decommissioning costs is being accrued ratably over the expected service life of Clinton. IP is collecting future decommissioning costs through its electric rates based on an ICC-approved formula that allows IP to adjust rates annually for changes in decommissioning cost estimates.

MANUFACTURED-GAS PLANT SITES (MGP) IP is responsible for potential environmental impairment at 24 former manufactured- gas plant sites. Because of the unknown and unique characteristics of each site and uncertain regulatory requirements, IP is not able to determine its ultimate liability for remediation of the sites. IP recorded a liability of $76 million, representing its best estimate of the cost to remediate MGP sites for which it is responsible. A regulatory asset in the same amount has been recorded, reflecting management's expectation that these costs will be recovered from customers. IP is currently recovering MGP site clean-up costs from its customers as approved by the ICC.

NOTE 4 — SIGNIFICANT TRANSACTIONS

ENHANCED RETIREMENT In the fourth quarter of 1995, IP offered voluntary enhanced retirement and severance programs to its employees. The combined enhanced retirement and severance programs generated a pre-tax charge of $38 million against fourth quarter 1995 earnings and are expected to generate annual savings of approximately $36 million, beginning in 1996.

1994 GAS RATE ORDER On April 6, 1994, the ICC approved an increase of $18.9 million, or 6.1%, in IP's gas base rates.

REDEMPTION OF IP PREFERRED STOCK IP redeemed $95.3 million and $79.1 million (principal value) preferred stock and recorded the $(3.5) million and $6.4 million carrying amount over (under) consideration paid in equity and also included these amounts in net income applicable to common stock in December 1995 and December 1994, respectively.

DISALLOWED CLINTON COSTS In the third quarter of 1993, IP recorded a loss of $200 million, or $2.65 per share, net of income taxes, for the write-off of deferred Clinton post- construction costs as a result of a September 1993 Illinois Appellate Court decision.

BOARD OF DIRECTORS

RICHARD R. BERRY, *64 (1, 2, 5)*
Retired Executive Vice President and Director of Olin Corporation, Stamford, Conn. (diversified manufacturer concentrated in chemicals, metals and aerospace/defense products). *Elected 1988.*

LARRY D. HAAB, *58 (1, 4, 5)*
Chairman, President, and Chief Executive Officer of the Company, Decatur, Ill. *Elected 1986.*

DONALD E. LASATER, *70 (1*, 2, 5)*
Retired Chairman of the Board and Chief Executive Officer of Mercantile Bancorporation, Inc., St. Louis, Mo. (bank holding company). *Elected 1981.*

DONALD S. PERKINS, *68 (3*, 4)*
Retired Chairman of the Board and Chief Executive Officer of Jewel Companies, Inc., Chicago, Ill. (diversified retailer). *Elected 1988.*

ROBERT M. POWERS, *64 (2, 3, 4*)*
Retired President and Chief Executive Officer of A.E. Staley Manufacturing Company, Decatur, Ill. (grain and oil seed processor). *Elected 1984.*

WALTER D. SCOTT, *64 (1, 3, 4)*
Professor of Management and Senior Austin Fellow, J.L. Kellogg Graduate School of Management, Northwestern University, Evanston, Ill. *Elected 1990.*

RONALD L. THOMPSON, *46 (3, 4)*
Chairman and Chief Executive Officer of Midwest Stamping and Manufacturing Co. (manufacturer of automotive parts), based in Bowling Green, Ohio. *Elected 1991.*

WALTER M. VANNOY, *68 (2, 5*)*
Retired Chairman and Chief Executive Officer of Figgie International, Inc. (diversified company serving consumer, industrial, technical, and service markets worldwide), Willoughby, Ohio. *Elected 1990.*

(Left to right) Walter M. Vannoy, Marilou von Ferstel, Donald S. Perkins, Robert M. Powers, Larry D. Haab, Ronald L. Thompson, Vernon K. Zimmerman, Charles W. Wells, Richard R. Berry, Walter D. Scott, and John D. Zeglis. (Not pictured: Donald E. Lasater)

MARILOU VON FERSTEL, *58 (2, 3, 4)*
Executive Vice President and General Manager of Ogilvy Adams & Rinehart (public relations firm), Chicago, Ill. *Elected 1990.*

JOHN D. ZEGLIS, *48 (3, 4)*
Senior Executive Vice President - General Counsel, Government Affairs and Policy Development of AT&T, Basking Ridge, N.J. *Elected 1993.*

VERNON K. ZIMMERMAN, *67 (1, 2*, 3)*
Director of the Center for International Education Research and Accounting and Distinguished Service Professor of Accountancy, University of Illinois, Urbana, Ill. *Elected 1973.*

ILLINOVA—BOARD COMMITTEES

(1) Finance Committee
(2) Audit Committee
(3) Compensation and Nominating Committee
(4) Business Development Committee
(5) Nuclear Operations Committee (Illinois Power only)
*Chairman of committee

BOARD OF DIRECTORS — ILLINOVA GENERATING COMPANY

Larry D. Haab, Chairman
David W. Butts
Donald S. Perkins
Walter D. Scott
Ronald L. Thompson
Walter M. Vannoy
John D. Zeglis

CHARLES W. WELLS RETIRED FROM ILLINOVA AND THE ILLINOVA BOARD OF DIRECTORS AT THE END OF 1995. WE ARE DEEPLY GRATEFUL FOR HIS 40 YEARS OF SERVICE TO THE COMPANY AND HIS 20 YEARS OF SERVICE AS A DIRECTOR OF THE COMPANY.

BOARD OF DIRECTORS — ILLINOVA POWER MARKETING, INC.

Larry D. Haab, Chairman
Donald S. Perkins
Walter D. Scott
Ronald L. Thompson
Walter M. Vannoy
John D. Zeglis

ILLINOVA CORPORATION

PRINCIPAL OFFICERS

LARRY D. HAAB, 58
Chairman, President, and Chief Executive Officer

LARRY F. ALTENBAUMER, 47
Chief Financial Officer, Treasurer, and Controller

LEAH MANNING STETZNER, 47
General Counsel and Corporate Secretary

ILLINOIS POWER COMPANY

PRINCIPAL OFFICERS

LARRY D. HAAB, 58
Chairman, President, and Chief Executive Officer
Employed 1965.

LARRY F. ALTENBAUMER, 47
Senior Vice President, Chief Financial Officer, and Treasurer
Responsible for financial, regulatory, tax, and legal matters; auditing, investor relations, and corporate development. *Employed 1970.*

DAVID W. BUTTS, 41
Senior Vice President
Responsible for public affairs, information technology, environmental affairs, employee services, supply services, administrative services, and research and development. *Employed 1978.*

JOHN G. COOK, 48
Senior Vice President
Responsible for electric generation, electric and gas supply, power plant engineering, and training, and fuel purchasing. *Employed 1975.*

PAUL L. LANG, 55
Senior Vice President
Responsible for customer service, electric and gas operations, marketing, energy services, economic development, and transmission and distribution engineering. *Employed 1986.*

WILFRED CONNELL, 58
Vice President
Responsible for operations, maintenance, radiation protection, and training at Clinton Power Station. *Employed 1983.*

RICHARD W. EIMER JR., 47
Vice President
Responsible for fossil power generation, including power plants, fuel, and planning. *Employed 1971.*

LEAH MANNING STETZNER, 47
Vice President, General Counsel, and Corporate Secretary
Responsible for corporate secretary activities and legal matters. *Employed 1989.*

RALPH F. TSCHANTZ, 42
Vice President
Responsible for sales and marketing. *Employed 1995.*

CYNTHIA G. STEWARD, 38
Controller
Responsible for accounting, budgeting, risk mitigation, and financial reporting. *Employed 1980.*

ILLINOVA GENERATING COMPANY

PRINCIPAL OFFICERS

LARRY D. HAAB, 58
Chairman
Employed 1965.

ALEC G. DREYER, 37
President
Employed 1992.

MICHAEL R. HENEGHAN, 49
Vice President – Finance, and Treasurer
Employed 1985.

GARY L. HICKEY, 44
Vice President – Project Development
Employed 1976.

MICHAEL S. BEER, 37
Corporate Secretary
Employed 1992.

ILLINOVA POWER MARKETING, INC.

PRINCIPAL OFFICERS

LARRY D. HAAB, 58
Chairman
Employed 1965.

ROBERT A. SCHULTZ, 55
President
Employed 1986.

GERALD P. O'CONNOR, 44
Vice President – Finance and Administration
Employed 1995.

THOMAS M. RAINWATER, 37
Vice President – Marketing
Employed 1995.

MICHAEL S. BEER, 37
Corporate Secretary
Employed 1992.

TOCKHOLDER INFORMATION

NNUAL MEETING
Annual Meetings of Illinova Corpora- and Illinois Power Company will be held 0 a.m. Wednesday, April 10, 1996, at ling Auditorium on the campus of Rich- Community College, One College Park, atur, Illinois 62525. Directions to Shilling litorium are provided in Illinova's Proxy Notes to Financial Statements.

OCK EXCHANGE STINGS
ova's common stock is listed on the New k Stock Exchange and the Chicago Stock hange. Illinois Power's preferred stock, the exception of the 7.75% issue, is d on the New York Stock Exchange. The cial New York Stock Exchange symbol Illinova is ILN, but its stock is listed in e newspapers as ILNova. The official v York Stock Exchange symbol for ois Power is 'IPC,' but the Company's ks are also listed in some newspapers er 'IllPwr.'

ARTERLY ORMATION
effort to make information available to eholders more promptly, Illinova has dis- inued its Quarterly Report to Stock- ers and begun placing financial information s home page on the World Wide Web. eholders can access this information at //www.illinova.com. Shareholders with- access to the Internet may call Illinova eholder Services at 1-800-800-8220 for terly information.

OCKHOLDER UIRIES
kholders desiring assistance with lost len stock certificates or dividend checks, e changes, stock transfers, information e Automatic Reinvestment and Stock hase Plan, or other matters may con- Shareholder Services during their office s of 7 a.m. to 4:45 p.m., Central time, day through Friday.

l free telephone 1-800-800-8220
catur, Illinois, area 424-6464
.... 1-217-424-6913

Written communication regarding Illinova Corporation and Illinois Power Company stock should be addressed to:

Patricia E. Perkins
Supervisor – Shareholder Services
Illinois Power Company
500 South 27th Street
Decatur, Illinois 62525-1805

CHANGE OF ADDRESS
Requests for address changes must be submitted in writing and should include old and new addresses, exact name(s) in which the stock is registered, and Social Security or tax identification number on the account. An address change form is mailed quarterly to all registered stockholders.

AUTOMATIC REINVESTMENT AND STOCK PURCHASE PLAN
If you hold certificates in your own name rather than through a broker, you are eligible to participate in the Automatic Reinvestment and Stock Purchase Plan. The Plan offers stockholders a convenient and economical way to increase their investment in Illinova. Under the plan, dividends from Illinova common and Illinois Power preferred shares may be automatically applied toward the purchase of Illinova common stock. Through an optional cash feature, stock holders may also purchase additional shares of common stock without paying brokerage fees. Transactions are subject to limitations set forth in the Plan prospectus. For more information, please contact Shareholder Services.

Participants in the Plan may also deposit the common stock certificates they are holding into their Plan accounts for safekeeping. If you are a Plan participant and are interested in this service, please send a written request to Shareholder Services for additional information.

TAX INFORMATION
Illinova Corporation and Illinois Power Company estimate that 100 percent of the dividends paid to stockholders in 1995 is fully taxable as dividend income for Federal Income Tax purposes. Form 1099s were mailed to all registered common and preferred stockholders in January 1996 showing dividends paid during the year. Participants in the Automatic Reinvestment and Stock Purchase Plan who reinvested cash dividends or made optional cash payments for shares that were purchased on the open market were mailed a Form 1099 to recognize as federal taxable income the allocable share of any brokerage fees and commissions incurred to purchase such shares as stated in the Plan prospectus. Stockholders should consult with their own tax advisors for further information on tax consequences.

TRANSFER AGENT & REGISTRAR FOR ILLINOVA CORPORATION AND ILLINOIS POWER COMPANY
Illinois Power Company
Shareholder Services
500 South 27th Street
Decatur, Illinois 62525-1805

FORM 10K
Stockholders may obtain, without charge, a copy of Form 10K as filed with the Securities and Exchange Commission by sending a request to Shareholder Services.

INVESTOR RELATIONS
Cheryl L. Nalefski
Director – Investor Relations
500 South 27th Street
Decatur, Illinois 62525-1805
Telephone 1-217-424-8715
Fax number 1-217-424-6913

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

The pages of this annual report are printed on recycled paper

Designed and produced by Osborn & DeLong

ILLINOVA CORPORATION

Illinova Corporation, headquartered in Decatur, Illinois, is an energy services holding company with annual revenues exceeding $1.6 billion.

Illinova's principal subsidiary is Illinois Power Company, an electric and natural gas utility. Illinois Power has net electric generating capability of more than 4,100 megawatts and serves approximately 538,000 customers over a 15,000 square-mile area of Illinois.

Illinova's independent power subsidiary, Illinova Generating Company, invests in, develops, and operates independent power projects and facilities. A third subsidiary, Illinova Power Marketing, Inc., markets energy and energy-related services to various customers outside the Illinois Power franchise territory.

500 South 27th Street, Decatur, Illinois [illegible]

illinova

Measures of Our Success

Illinova 1995 Proxy Statement

and 1995 Annual Report to Stockholders

we will be the best by the year 2000

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

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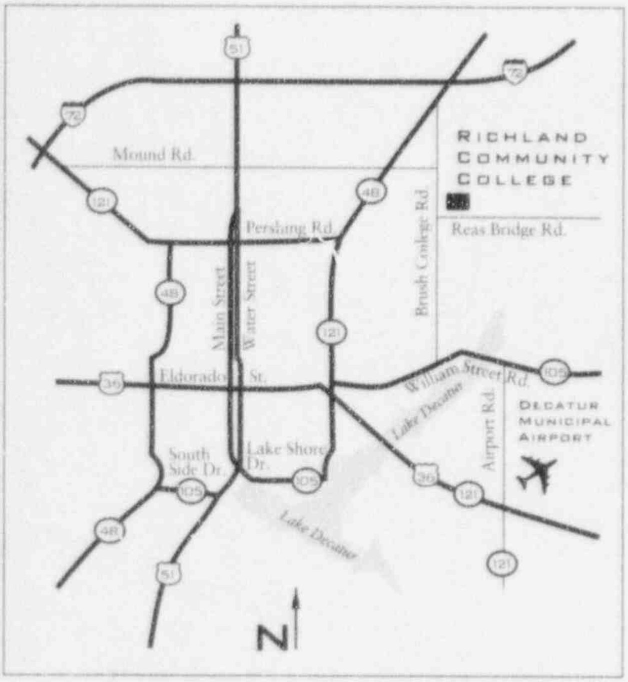


TO THE SHAREHOLDERS OF ILLINOVA CORPORATION:

Notice is Hereby Given that the Annual Meeting of Shareholders of Illinova Corporation ("Illinova") will be held at 10 a.m. Wednesday, April 10, 1996, at Shilling Community Education Center, Richland Community College, One College Park, Decatur, Illinois 62521, for the following purposes:

(1) To elect the Board of Directors for the ensuing year.

(2) To transact any other business which may properly come before the meeting or any adjournment.

Shareholders of record at the close of business on February 12, 1996, will be entitled to notice of and to vote at the Annual Meeting.

By Order of the Board of Directors,

Leah Manning Stetzner,
General Counsel and Corporate Secretary

Decatur, Illinois
March 1, 1996

IMPORTANT

Illinova invites each of its approximately 35,000 shareholders to attend the Annual Meeting. Shareholders will be admitted on verification of record share ownership at the admission desk. Shareholders who own shares through banks, brokerage firms, nominees or other account custodians must present proof of beneficial share ownership (such as a brokerage account statement) at the admission desk. If you are unable to be present at the meeting, it is important that you, whether the owner of one or many shares, sign and return the enclosed proxy. An envelope on which postage will be paid by Illinova is enclosed for that purpose.

Return of your executed proxy will ensure you are represented at the Annual Meeting. Your cooperation is appreciated.

PROXY STATEMENT

SOLICITATION AND REVOCATION OF PROXIES

This Proxy Statement is furnished in connection with a solicitation of proxies by the Board of Directors of Illinova, for use at the Annual Meeting of Shareholders to be held at Shilling Community Education Center, Richland Community College, One College Park, Decatur, Illinois 62521, at 10 a.m. Wednesday, April 10, 1996, and at any adjournment thereof (the "Annual Meeting"). Any shareholder giving a proxy may revoke it at any time by giving a later proxy or by giving written notice of revocation to the Corporate Secretary of Illinova prior to the Annual Meeting. All duly executed proxies received prior to the Annual Meeting will be voted.

Shares credited to the accounts of participants in Illinova's Automatic Reinvestment and Stock Purchase Plan, and Employees Stock Ownership Plan, and Illinois Power Company's ("Illinois Power") Incentive Savings Plans will be voted in accordance with the instructions of the participants or otherwise in accordance with the terms of such plans.

VOTING RIGHTS

Shareholders of record at the close of business on Monday, February 12, 1996 (the "Record Date"), will be entitled to receive notice of and to vote at the Annual Meeting. As of such date, Illinova had outstanding 75,674,837 shares of Common Stock. Shareholders who are present at the Annual Meeting in person or by proxy will be entitled to one vote for each share of Illinova's Common Stock which they held of record at the close of business on the Record Date.

When voting for candidates nominated to serve as directors, all shareholders will be entitled to 11 votes (the number of directors to be elected) for each of their shares and may cast all of their votes for any one candidate whose name has been placed in nomination prior to the voting or distribute their votes among two or more such candidates in such proportions as they may determine. In voting on other matters presented for consideration at the Annual Meeting, each shareholder will be entitled to one vote for each share of Common Stock held of record at the close of business on the Record Date. The affirmative vote of the holders of a majority of the shares of Common Stock present in person or represented by proxy and entitled to vote at the Annual Meeting is required for the election of directors.

ANNUAL REPORT, PROXY AND PROXY STATEMENT

Accompanying this Proxy Statement, which includes Consolidated Financial Statements, is a Notice of Annual Meeting of Shareholders, a form of Proxy and the Summary Annual Report to Shareholders covering operations of Illinova for the year 1995. This Proxy Statement and accompanying documents are first being mailed to shareholders on or about March 1, 1996.

BOARD OF DIRECTORS

INFORMATION REGARDING THE BOARD OF DIRECTORS

The Board of Directors held six Board meetings during 1995. All directors attended at least 75% of the aggregate meetings of the Board and Committees of which they were members during 1995. The Board has four standing committees: the Audit Committee, the Finance Committee, the Compensation and Nominating Committee, and the Business Development Committee.

The duties and members of the standing committees are:

AUDIT COMMITTEE

(1) Review with the Chairman, President and Chief Executive Officer and the independent accountants the scope and adequacy of Illinova's system of internal controls; (2) review the scope and results of the annual examination performed by the independent accountants; (3) review the activities of Illinova's internal auditors; (4) report its findings to the Board and provide a line of communication between the Board and both the internal auditors and the independent accountants; and (5) recommend to the Board the appointment of the independent accountants and approval of the services performed by the independent accountants, considering their independence with regard thereto.

The Audit Committee met three times during 1995.

This Committee consists of the following non-employee directors ("Outside Directors"): Vernon K. Zimmerman, Chairman, Richard R. Berry, Donald E. Lasater, Robert M. Powers, Walter M. Vannoy, and Marilou von Ferstel.

FINANCE COMMITTEE

(1) Review management's capital and operations and maintenance expenditure budgets, financial forecasts and financing program, and make recommendations to the Board regarding the approval of such budgets and plans; (2) review Illinova's banking relationships, short-term borrowing arrangements, dividend policies, arrangements with the transfer agent and registrar, investment objectives and the performance of Illinova's pension funds, evaluate fund managers, and make recommendations to the Board concerning such matters; and (3) act in an advisory capacity to management, the Board of Directors, and the Chairman, President and Chief Executive Officer on other financial matters as they may arise.

The Finance Committee met three times during 1995.

This Committee consists of the following members of the Board: Donald E. Lasater, Chairman, Richard R. Berry, Larry D. Haab, Walter D. Scott, Charles W. Wells (until his retirement on December 31, 1995), and Vernon K. Zimmerman.

COMPENSATION AND NOMINATING COMMITTEE

(1) Review performance and recommend salaries plus other forms of compensation of elected Illinova officers and the Board of Directors; (2) review Illinova's benefit plans for elected Illinova officers and make recommendations to the Board regarding any changes deemed necessary; (3) review with the Chairman, President and Chief Executive Officer any organizational or other personnel matters; and (4) recommend to the Board nominees to stand for election as director to fill vacancies in the Board of Directors as they occur.

The Compensation and Nominating Committee will consider shareholders' recommendations for nominees for director made pursuant to timely notice in writing addressed to the Chairman of the Committee at the executive offices of Illinova, together with a full description of the qualifications and business and professional experience of the proposed nominees and a statement of the nominees' willingness to serve. To be timely, the notice shall be delivered to or mailed and received at the executive offices of Illinova not less than 90 nor more than 120 days prior to the Annual Meeting.

The Compensation and Nominating Committee met four times during 1995.

This Committee consists of the following Outside Directors: Donald S. Perkins, Chairman, Robert M. Powers, Walter D. Scott, Ronald L. Thompson, Marilou von Ferstel, and John D. Zeglis.

BUSINESS DEVELOPMENT COMMITTEE

(1) Review corporate objectives of Illinova, consider appropriate structure changes to meet corporate objectives and make recommendations to the Board concerning such matters; (2) review Illinova's program for long-term corporate activities and make recommendations to the Board regarding the approval of such programs; and (3) act in an advisory capacity to management and the Board of Directors on corporate development.

The Business Development Committee met once during 1995.

This Committee consists of the following members of the Board: Robert M. Powers, Chairman, Larry D. Haab, Donald S. Perkins, Walter D. Scott, Ronald L. Thompson, Marilou von Ferstel, and John D. Zeglis.

Board Compensation

The Outside Directors of Illinova receive a retainer fee of $18,000 per year. Outside Directors who also chair Board Committees receive an additional $2,000 per year retainer. Outside Directors receive a grant of 650 shares of Common Stock on the date of each Annual Shareholders Meeting, representing payment in lieu of attendance-based fees for all Board and Committee meetings to be held during the subsequent one-year period. Outside Directors elected to the Board between Annual Shareholders Meetings are paid $850 for each Board and Committee meeting attended prior to the first Annual Shareholders Meeting after their election to the Board.

Illinova has a Retirement Plan for Outside Directors. Under this plan, each Outside Director who has attained age 65 and has served on the Board for a period of 60 or more consecutive months is eligible for annual retirement benefits at the rate of the annual retainer fee in effect when the director retires. These benefits, at the discretion of the Board, may be extended to Outside Directors who have attained the age of 65 but not served on the Board for the specified period. The benefits are payable for a number of months equal to the number of months of Board service, subject to a maximum of 120 months, and cease upon the death of the retired Outside Director. On February 7, 1996, the Board of Directors approved a compensation plan that eliminates the Retirement Plan. Each former Outside Director whose right to receive the retirement benefit has vested will continue to receive such benefits in accordance with the terms of the Retirement Plan. All current Outside Directors will receive a lump sum payment based on the net present value of these benefits to them, were they to have retired under the Retirement Plan, based on the number of years they have served on the Board but not to exceed 10. Thereafter, each Outside Director will receive an annual award of stock units having a value of $6,000, to be paid to the Outside Director in cash on retirement, at once or in installments as the Director may elect, together with dividend equivalents attributable to such stock units.

Pursuant to Illinova's Deferred Compensation Plan for Certain Directors, the Outside Directors may elect to defer all or any portion of their fees and stock grants until termination of their services as directors. Such deferred amounts are converted into stock units representing shares of Illinova's Common Stock with the value of each stock unit based upon the last reported sales price of such stock at the end of each calendar quarter. Additional credits are made to the participating director's account in dollar amounts equal to the dividends paid on Common Stock which the director would have received if the director had been the record owner of the shares represented by stock units, and are converted into additional stock units. On termination of participating directors' services as directors, payment of their deferred fees and stock grants is made in shares of Common Stock in an amount equal to the aggregate number of stock units credited to their accounts. Such payment is made in such number of annual installments as Illinova may determine beginning in the year following the year of termination.

Election of Directors

Illinova's entire Board of Directors is elected at each Annual Meeting of Shareholders. Directors hold office until the next Annual Meeting of Shareholders and until their successors are elected and qualified. At the Annual Meeting a vote will be taken on a proposal to elect the 11 directors nominated by Illinova's Board of Directors. The names and certain additional information concerning each of the director nominees is set forth below. The dates shown for service as a director include service as a director of Illinois Power prior to the May 1994 merger in which Illinois Power became a wholly owned subsidiary of Illinova. If any nominee should become unable to serve as a director, another nominee will be selected by the current Board of Directors.

NAME OF DIRECTOR NOMINEE, AGE, BUSINESS EXPERIENCE AND OTHER INFORMATION — YEAR IN WHICH FIRST ELECTED A DIRECTOR OF ILLINOVA

RICHARD R. BERRY, 64 — 1988

Prior to retirement in February 1990, Mr. Berry was Executive Vice President and director of Olin Corporation, Stamford, Connecticut, a diversified manufacturer concentrated in chemicals, metals and aerospace/defense products, since June 1983.

LARRY D. HAAB, 58 — 1986

Chairman, President and Chief Executive Officer of Illinova since December 1993, and of Illinois Power since June 1991, and an employee of Illinois Power since 1965. He is a director of First Decatur Bancshares, Inc., The First National Bank of Decatur and Firstech, Incorporated.

C. STEVEN MCMILLAN, 50

Executive Vice President and Director of Sara Lee Corporation, Chicago, Illinois, a global packaged food and consumer products company, since 1993. He had previously been Senior Vice President-Strategy Development from 1986 to 1993. He is Chairman of the Board of Electrolux Corporation and a director of J. P. Food Service.

DONALD S. PERKINS, 68 — 1988

Prior to retirement in June 1983, as Chairman of the Executive Committee, Mr. Perkins was Chairman of the Board and Chief Executive Officer of Jewel Companies, Inc., Chicago, Illinois, a diversified retailer, from 1970 to 1980. He is a director of AT&T, Aon Corporation, Cummins Engine Company, Inc., Current Assets, Inland Steel Industries, Inc., LaSalle Street Fund, Inc., The Putnam Funds, Spring Industries, Inc., and Time Warner, Inc.

NAME OF DIRECTOR NOMINEE, AGE, BUSINESS EXPERIENCE AND OTHER INFORMATION — YEAR IN WHICH FIRST ELECTED A DIRECTOR OF ILLINOVA

ROBERT M. POWERS, 64 — 1984

Prior to retirement in December 1988, Mr. Powers was President and Chief Executive Officer of A. E. Staley Manufacturing Company, Decatur, Illinois, a processor of grain and oil seeds, since 1980. He is a director of A. E. Staley Manufacturing Company.

WALTER D. SCOTT, 64 — 1990

Professor of Management and Senior Austin Fellow, J. L. Kellogg Graduate School of Management, Northwestern University, Evanston, Illinois, since 1988. Previously, Mr. Scott served as Chairman of GrandMet USA, from 1984 to 1986, and as President and Chief Executive Officer of IDS Financial Services, from 1980 to 1984. Mr. Scott is a director of Chicago Title and Trust Company, Chicago Title Insurance Company, Intermatic Incorporated, and Orval Kent Food Company, Inc.

RONALD L. THOMPSON, 46 — 1991

Chairman and Chief Executive Officer of Midwest Stamping and Manufacturing Co., Bowling Green, Ohio, a manufacturer of automotive parts, since 1993. He was President and Chief Executive Officer and a director of The GR Group, Inc., St. Louis, Missouri, a diversified holding company with interests in manufacturing and service activities, from 1980 to 1993. He is Chairman of the Board of The GR Group, a director of McDonnell Douglas Corporation, and a director of Teachers Insurance and Annuity Association.

WALTER M. VANNOY, 68 — 1990

Prior to retirement in May 1995, Mr. Vannoy was Chairman and Chief Executive Officer of Figgie International, Inc., Willoughby, Ohio, a diversified operating company serving consumer, industrial, technical, and service markets world-wide, since 1994. He is a director of Figgie International, Inc.

NAME OF DIRECTOR NOMINEE, AGE, BUSINESS EXPERIENCE AND OTHER INFORMATION	YEAR IN WHICH FIRST ELECTED A DIRECTOR OF ILLINOVA

MARILOU VON FERSTEL, 58 — 1990

Executive Vice President and General Manager of Ogilvy Adams & Rinehart, Inc., a public relations firm in Chicago, Illinois, since June 1990. She had previously been Managing Director and Senior Vice President of Hill and Knowlton, Chicago, Illinois, a public relations consulting firm, from 1981 to 1990. Ms. von Ferstel is a director of Walgreen Company.

JOHN D. ZEGLIS, 48 — 1993

Senior Executive Vice President—General Counsel, Government Affairs, and Policy Development of AT&T, Basking Ridge, New Jersey, a diversified communications company, since 1995. He had been Senior Vice President—General Counsel and Government Affairs from 1989 to 1995. He is a director of the Helmerich & Payne Corporation.

VERNON K. ZIMMERMAN, 67 — 1973

Director of the Center for International Education Research and Accounting, and Distinguished Service Professor of Accountancy, University of Illinois, Urbana, Illinois, since August 1985. He is a director of ICH Corporation.

SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS

The following table shows shares of stock beneficially owned as of January 31, 1996, by each director nominee and the executive officers named in the Summary Compensation Table. To the best of Illinova's knowledge, no owner holds more than 5 percent of Illinova Common Stock.

Name of Beneficial Owner	*Class of Stock*	*Number of Shares Beneficially Owned (1)*	*Percent of Class*
Richard R. Berry	Common	3,580	(2)
Larry D. Haab	Common	10,185	(2)
C. Steven McMillan	Common	0	(2)
Donald S. Perkins	Common	8,112	(2)
Robert M. Powers	Common	7,250	(2)
Walter D. Scott	Common	3,850	(2)
Ronald L. Thompson	Common	3,127	(2)
Walter M. Vannoy	Common	3,350	(2)
Marilou von Ferstel	Common	4,112	(2)
John D. Zeglis	Common	2,390	(2)
Vernon K. Zimmerman	Common	8,401	(2)
Charles W. Wells	Common	8,585	(2)
Paul L. Lang	Common	2,734	(2)
Larry F. Altenbaumer	Common	4,179	(2)
Larry S. Brodsky	Common	1,713	(2)

(1) The nature of beneficial ownership for shares shown is sole voting and/or investment power, except for Mr. Wells, who disclaims beneficial ownership of 1,000 shares held in the name of his wife.

(2) No director or executive officer owns any other equity securities of Illinova. No director or executive officer owns as much as 1% of the Common Stock. All directors and executive officers of both Illinova and Illinois Power Company as a group own 80,299 shares of Common Stock (less than 1%).

EXECUTIVE COMPENSATION

The following table sets forth a summary of the compensation of the Chief Executive Officer and the four other most highly compensated executive officers of Illinova and Illinois Power Company, its principal subsidiary, for the years indicated. The compensation shown includes all compensation paid for service to Illinova and its subsidiaries, including Illinois Power.

SUMMARY COMPENSATION TABLE

					Long-Term Compensation			
		Annual Compensation			Awards		Payouts	
Name and Principal Position (1)	Year	Salary	Bonus (2)	Other Annual Compensation	Restricted Stock Awards (3)	Securities Underlying Options	LTIP Payouts (4)	All Other Compensation (5)
LARRY D. HAAB Chairman, President and Chief Executive Officer of Illinova and Illinois Power	1995	$ 472,250	$ 76,975	$ 19,088	$ 76,975	20,000 shs.	$43,597	$ 2,550
	1994	451,375	42,881	15,783		20,900 shs.		360
	1993	437,500	22,531	13,199		20,000 shs.		480
CHARLES W. WELLS Executive Vice President of Illinois Power	1995	$ 318,863	$ 33,734	$ 22,342	$ 33,734	—	$24,392	$ 2,470
	1994	276,625	25,242	12,404		8,500 shs.		330
	1993	265,875	12,629	9,697		6,500 shs.		357
PAUL L. LANG Senior Vice President of Illinois Power	1995	$ 222,812	$ 20,499	$ 8,265	$ 20,499	6,500 shs.	$20,360	$ 2,510
	1994	213,562	20,289	8,672		6,800 shs.		440
	1993	205,625	9,767	7,508		6,000 shs.		440
LARRY F. ALTENBAUMER Chief Financial Officer, Treasurer and Controller of Illinova, and Senior Vice President, Chief Financial Officer, and Treasurer of Illinois Power	1995	$ 204,937	$ 17,317	$ 7,686	$ 17,317	6,500 shs.	$16,084	$ 2,378
	1994	196,562	18,674	8,975		6,800 shs.		400
	1993	187,750	8,918	7,093		6,000 shs.		480
LARRY S. BRODSKY Senior Vice President of Illinois Power	1995	$ 196,000	$ —	$ 5,120	$ —	6,500 shs.	$14,179	$ 2,190
	1994	$ 174,186	$ 16,548	$ 4,973		4,400 shs.		400
	1993	157,875	8,131	4,220		4,500 shs.		400

(1) Mr. Wells retired from Illinois Power on December 31, 1995. Mr. Brodsky resigned from Illinois Power on January 2, 1996.

(2) The amounts shown in this column are the cash award portion of grants made to these individuals under the Executive Incentive Compensation Plan ("Compensation Plan") for 1995, including amounts deferred under the Executive Deferred Compensation Plan. See the Compensation Plan description in footnote (3) below.

(3) This table sets forth stock unit awards for 1995 under the Compensation Plan. One-half of each year's award under this plan is converted into stock units representing shares of Illinova Common Stock based on the closing price of Common Stock on the last trading day of the award year. The other one-half of the award is paid to the recipient in cash and is included under Bonus in the Summary Compensation Table. Stock units awarded in a given year, together with cash representing the accumulated dividend equivalents on those stock units, become fully vested after a three-year holding period. Stock units are converted into cash and paid based on the closing price of Common Stock on the first trading day of the distribution year. Participants (or beneficiaries of deceased participants) whose employment is terminated by retirement on or after age 55, disability, or death receive the present value of all unpaid awards on the date of such termination. Participants whose employment is terminated for reasons other than retirement, disability, or death forfeit all unvested awards. In the event of a termination of employment within two years after a change in control of Illinova, without good cause or by any participant with good reason, all awards of the participant become fully vested and payable. As of December 31, 1995, named executive officers were credited with the following total aggregate number of unvested stock units under the Compensation Plan since its inception, valued on the basis of the closing price of Common Stock on December 31, 1995: Mr. Haab, 8,253 units valued at $247,603; Mr. Wells, 3,758 units valued at $112,759; Mr. Lang, 2,807 units valued at $84,211; Mr. Altenbaumer, 2,439 units valued at $73,187; Mr. Brodsky, 474 units valued at $14,238. Although stock units have been rounded, valuation is based on total stock units, including partial shares.

(4) The amounts shown in this column reflect the cash value of the stock units granted in 1993 for the year 1992, including amounts deferred, under the Compensation Plan. See the Compensation Plan description in footnote (3) above.

(5) The amounts shown in this column are Illinois Power's contributions under the Incentive Savings Plan (including the market value of shares of Illinova Common Stock at the time of allocation).

The following tables summarize grants during 1995 of stock options under Illinova's 1992 Long-Term Incentive Compensation Plan ("LTIC") and awards outstanding at year end for the individuals named in the Summary Compensation Table. No options were exercisable or exercised during 1995.

OPTION GRANTS IN 1995

	Individual Grants				
	Number of Securities Underlying Options Granted (1)	% of Total Options Granted to Employees in 1995	Exercise or Base Price Per Share (1)	Expiration Date	Grant Date Present Value (2)
LARRY D. HAAB	20,000	29%	$ 24.875	6/14/2004	$ 117,800
CHARLES W. WELLS	0				
PAUL L. LANG	6,500	9%	24.875	6/14/2004	38,285
LARRY F. ALTENBAUMER	6,500	9%	24.875	6/14/2004	38,285
LARRY S. BRODSKY	6,500	9%	24.875	6/14/2004	38,285

(1) Each option becomes exercisable on June 30, 1998. In addition to the specified expiration date, the grant expires on the first anniversary of the recipient's death and/or the 90th day following retirement, and is not exercisable in the event a recipient's employment terminates. In the event of certain change-in-control circumstances, the Compensation and Nominating Committee may declare the option immediately exercisable. The exercise price of each option is equal to the fair market value of the Common Stock on the date of the grant. Recipients shall also receive, on or shortly after June 30, 1998, a payment equal to a percentage of the total dividends declared and paid on Illinova Common Stock during the period between the date of this grant and June 30, 1998 calculated by multiplying the number of shares of Common Stock granted hereunder times the total amount of dividends paid per share of Common Stock during the holding period, times a percentage based on Illinova total shareholder return ranking relative to the S & P Electric Utility Group. At the discretion of the Board of Directors, the foregoing payment may be made in the form of Illinova Common Stock of equivalent value based on the average New York Stock Exchange price of the stock during June 1998, or in cash.

(2) The Grant Date Present Value has been calculated using the Black-Scholes option pricing model. Disclosure of the Grant Date Present Value, or the potential realizable value of option grants assuming 5% and 10% annualized growth rates, is mandated by regulation; however, Illinova does not necessarily view the Black-Scholes pricing methodology, or any other present methodology, as a valid or accurate means of valuing stock option grants. The calculation was based on the following assumptions: (i) An annual dividend yield on Illinova Common Stock of 3.80%; (ii) A risk-free interest rate of 6.40%, based on the yield of a zero-coupon government bond maturing at the end of the option term; and (iii) Stock volatility of 19.73%.

AGGREGATED OPTION AND FISCAL YEAR-END OPTION VALUE TABLE

Name	Number of Securities Underlying Unexercised Options at Fiscal Year-End Exercisable/Unexercisable	Value of Unexercised In-the-Money Options at Fiscal Year-End Exercisable/Unexercisable
LARRY D. HAAB	0 shs./76,900 shs.	0/$514,212
CHARLES W. WELLS	0 shs./21,000 shs.	0/$154,687
PAUL L. LANG	0 shs./24,300 shs.	0/$162,987
LARRY F. ALTENBAUMER	0 shs./24,300 shs.	0/$162,987
LARRY S. BRODSKY	0 shs./18,400 shs.	0/$1[illegible]9,212

PENSION BENEFITS

Illinois Power maintains a Retirement Income Plan for Salaried Employees (the "Retirement Plan") providing pension benefits for all eligible salaried employees. In addition to the Retirement Plan, Illinois Power also maintains a nonqualified Supplemental Retirement Income Plan for Salaried Employees (the "Supplemental Plan") that covers all elected officers eligible to participate in the Retirement Plan and provides for payments from general funds of Illinois Power of any monthly retirement income not payable under the Retirement Plan because of benefit limits imposed by law or because of certain Retirement Plan rules limiting the amount of credited service accrued by a participant.

The following table shows the estimated annual pension benefits on a straight life annuity basis payable upon retirement based on specified annual average earnings and years of credited service classifications, assuming continuation of the Retirement Plan and Supplemental Plan and employment until age 65. This table does not show, but any actual pension benefit payments would be subject to, the Social Security offset.

	Estimated Annual Benefits (rounded)				
Annual Average Earnings	*15 Yrs. Service*	*20 Yrs. Service*	*25 Yrs. Service*	*30 Yrs. Service*	*35 Yrs. Service*
$125,000	$ 37,500	$ 50,000	$ 62,500	$ 75,000	$ 87,500
150,000	45,000	60,000	75,000	90,000	105,000
175,000	52,500	70,000	87,500	105,000	122,500
200,000	60,000	80,000	100,000	120,000	140,000
250,000	75,000	100,000	125,000	150,000	175,000
300,000	90,000	120,000	150,000	180,000	210,000
350,000	105,000	140,000	175,000	210,000	245,000
400,000	120,000	160,000	200,000	240,000	280,000
450,000	135,000	180,000	225,000	270,000	315,000
500,000	150,000	200,000	250,000	300,000	350,000
550,000	165,000	220,000	275,000	330,000	385,000
600,000	180,000	240,000	300,000	360,000	420,000
650,000	195,000	260,000	325,000	390,000	455,000

The earnings used in determining pension benefits under the Retirement Plan are the participants' regular base compensation, as set forth under Salary in the Summary Compensation Table.

At December 31, 1995, for purposes of both the Retirement Plan and the Supplemental Plan, Messrs. Haab, Wells, Lang, Altenbaumer, and Brodsky had completed 30, 32, 9, 23, and 21 years of credited service, respectively.

EMPLOYEE RETENTION AGREEMENTS

Illinova has entered into Employee Retention Agreements with each of its executive officers and officers of its subsidiaries. Under each agreement, the officer would be entitled to receive a lump sum cash payment if his or her employment were terminated by Illinova without good cause or voluntarily by the officer for good reason within two years following a change in control of Illinova Corporation (as defined in the Agreement). The amount of the lump sum payment would be equal to (1) 36 months' salary at the greater of the officer's salary rate in effect on the date the change in control occurred or the salary rate in effect on the date the officer's employment with Illinova terminated; plus (2) three times the latest bonus earned by the officer during the three calendar years preceding termination of employment. Under the agreement, the officer would continue, after any such termination of employment, to participate in and receive benefits under other benefit plans of Illinova. Such coverage would continue for 36 months following termination of employment, or, if earlier, until the officer reached age 65 or was employed by another employer; provided that, if the officer was 50 years of age or older at the time of such termination, then coverage under health, life insurance and similar welfare plans would continue until the officer became 55 years of age, at which time he or she would be eligible to receive the benefits extended to the employees of Illinova who elect early retirement.

Compensation and Nominating Committee Report on Officer Compensation

The six-member Compensation and Nominating Committee of the Board of Directors (the "Committee") is composed entirely of Outside Directors. The Committee's role includes a review of the performance of the elected officers and the establishment of specific officer salaries subject to Board approval. The Committee establishes performance goals for the officers under the Compensation Plan, approves payments made pursuant to the Compensation Plan and recommends grants under the Long-Term Incentive Compensation Plan approved by the shareholders in 1992. The Committee also reviews other forms of compensation and benefits making recommendations to the Board on changes whenever appropriate. The Committee carries out these responsibilities with assistance from an executive compensation consulting firm and with input from the Chief Executive Officer and management as it deems appropriate.

Officer Compensation Philosophy

Illinova's compensation philosophy reflects a commitment to compensate officers competitively with other companies in the electric and gas utility industry while rewarding executives for achieving levels of operational excellence and financial returns consistent with continuous improvement in customer satisfaction and shareholder value. Illinova's compensation policy is to provide a total compensation opportunity targeted to all utilities in the Edison Electric Institute (EEI) database. Eighty-four percent of the companies in the S&P Utilities Index are also in the EEI database. The S&P Utilities Index is used to relate Illinova's shareholder value in the following performance graphs. The S&P index covers the utility industry broadly including electric, gas, and telecommunications utilities. After careful consideration, the Committee has decided to maintain a separate peer group limited to electric or combination electric and gas companies for compensation purposes.

The compensation program for officers consists of base salary, annual incentive and long-term incentive components. The combination of these three elements balances short- and long-term business performance goals and aligns officer financial rewards with those of Illinova's shareholders. The compensation program is structured so that, depending on the salary level, between 25 and 45 percent of an officer's total compensation target is composed of incentive compensation.

Base Salary Plan

The Committee determines base salary ranges for executive officers based on competitive pay practices of a peer group of utilities. Officer salaries correspond to approximately the average of the companies in the compensation peer group. Individual increases are based on several factors including the officer's performance during the year and the relationship of the officer's salary to the market salary level for the position.

Annual Incentive Compensation Plan

Annual incentive awards are earned based on the achievement of specific annual financial and operational goals by the elected officer group as a whole and consideration of the officer's individual contribution. If payment is earned under this Plan, one-half of the bonus is payable in cash during the year following the award year and one-half is credited to the participant in the form of Common Stock units, the number of which is determined by dividing half of the earned bonus amount by the closing price of the Common Stock on the last trading day of the award year. The officer's interest in the stock units vests at the end of the three-year period which begins the year after the award year. The officer receives this award in cash equal to (1) the closing stock price on the first trading day of the distribution year times the number of units held plus (2) dividend equivalents that would have been received if the stock had actually been issued.

For 1995, awards under the Compensation Plan are based on achievement in the performance areas: earnings per share, customer satisfaction, employee teamwork, cost management and operating effectiveness. Up to 25 percent of the awarded amount is based on an assessment of the individual officer's performance during the year.

Awards shown under Bonus in the Summary Compensation Table for performance during 1995 were based on the following results. Earnings per Share, Customer Satisfaction and Cost Management were at or better than the threshold level for the award. Employee Teamwork results were not known at the time of printing.

Long-Term Incentive Compensation Plan

Awards under the LTIC Plan are made to individual officers based on their contribution to corporate performance based on the review of this Committee. The Committee may grant awards in the form of stock options, stock appreciation rights, dividend equivalents or restricted stock grants. The stock options and dividend equivalents granted to the officers for 1995 represent a long-term incentive award based on Illinova and individual performance as evaluated by the Chairman and reviewed by the Committee. The actual number of dividend equivalents earned is determined by Illinova's total shareholder return compared to the companies in the S & P Utility Index.

CEO Compensation

Larry Haab became Chairman, President, and Chief Executive Officer ("CEO") of Illinois Power on June 12, 1991, and Chairman, President and Chief Executive Officer of Illinova in December 1993. Illinova based Mr. Haab's 1995 compensation on the policies and plans described above.

The Committee invokes the active participation of all non-management directors in reviewing Mr. Haab's performance before it makes recommendations regarding his compensation. The Committee is responsible for administering the processes for completing this review. The process starts early in the year when the Board of Directors works with Mr. Haab to establish his personal goals and short- and long-term strategic goals for Illinova. At the conclusion of the year Mr. Haab reviews his performance with the non-management directors. The Committee oversees this review and recommends to the Board appropriate adjustments to compensation. In setting the CEO's salary for 1995, the Committee, with the participation of all Outside Directors, determined that important goals were achieved and the results for Illinova for the year were excellent. Mr. Haab's vision of the industry's evolution has led, and is countinuing to lead, to appropriate redeployment of Illinova resources. The Committee concluded that in 1995 Mr. Haab's performance continued to advance Illinova toward the accomplishment of its strategic objectives.

The 1995 Annual Incentive Compensation Plan award for the Chief Executive Officer was calculated consistent with the determination of awards for all other officers. Under the terms of the plan, one-half of the award was paid in cash and one-half was converted to 2,566 stock units which vest over a three-year period as described above.

The 20,000 option shares and dividend equivalents granted to the CEO reflect the Committee's recognition of his work in directing Illinova towards its long-term objectives of outstanding customer satisfaction and sustained growth in shareholder return.

Compensation and Nominating Committee

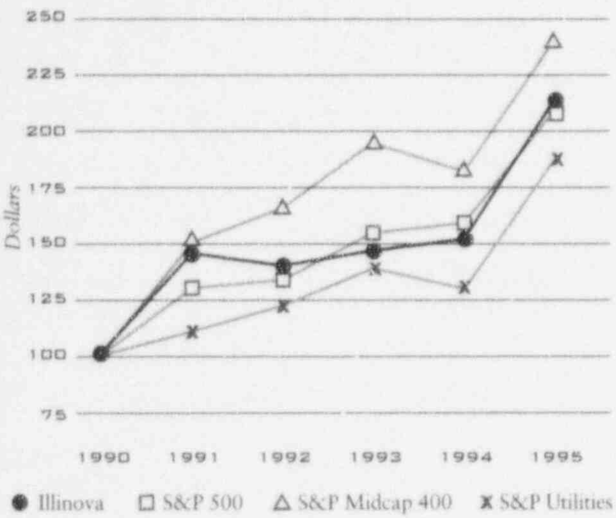
Donald S. Perkins, Chairman
Robert M. Powers
Walter D. Scott
Ronald L. Thompson
Marilou von Ferstel
John D. Zeglis

STOCK PERFORMANCE GRAPHS

The following performance graphs compare the cumulative total shareholder return on Illinova's Common Stock to the cumulative total return on the S&P 500 Index, S&P MidCap 400 Index and S&P Utilities Index from (i) December 31, 1990, through December 31, 1995, and (ii) December 31, 1992, through December 31, 1995.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN

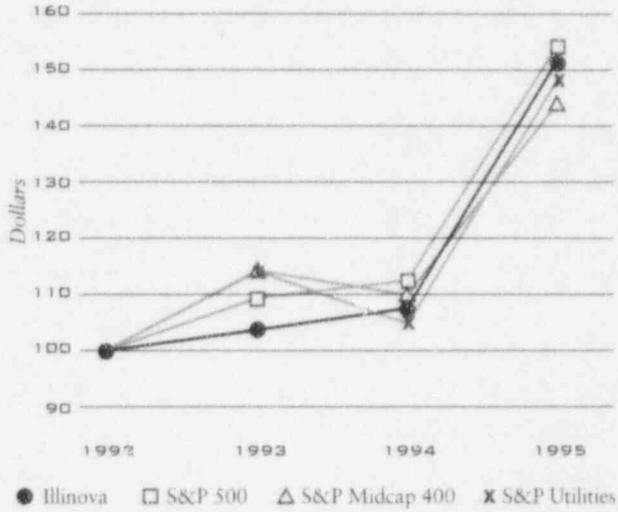
Among Illinova, S&P 500 Index, S&P Midcap 400 Index, and S&P Utilities Index.



Assumes $100 invested on December 31, 1990, in Illinova's Common Stock, S&P 500 Index, S&P MidCap 400 Index, and S&P Utilities Index.

COMPARISON OF THREE-YEAR CUMULATIVE TOTAL RETURN

Among Illinova, S&P 500 Index, S&P Midcap 400 Index, and S&P Utilities Index.



Assumes $100 invested on December 31, 1992, in Illinova's Common Stock, S&P 500 Index, S&P MidCap 400 Index, and S&P Utilities Index.

INDEPENDENT AUDITORS

The Board of Directors of Illinova has selected Price Waterhouse LLP as independent auditors for Illinova for 1996. A representative of that firm will be present at the Annual Meeting and available to make a statement and to respond to appropriate questions.

OTHER MATTERS

Illinova's 1995 Summary Annual Report to Shareholders was mailed to shareholders commencing on March 1, 1996. Copies of Illinova's Annual Report on Form 10-K will be available to shareholders, after its filing with the Securities and Exchange Commission on or before March 31, 1996. Requests should be addressed to Investor Relations, G-21, Illinova Corporation, 500 South 27th Street, Decatur, Illinois 62525-1805.

Any proposal by a shareholder to be presented at the next Annual Meeting must be received at Illinova's executive offices not later than November 1, 1996.

OTHER BUSINESS

Management does not know of any matter which will be presented for consideration at the Annual Meeting other than the matters described in the accompanying Notice of Annual Meeting.

By Order of the Board of Directors,

Leah Manning Stetzner,
General Counsel and Corporate Secretary

Decatur, Illinois
March 1, 1996

APPENDIX: 1995 ANNUAL REPORT TO SHAREHOLDERS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

In this report, we make reference to the Consolidated Financial Statements, related Notes to Consolidated Financial Statements, Selected Consolidated Financial Data and Selected Illinois Power Company Statistics for information concerning consolidated financial position and results of operations. A discussion of the factors having significant impact upon consolidated financial position and consolidated results of operations since January 1, 1993, is below.

ILLINOVA SUBSIDIARIES

The Consolidated Financial Statements include the accounts of: Illinova Corporation (Illinova), a holding company; Illinois Power Company (IP), a combination electric and gas utility; Illinova Generating Company (IGC), which invests in energy-related projects throughout the world; and Illinova Power Marketing, Inc. (IPMI), which is in the business of marketing energy, energy-related services and natural gas.

On May 16, 1995, IPMI gained Federal Energy Regulatory Commission (FERC) approval to buy electricity from various producers not affiliated with IP and to sell electricity at market rates to such wholesale customers as utilities, electric cooperatives and municipalities. In January 1995, IPMI established operating headquarters in Salt Lake City, Utah.

See "Note 2—Illinova Subsidiaries" of the "Notes to Consolidated Financial Statements" for additional information. IP's consolidated financial position and results of operations are currently the principal factors affecting Illinova's consolidated financial position and results of operations.

OPEN ACCESS AND WHEELING

On March 29, 1995, the FERC issued a Notice of Proposed Rulemaking (NOPR) designed to encourage a more fully competitive wholesale electric market through mandated open access to public utility transmission facilities, at rates to be determined, at the outset, by the FERC. Transmission of electricity for a customer who is not an end-user, or for delivery to an end-user who is not a customer of the transmitting utility is called, respectively, wholesale wheeling and retail wheeling. Under the FERC's proposal, all transmission-owning public utilities were required to file nondiscriminatory open-access transmission tariffs, available to all wholesale sellers and buyers of electric energy.

On March 20, 1995, IP filed three transmission service tariffs that offer eligible transmission customers the same or comparable transmission service on terms comparable to service IP provides itself. On May 16, 1995, the FERC accepted IP's open-access tariff filings. It's too soon to predict the long-term financial inpact of increasing access and other issues arising from such access.

COMPETITION

In March 1995, IP was instrumental in developing a legislative proposal, Energy Choice 2000, which is designed to reform Illinois' regulatory laws governing utilities. Energy Choice 2000 establishes the framework for a managed transition for utilities to operate in an increasingly competitive environment. The proposal outlines a time frame for all classes of customers to benefit from competition, beginning in the year 2000. In May 1995, the Illinois General Assembly passed Senate Joint Resolution 21, which established the Joint Committee on Electric Utility Regulatory Reform and directed it to use Energy Choice 2000 "as a key element for developing legislative proposals for reducing regulation, increasing customer choice and promoting and facilitating competition in Illinois' electric utility industry." The Joint Committee on Electric Utility Regulatory Reform is directed to provide a final legislative proposal during the fourth quarter of 1996.

On September 11, 1995, IP filed a proposal with the Illinois Commerce Commission (ICC) seeking its approval to conduct an open-energy access experiment beginning in 1996. The experiment would allow approximately 20 industrial customers to purchase electricity and related services from other sources. IP would transmit (wheel) the electricity over its lines. IP will seek FERC approval of the experiment after receipt of ICC approval, anticipated in the second quarter of 1996.

The maximum total load involved in this experiment represents approximately 1 percent of IP's total load, or about $7.5 million in net annual revenue. IP expects the earnings impact to be immaterial. Any loss of sales would be partially offset by revenues obtained by selling the surplus energy and capacity on the open market and by transmission and ancillary service charges necessary for customers to obtain energy from an alternative supplier, as well as by corresponding reductions in fuel and other variable operating costs.

The open-access experiment will allow IP to evaluate the financial, operational and service impacts of transporting power from other suppliers to customers. Additionally, regulators and legislators will benefit from the experiment by observing open-energy access in a "laboratory setting" while they look for ways to bring the benefits of competition to all customers. Finally, it will give customers opportunity to gain experience in arranging their power supplies and transmission requirements and managing their operations under an open-energy access scenario.

The issue of competition is one that raises both risks and opportunities. At this time, the ultimate effect of competition on Illinova's consolidated financial position and results of operations is uncertain. See "Note 1—Summary of Significant Accounting Policies" of the "Notes to Consolidated Financial Statements" for additional discussion of the effects of regulation.

Enhanced Retirement

In December 1994, IP announced plans for voluntary enhanced retirement and severance programs. During the fourth quarter of 1995, 727 employees accepted enhanced retirement or severance under these programs. At January 1, 1996, Illinova employed 3,596 people, as compared to 4,350 at December 31, 1994. The combined enhanced retirement and severance programs generated a pre-tax charge of $38 million against fourth quarter 1995 earnings and will generate savings of approximately $36 million annually, starting in 1996.

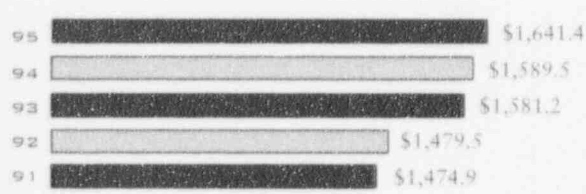
Consolidated Results of Operations

Overview

Earnings (loss) applicable to common stock were $148 million for 1995, $158 million for 1994 and $(82) million for 1993. Earnings (loss) per common share were $1.96 for 1995 ($2.26 before the one-time charge of $38 million for enhanced retirement and severance), $2.09 for 1994 and $(1.08) for 1993. The 1995 earnings per share include $(.30) net-of-tax for the enhanced retirement and severance program and $(.05) for the carrying amount under consideration paid for IP preferred stock redeemed in December 1995. The 1995 earnings also reflect increased electric sales due to unseasonably warm summer weather, partially offset by increased operating and maintenance expenses due to the Clinton Power Station (Clinton) refueling and maintenance outage. The 1994 earnings per share include $.08 for the carrying amount over consideration paid for IP preferred stock redeemed in December 1994 and an increase in gas rates as a result of IP's 1994 gas rate order. The 1994 earnings also reflect increased electric sales, lower operating and maintenance expenses due to ongoing cost management efforts, no Clinton refueling and maintenance outage and lower financing costs. In 1993, Illinova's earnings were $118 million, or $1.57 per common share, excluding the September write-off of disallowed Clinton post-construction costs of $200 million, or $2.65 per share, net of income taxes. The 1993 earnings before the write-off reflect increased electric and gas sales due to closer-to-normal temperatures, increased interchange sales, lower operating and maintenance expenses and lower interest expense as a result of refinancing efforts.

The ICC and FERC determine IP's rates, at the retail and wholesale levels, respectively, for electric service, and the ICC determines IP's rates for gas service. These rates are designed to recover the cost of service and allow shareholders the opportunity to earn a fair rate of return. Future electric and natural gas sales, including interchange sales, will continue to be affected by an increasingly competitive marketplace, changes in the regulatory environment, increased transmission access, weather conditions, competing fuel sources, interchange market conditions, plant availability, fuel cost recoveries, customer conservation efforts and the overall economy.

OPERATING REVENUES
(Millions of dollars)



ILLINOIS POWER — RESULTS OF OPERATIONS

ELECTRIC OPERATIONS For the years 1993 through 1995, electric revenues including interchange increased 8.1% and the gross electric margin increased 8.7% as follows:

(Millions of dollars)	1995	1994	1993
Electric revenues	$ 1,252.6	$ 1,177.5	$ 1,135.6
Interchange revenues	116.3	110.0	130.8
Fuel cost & power purchased	(333.4)	(319.2)	(313.6)
Electric margin	$ 1,035.5	$ 968.3	$ 952.8

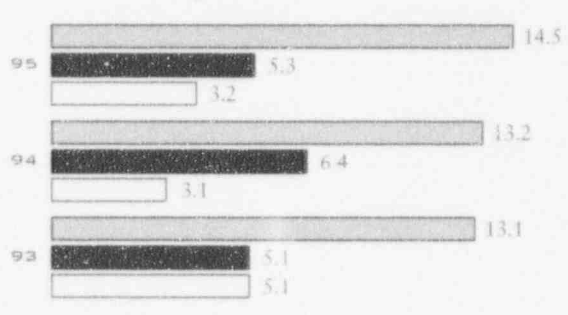
The components of annual changes in electric revenues:

(Millions of dollars)	1995	1994	1993
Price	$ 13.3	$ (23.2)	$ (30.0)
Volume and other	42.7	44.1	72.1
Fuel cost recoveries	19.1	21.0	(24.4)
Revenue increase	$ 75.1	$ 41.9	$ 17.7

1995 The 6.4% increase in electric revenues was primarily due to a 1.9% increase in kilowatt-hour sales to ultimate consumers (excluding interchange sales and wheeling). Volume increases resulted from higher residential sales (4.8%) and higher commercial sales (8.2%) due to an improving economy and warmer summer temperatures compared to 1994. Industrial sales remained essentially unchanged from 1994. Interchange revenues increased $6.3 million (5.8%) as a result of increased sales opportunities.

1994 The 3.7% increase in electric revenues was primarily due to a 6.3% increase in kilowatt-hour sales to ultimate consumers (excluding interchange sales and wheeling). Volume increases resulted from higher commercial sales (8.3%) and higher industrial sales (7.0%) due to an improving economy. Residential sales remained essentially unchanged from 1993 primarily due to milder temperatures in 1994 as compared to 1993. Interchange sales decreased 19.6% from 1993 levels primarily due to unusually large sales opportunities in 1993.

MAJOR SOURCES OF ELECTRIC ENERGY
(Millions of megawatt-hours)



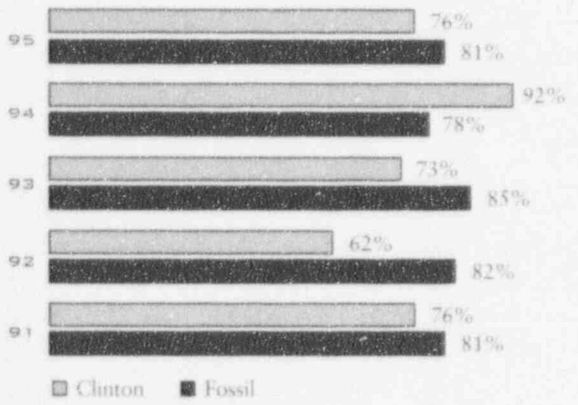
1993 The 1.6% increase in electric revenues was primarily due to a 3.2% increase in kilowatt-hour sales to ultimate consumers (excluding interchange sales and wheeling) reflecting closer-to-normal temperatures during the summer season. Volume increases resulted from higher residential sales (9.9%), commercial sales (6.3%), and industrial sales (.5%). The increase in electric revenues was partially offset by the reduction in rates resulting from the August 1992 ICC Rehearing Order. Interchange revenues increased $57.8 million (79.2%) primarily as a result of increased sales opportunities.

The cost of meeting IP's system requirements was reflected in fuel costs for electric plants and power purchased. Changes in these costs are below:

(Millions of dollars)	1995	1994	1993
Fuel for electric plants			
Volume and other	$ 9.8	$ 13.8	$ 3.5
Price	(35.5)	(14.3)	7.4
Emission allowances	18.5	—	—
Fuel cost recoveries	14.5	32.0	(24.6)
	7.3	31.5	(13.7)
Power purchased	6.9	(25.9)	54.5
Total increase	$ 14.2	$ 5.6	$ 40.8
Weighted average system generating fuel cost ($/MWH)	$ 11.41	$ 12.72	$ 13.88

System load requirements, generating unit availability, fuel prices, purchased power prices, resale of energy to other utilities, emission allowance purchases and fuel cost recovery through the Uniform Fuel Adjustment Clause (UFAC) caused changes in these costs.

EQUIVALENT AVAILABILITY — CLINTON AND FOSSIL

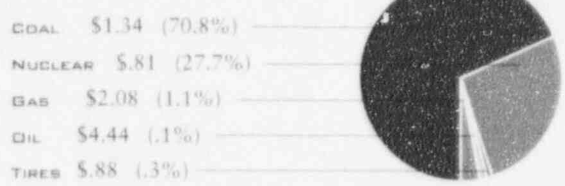


Changes in factors affecting the cost of fuel for electric generation are below:

	1995	1994	1993
Increase in generation	1.9%	8.2%	2.5%
Generation mix			
Coal and other	73%	67%	72%
Nuclear	27%	33%	28%

1995 The cost of fuel increased 2.8% and electric generation increased 1.9%. The increase in fuel cost was attributable to the effects of the UFAC, the increase in higher-cost fossil generation and the cost of emission allowances. Clinton's equivalent availability and generation were lower in 1995 as compared to 1994 due to the scheduled refueling and maintenance outage. Clinton returned to service April 29, 1995, after completing its fifth refueling and maintenance outage, which began March 13, 1995. Power purchased increased $6.9 million.

FUEL COST PER MILLION BTU
(Percent of generation)



1994 The cost of fuel increased 13.4% and electric generation increased 8.2%. The increase in fuel cost was attributable to the effects of the UFAC, partially offset by a decrease in fossil generation and an increase in lower-cost nuclear generation. Clinton's equivalent availability and generation were higher in 1994 as compared to 1993 due to no refueling and maintenance outage. Power purchased for the period decreased $25.9 million. Unusually large interchange sales opportunities during 1993, which did not recur in 1994, were the primary cause of the decrease in purchased power.

1993 The cost of fuel decreased 5.5%, while electric generation increased 2.5%. The decrease in fuel cost was attributable to the effects of the UFAC and lower generation at IP's largest fossil plant. The decrease was partially offset by an increase in transportation costs due to flooding in the Midwest and a United Mine Workers' strike. Power purchased for the period increased $54.5 million. Coal delivery concerns and coal conservation measures stemming from the United Mine Workers' strike, combined with favorable interchange prices and increased sales opportunities, contributed to IP's increase in purchased power. Clinton returned to service December 10, 1993, after completing its fourth refueling and maintenance outage, which began September 26, 1993.

GAS OPERATIONS For the years 1993 through 1995, gas revenues including transportation decreased 13.4% while the gross margin on gas revenues increased 4.9% as follows:

(Millions of dollars)	1995	1994	1993
Gas revenues	$ 264.5	$ 293.2	$ 306.8
Gas cost	(138.8)	(172.4)	(187.3)
Transportation revenues	8.0	8.8	8.0
Gas margin	$ 133.7	$ 129.6	$ 127.5
(Millions of therms)			
Therms sold	588	584	597
Therms transported	273	262	229
Total consumption	861	846	826

Changes in the cost of gas purchased for resale:

(Millions of dollars)	1995	1994	1993
Gas purchased for resale			
Cost (excluding take-or-pay)	$ (43.1)	$ (6.4)	$ 13.3
Take-or-pay costs	(.4)	2.8	5.3
Volume	25.3	(13.6)	(3.4)
Gas cost recoveries	(15.4)	2.3	.2
Total increase (decrease)	$ (33.6)	$ (14.9)	$ 15.4
Average cost per therm delivered	20.1¢	26.1¢	27.5¢

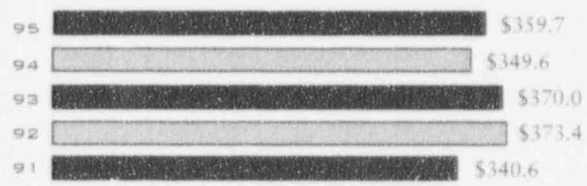
The 1995 decrease in the cost of gas purchased was due to lower gas prices caused by unusually warm winter weather nationwide. The 1994 decrease in the cost of gas purchased was primarily due to lower gas prices, the expanded use of additional gas storage and a decrease in therms purchased. Also contributing to the higher gas margins in 1995 and 1994 was the 6.1% increase in gas base rates approved by the ICC in April 1994. The 1993 increase in the cost of gas purchased was primarily due to an increase in the price of purchased gas and take-or-pay costs.

OTHER EXPENSES AND TAXES A comparison of significant increases (decreases) in other expenses and deferred Clinton costs for the last three years is presented in the following table:

(Millions of dollars)	1995	1994	1993
Other operating expenses	$ (.3)	$ (9.2)	$ (2.1)
Maintenance	10.4	(11.2)	(1.3)
Depreciation and amortization	7.2	6.4	6.0

The increase in maintenance expense for 1995 is primarily due to the refueling and maintenance outage at Clinton. The decrease in operating and maintenance expenses for 1994 is due to ongoing re-engineering efforts, improved operating efficiencies at IP's fossil plants and at Clinton, and no refueling and maintenance outage at Clinton. The decrease in operating and maintenance expenses for 1993 is primarily due to decreased costs at Clinton, partially offset by increased fossil plant maintenance. The 1995 and 1994 increases in depreciation expense are due primarily to a higher utility plant balance in 1995 and 1994 as compared to 1994 and 1993. The 1993 increase in depreciation expense was due principally to the effects of the adoption of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." See "Note 1—Summary of Significant Accounting Policies" of the "Notes to Consolidated Financial Statements" for additional information. The 1994 and 1993 increases in depreciation expense are partially offset by the decrease in deferred Clinton costs as a result of the September 1993 write-off of disallowed Clinton post-construction costs.

OPERATING AND MAINTENANCE EXPENSES
(Millions of dollars)



OTHER INCOME AND DEDUCTIONS Total allowance for funds used during construction (AFUDC), a non-cash item of income, decreased in 1995 compared to 1994 due to decreased eligible capital expenditures. The 1994 increase was due to higher construction work-in-progress balances eligible for AFUDC, partially offset by a lower AFUDC rate. The AFUDC effective rate was 6.5%, 7.0% and 7.5% in 1995, 1994 and 1993, respectively. The 1994 increase in Miscellaneous-net deductions was primarily due to a decrease in allocated income taxes.

INTEREST CHARGES Total interest charges increased $4.1 million in 1995, and decreased $21.0 million in 1994 and $3.7 million in 1993. The 1995 increase was due to increased short-term borrowings at higher rates. The 1994 and 1993 decreases were primarily due to the refinancing with lower-cost debt and the retirement of debt from 1992 through 1994. From 1992 to 1994, IP retired or refinanced approximately $1.5 billion of long-term debt, excluding revolving loan agreements, with a weighted average interest rate of 9.27%. During this time, IP issued approximately $1.4 billion of new debt at a weighted average interest rate of 6.97%.

INFLATION Inflation, as measured by the Consumer Price Index, was 2.5%, 2.5% and 3.1% in 1995, 1994 and 1993, respectively. IP recovers historical rather than current plant costs in rates.

LIQUIDITY AND CAPITAL RESOURCES

REGULATORY MATTERS

UFAC SUSPENSION On June 26, 1995, IP filed a petition with the ICC for permission to eliminate its UFAC by adjusting base rates to include projected fuel costs. IP filed its petition under a procedure that allows the ICC to grant or deny the specific proposal, but not to subject it to hearings or require that it be modified. IP believes that continuation of the UFAC creates disincentives to efficient decisions made on a total cost basis; that the UFAC is inconsistent with a competitive environment; and that the significance of fuel costs as a component of total costs has diminished, thereby reducing the need for a UFAC as a risk-reduction mechanism. On August 8, 1995, the ICC voted three to two to deny IP's petition. IP is currently reviewing its alternatives in light of the decision.

1994 GAS RATE ORDER On April 6, 1994, the ICC approved an increase of $18.9 million, or 6.1%, in IP's gas base rates. For customers, the increase is partially offset by savings from lower gas costs resulting from the expansion of the Hillsboro gas storage field. The approved authorized rate of return on rate base is 9.29%, with a rate of return on common equity of 11.24%. Concurrent with the gas rate increase, IP's gas utility plant composite depreciation rate decreased to 3.4%.

DIVIDENDS

On December 13, 1995, Illinova increased the quarterly common stock dividend 12%, declaring the common stock dividend for the first quarter of 1996 at $.28 per share, payable February 1, 1996, to shareholders of record as of January 10, 1996. On October 12, 1994, Illinova increased the quarterly common stock dividend 25%, declaring the common stock dividend for the first quarter of 1995 at $.25 per share.

CAPITAL RESOURCES AND REQUIREMENTS

Illinova and IP need cash for operating expenses, interest and dividend payments, debt and certain IP preferred stock retirements, and construction programs. To meet these needs, Illinova and IP have used internally generated funds and external financings including the issuance of IP preferred stock, debt and revolving lines of credit. The timing and amount of external financings depend primarily on economic and financial market conditions, cash needs and capitalization ratio objectives. To a significant degree, the availability and cost of external financing depend on the financial health of the company seeking those funds.

Cash flows from operations during 1995 provided sufficient working capital to meet ongoing operating requirements, to service existing common and IP preferred stock dividends and debt requirements, and to meet all of IP's construction requirements. Additionally, Illinova expects future cash flows will enable it to meet future operating requirements and continue to service IP's existing debt, IP's preferred and Illinova's common stock dividends, IP's sinking fund requirements and all of IP's anticipated construction requirements. The current ratings of securities by two principal securities rating agencies are as follows:

	Moody's	Standard & Poor's
IP first/new mortgage bonds	Baa2	BBB
IP preferred stock	baa3	BBB-
IP commercial paper	P-2	A-2

These ratings are an indication of Illinova's and IP's financial position and may affect the cost of securities, as well as the willingness of investors to invest in these securities. Under current market conditions, these ratings are unlikely to impair Illinova's or IP's ability to issue, or significantly increase the cost of issuing additional securities through external financing. Illinova and IP have adequate short-term and intermediate-term bank borrowing capacity.

In 1993, Standard & Poor's (S&P) published revised standards for review of utility business and financial risks, based in part on a subjective evaluation of such factors as anticipated growth in service territory, industrial sales as a proportion of total revenues, regulatory environment and nuclear plant ownership. S&P's preliminary assessment placed IP, along with approximately one-third of the industry, in the "somewhat below average" category. On April 13, 1994, S&P lowered IP's mortgage bond rating to BBB from BBB+. This action came after S&P reviewed IP's specific business position in light of the revised standards. In August 1995, S&P changed the assessment to "low average" and revised its ratings outlook to positive from stable. In February 1996, Moody's also revised its ratings outlook to positive from stable. IP's revised rating assessments reflect prospects for continued financial strengthening driven by gradual debt reduction, rigorous cost controls and moderate sales growth.

In February 1995, IP redeemed $12 million of 8.00% mandatorily redeemable serial preferred stock. In May 1995, IP redeemed the remaining $24 million of 8.00% mandatorily redeemable serial preferred stock. In March 1995, IP redeemed $.2 million of 7.56% serial preferred stock and $3 million of 8.24% serial preferred stock. In December 1995, IP redeemed $34.7 million of 8.00% serial preferred stock, $33.6 million of 7.56% serial preferred stock and $27 million of 8.24% serial preferred stock.

In February 1994, IP redeemed $12 million of 8.00% mandatorily redeemable serial preferred stock and issued $35.6 million of First Mortgage Bonds, 5.7% Series due 2024 (Pollution Control Series K). In May 1994, IP retired $35.6 million of First Mortgage Bonds, 11 5/8% Series due 2014 (Pollution Control Series D) with the proceeds of the debt issuance. In August 1994, IP retired $100 million of 8 1/2% debt securities.

Illinois Power Financing I (IPFI), is a statutory business trust in which IP serves as sponsor. IPFI issued $100 million of trust originated preferred securities (TOPrS) at 8% (4.8% after-tax rate) in January 1996. The TOPrS were issued by IPFI, which invested the proceeds in an equivalent amount of IP subordinated debentures due in 2045. The proceeds were used by IP to repay short-term indebtedness on varying dates on or before March 1, 1996. IP incurred the indebtedness in December 1995, to redeem $95.3 million (principal value) of higher-cost outstanding preferred stock of IP. The carrying amount under consideration paid for redeemed IP preferred stock amounted to $3.5 million which was recorded in equity and included in Net income applicable to common stock. See "Note 10—Preferred Stock of Subsidiary" of the "Notes to Consolidated Financial Statements" for additional information.

Illinois Power Capital, L.P., (IP Capital), is a limited partnership in which IP serves as a general partner. IP Capital issued $97 million of tax-advantaged monthly income preferred securities (MIPS) at 9.45% (5.67% after-tax rate) in October 1994. The proceeds were loaned to IP and were used to redeem $97 million (principal value) of higher-cost outstanding preferred stock of IP. The carrying amount over consideration paid for redeemed preferred stock amounted to $6.4 million which was recorded in equity and included in Net income applicable to common stock. See "Note 10—Preferred Stock of Subsidiary" of the "Notes to Consolidated Financial Statements" for additional information.

In December 1994, IP issued $84.1 million of First Mortgage Bonds, 7.4% Series due 2024 (Pollution Control Series L). In March 1995, the proceeds of the debt issuance were used to retire $84.1 million of First Mortgage Bonds, 10 3/4% Series due 2015 (Pollution Control Series E). In August 1995, IP purchased $5 million of 8.75% First Mortgage Bonds on the open market. See "Note 9—Long-Term Debt of Subsidiary" of the "Notes to Consolidated Financial Statements" for additional information.

For the years 1995, 1994 and 1993, changes in long-term debt and IP preferred stock outstanding, including normal maturities and elective redemptions, were as follows:

(Millions of dollars)	1995	1994	1993
Bonds	$ (5)	$ (10)	$ 35
Other long-term debt	—	(100)	—
Preferred stock	(135)	6	(51)
Total decrease	$ (140)	$ (104)	$ (16)

The amounts shown in the preceding table for debt retirements do not include all mortgage sinking fund requirements. IP has generally met these requirements by pledging property additions as permitted under IP's 1943 Mortgage and Deed of Trust. For additional information, see "Note 9—Long-Term Debt of Subsidiary" and "Note 10—Preferred Stock of Subsidiary" of the "Notes to Consolidated Financial Statements." See "Note 4—Commitments and Contingencies" of the "Notes to Consolidated Financial Statements" for information related to coal and gas purchases, nuclear fuel commitments and emission allowance purchases.

In 1992, IP executed a new general obligation mortgage (New Mortgage) to replace, over time, IP's 1943 Mortgage and Deed of Trust (First Mortgage). Both mortgages are secured by liens on substantially all of IP's properties. A corresponding issue of First Mortgage bonds, under the First Mortgage, secures bonds issued under the New Mortgage. At December 31, 1995, based on the most restrictive earnings test contained in the First Mortgage, IP could issue approximately $1.2 billion of additional First Mortgage bonds for other than refunding purposes. The amount of available unsecured borrowing capacity totaled $144 million at December 31, 1995. Also at December 31, 1995, the unused portion of Illinova and IP total bank lines of credit was $404 million. As of December 31, 1995, IP had $120 million of unissued debt securities and $56.5 million of unissued preferred stock authorized by the Securities and Exchange Commission in September 1993 and August 1993, respectively.

Capital expenditures for the years 1993 through 1995 were approximately $680.7 million, including $22.5 million of AFUDC. Illinova estimates that $1.56 billion will be required for construction and capital expenditures during the 1996–2000 period as follows:

(Millions of dollars)	1996	Five-Year Period 1996–2000
Construction requirements		
Electric generating facilities	$ 45	$ 236
Electric transmission and distribution facilities	68	249
General plant	24	86
Gas facilities	28	110
Total construction requirements	165	681
Nuclear fuel	25	135
Debt retirements	62	362
Investments in subsidiaries	77	381
Total	$ 329	$ 1,559

See "Note 4—Commitments and Contingencies" of the "Notes to Consolidated Financial Statements" for additional information. Internal cash generation will meet substantially all construction and capital requirements.

Environmental Matters

See "Note 4—Commitments and Contingencies" of the "Notes to Consolidated Financial Statements" for a discussion of the Clean Air Act and manufactured-gas plant sites.

Tax Matters

See "Note 7—Income Taxes" of the "Notes to Consolidated Financial Statements" for a discussion of effective tax rates and other tax issues.

Accounting Matters

In March 1995, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets to be Disposed of" (FAS 121), effective for fiscal years beginning after December 15, 1995. FAS 121 requires that an entity review long-lived assets for impairment when events indicate that the carrying amount of an asset may not be recoverable. For regulated enterprises, FAS 121 amends FASB Statement No. 71, "Accounting for the Effects of Certain Types of Regulation" (FAS 71), requiring that an impairment be recognized for regulatory assets no longer meeting the criteria of paragraph 9 of FAS 71. This standard is not currently expected to materially impact the consolidated financial position or results of operations of Illinova or IP.

In October 1995, the FASB issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (FAS 123), effective for fiscal years beginning after December 15, 1995. FAS 123 establishes a fair-value based method of accounting for employee stock-based compensation plans and encourages companies to adopt that method. However, it also allows companies to continue to apply the intrinsic value-based method currently prescribed under APB Opinion No. 25 and related pronouncements, provided certain fair-value pro forma disclosures are made. Illinova is continuing to evaluate its alternatives under this standard.

The FASB continues to review the accounting for liabilities related to closure and removal of long-lived assets, including decommissioning. See "Note 4—Commitments and Contingencies" of the "Notes to Consolidated Financial Statements" for a discussion of decommissioning.

Responsibility for Information

The consolidated financial statements and all information in this annual report are the responsibility of management. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis and include amounts that are based on management's best estimates and judgments. Management also prepared the other information in the annual report and is responsible for its accuracy and consistency with the consolidated financial statements. In the opinion of management, the consolidated financial statements fairly reflect Illinova's financial position, results of operations and cash flows.

Illinova believes that its accounting and internal accounting control systems are maintained so that these systems provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that the financial records are reliable for preparing the consolidated financial statements.

The consolidated financial statements have been audited by Illinova's independent accountants, Price Waterhouse LLP, in accordance with generally accepted auditing standards. Such standards include the evaluation of internal accounting controls to establish a basis for developing the scope of the examination of the consolidated financial statements. In addition to the use of independent accountants, Illinova maintains a professional staff of internal auditors who conduct financial, procedural and special audits. To assure their independence, both Price Waterhouse LLP and the internal auditors have direct access to the Audit Committee of the Board of Directors.

The Audit Committee is composed of members of the Board of Directors who are not active or retired employees of Illinova. The Audit Committee meets with Price Waterhouse LLP and the internal auditors and makes recommendations to the Board of Directors concerning the appointment of the independent accountants and services to be performed. Additionally, the Audit Committee meets with Price Waterhouse LLP to discuss the results of their annual audit, Illinova's internal accounting controls and financial reporting matters. The Audit Committee meets with the internal auditors to assess the internal audit work performed, including tests of internal accounting controls.

Larry D. Haab
Chairman, President
and Chief Executive Officer

Larry F. Altenbaumer
Chief Financial Officer,
Treasurer and Controller

Report of Independent Accountants

Price Waterhouse LLP

To the Board of Directors
of Illinova Corporation

In our opinion, the consolidated financial statements of Illinova Corporation and its subsidiaries appearing on pages A-11 through A-31 of this report present fairly, in all material respects, the financial position of Illinova Corporation and its subsidiaries at December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP

Price Waterhouse LLP
St. Louis, Missouri
February 2, 1996

ILLINOVA CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31,	1995	1994	1993
	(Millions of dollars except per share amounts)		
OPERATING REVENUES			
Electric	$ 1,252.6	$ 1,177.5	$ 1,135.6
Electric interchange	116.3	110.0	130.8
Gas	272.5	302.0	314.8
Total	1,641.4	1,589.5	1,581.2
OPERATING EXPENSES AND TAXES			
Fuel for electric plants	273.9	266.6	235.1
Power purchased	59.5	52.6	78.5
Gas purchased for resale	138.8	172.4	187.3
Other operating expenses	259.7	260.0	269.2
Maintenance	100.0	89.6	100.8
Enhanced retirement and severance	37.8	—	—
Depreciation and amortization	186.5	179.3	172.9
General taxes	135.0	130.3	125.6
Income taxes	125.8	118.3	106.5
Total	1,317.0	1,269.1	1,275.9
Operating income	324.4	320.4	305.3
OTHER INCOME AND DEDUCTIONS			
Allowance for equity funds used during construction	—	3.8	2.7
Disallowed Clinton costs	—	—	(271.0)
Income tax effects of disallowed costs	—	—	70.6
Miscellaneous-net	(7.1)	(9.1)	(3.0)
Total	(7.1)	(5.3)	(200.7)
Income before interest charges	317.3	315.1	104.6
INTEREST CHARGES			
Interest expense	148.0	143.9	164.9
Allowance for borrowed funds used during construction	(6.0)	(5.5)	(4.5)
Preferred dividend requirements of subsidiary	23.7	24.9	26.1
Total	165.7	163.3	186.5
Net income (loss)	151.6	151.8	(81.9)
Carrying amount over (under) consideration paid for redeemed preferred stock of subsidiary	(3.5)	6.4	—
Net income (loss) applicable to common stock	$ 148.1	$ 158.2	$ (81.9)
Earnings (loss) per common share	$ 1.96	$ 2.09	$ (1.08)
Cash dividends declared per common share	$ 1.03	$ .65	$ .40
Cash dividends paid per common share	$ 1.00	$ .80	$ .80
Weighted average common shares	75,643,937	75,643,937	75,643,937

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

ILLINOVA CORPORATION

CONSOLIDATED BALANCE SHEETS

	(Millions of dollars)	
December 31,	1995	1994
ASSETS		
UTILITY PLANT, AT ORIGINAL COST		
Electric (includes construction work in progress of $199.8 million and $202.8 million, respectively)	$ 6,189.0	$ 6,023.1
Gas (includes construction work in progress of $10.2 million and $16.8 million, respectively)	625.9	606.1
	6,814.9	6,629.2
Less — accumulated depreciation	2,251.7	2,102.7
	4,563.2	4,526.5
Nuclear fuel in process	5.7	6.2
Nuclear fuel under capital lease	95.2	1[illegible].5
	4,664.1	4,6[illegible]
INVESTMENTS AND OTHER ASSETS	65.8	37.4
CURRENT ASSETS		
Cash and cash equivalents	11.3	50.7
Notes receivable	6.1	—
Accounts receivable (less allowance for doubtful accounts of $3 million)		
Service	129.4	110.4
Other	13.2	30.5
Accrued unbilled revenue	89.1	78.9
Materials and supplies, at average cost		
Fossil fuel	9.9	18.7
Gas in underground storage	18.5	23.1
Operating materials	82.7	92.1
Prepaid and refundable income taxes	19.6	11.5
Prepayments and other	20.8	23.5
	400.6	439.4
DEFERRED CHARGES		
Deferred Clinton costs	107.3	110.8
Recoverable income taxes	128.7	147.3
Other	243.3	197.6
	479.3	455.7
	$ 5,609.8	$ 5,576.7

CAPITAL AND LIABILITIES		
CAPITALIZATION		
Common stock — No par value, 200,000,000 shares authorized; 75,643,937 shares outstanding, stated at	$ 1,424.6	$ 1,424.6
Less — Deferred compensation — ESOP	18.4	23.5
Retained earnings	129.6	58.8
Less — Capital stock expense	8.8	9.7
Total common stock equity	1,527.0	1,450.2
Preferred stock of subsidiary	125.6	224.7
Mandatorily redeemable preferred stock of subsidiary	97.0	133.0
Long-term debt of subsidiary	1,739.3	1,946.1
Total capitalization	3,488.9	3,754.0
CURRENT LIABILITIES		
Accounts payable	119.9	108.2
Notes payable	359.6	238.8
Long-term debt and lease obligations of subsidiary maturing within one year	95.0	33.5
Dividends declared	23.0	23.4
Taxes accrued	44.8	32.3
Interest accrued	39.0	38.4
Other	66.2	55.8
	747.5	530.4
DEFERRED CREDITS		
Accumulated deferred income taxes	1,012.8	978.6
Accumulated deferred investment tax credits	222.8	230.9
Other	137.8	82.8
(Commitments and Contingencies Note 4)	1,373.4	1,292.3
	$ 5,609.8	$ 5,576.7

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

ILLINOVA CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of dollars)

For the Years Ended December 31,	1995	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ 151.6	$ 151.8	$ (81.9)
Items not requiring (providing) cash —			
Disallowed Clinton costs, net of income taxes	—	—	200.4
Depreciation and amortization	190.0	182.3	176.6
Allowance for funds used during construction	(6.0)	(9.3)	(7.2)
Deferred income taxes	39.1	36.4	67.9
Enhanced retirement and severance	37.8	—	—
Changes in assets and liabilities —			
Accounts and notes receivable	(7.8)	(18.2)	(21.3)
Accrued unbilled revenue	(10.2)	(29.9)	42.9
Materials and supplies	22.8	(2.3)	6.2
Accounts payable	(13.6)	(20.6)	13.8
Interest accrued and other, net	9.5	(21.6)	(27.7)
Net cash provided by operating activities	413.2	268.6	369.7
CASH FLOWS FROM INVESTING ACTIVITIES			
Construction expenditures	(209.3)	(193.7)	(277.7)
Allowance for funds used during construction	6.0	9.3	7.2
Other investing activities	(34.9)	(19.7)	(8.2)
Net cash used in investing activities	(238.2)	(204.1)	(278.7)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends on common stock	(75.6)	(60.5)	(60.5)
Redemptions —			
Short-term debt	(213.6)	(259.3)	(254.5)
Long-term debt of subsidiary	(5.2)	(230.0)	(832.0)
Preferred stock of subsidiary	(134.5)	(91.0)	(94.4)
Issuances —			
Short-term debt	209.5	405.8	279.7
Long-term debt of subsidiary	—	119.8	866.8
Preferred stock of subsidiary	—	97.0	43.5
Discount (premium) paid on redemption of long-term debt of subsidiary	—	(2.8)	(25.8)
Other financing activities	5.0	(2.7)	(12.6)
Net cash used in financing activities	(214.4)	(23.7)	(89.8)
Net change in cash and cash equivalents	(39.4)	40.8	1.2
Cash and cash equivalents at beginning of year	50.7	9.9	8.7
Cash and cash equivalents at end of year	$ 11.3	$ 50.7	$ 9.9

ILLINOVA CORPORATION

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT)

(Millions of dollars)

For the Years Ended December 31,	1995	1994	1993
Balance (deficit) at beginning of year	$ 58.8	$ (64.6)	$ 41.0
Net income (loss) before dividends	175.3	176.7	(55.8)
	234.1	112.1	(14.8)
Less —			
Dividends —			
Preferred stock of subsidiary	23.6	11.1	20.1
Common stock	77.4	48.6	29.7
Plus —			
Carrying amount over (under) consideration paid for redeemed preferred stock of subsidiary	(3.5)	6.4	—
	(104.5)	(53.3)	(49.8)
Balance (deficit) at end of year	$ 129.6	$ 58.8	$ (64.6)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Summary of Significant Accounting Policies

Principles of Consolidation The consolidated financial statements include the accounts of Illinova Corporation (Illinova), a holding company, Illinois Power Company (IP), a combination electric and gas utility, Illinova Generating Company (IGC), a wholly owned subsidiary that invests in energy-related projects throughout the world and competes in the independent power market and Illinova Power Marketing, Inc. (IPMI), a wholly owned subsidiary in the business of marketing energy and energy-related services to various customers. See "Note 2—Illinova Subsidiaries" of the "Notes to Consolidated Financial Statements" for additional information.

IP's consolidated financial position and results of operations are currently the principal factors affecting Illinova's consolidated financial position and results of operations. All significant intercompany balances and transactions have been eliminated from the consolidated financial statements. All nonutility operating transactions are included in the section titled Other Income and Deductions, "Miscellaneous-net" in the Consolidated Statements of Income. Preparation of financial statements in conformity with generally accepted accounting principles requires the use of management's estimates. Prior year amounts have been reclassified on a basis consistent with the December 31, 1995, presentation.

Regulation IP is subject to regulation by the Illinois Commerce Commission (ICC) and the Federal Energy Regulatory Commission (FERC) and, accordingly, prepares its consolidated financial statements based on the concepts of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (FAS 71), which requires that the effects of the ratemaking process be recorded. Such effects primarily concern the time at which various items enter into the determination of net income in order to follow the principle of matching costs and revenues. Accordingly, IP records various regulatory assets and liabilities to reflect the actions of regulators. Management believes that IP currently meets the criteria for continued application of FAS 71 but will continue to evaluate significant changes in the regulatory and competitive environment to assess IP's overall compliance with such criteria. These criteria include: 1) whether rates set by regulators are designed to recover the specific costs of providing regulated services and products to customers and 2) whether regulators continue to establish rates based on cost. In the event that management determines that IP no longer meets the criteria for application of FAS 71, an extraordinary non-cash charge to income would be recorded in order to remove the effects of the actions of regulators from the consolidated financial statements. The discontinuation of application of FAS 71 would likely have a material adverse effect on Illinova's and IP's consolidated financial position and results of operations. Illinova's principal accounting policies are:

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

Regulatory Assets Significant regulatory assets include deferred Clinton Power Station (Clinton) post-construction costs, unamortized losses on reacquired debt, recoverable income taxes and manufactured-gas plant site cleanup costs.

Allowance For Funds Used During Construction The FERC Uniform System of Accounts defines AFUDC as the net costs 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 that is related to the approximate weighted average cost of capital. In 1995, 1994 and 1993, the pre-tax rate used for all construction projects was 6.5%, 7.0% and 7.5%, respectively. Although cash is not currently realized from the allowance, it is realized under the ratemaking process over the service life of the related property through increased revenues, resulting from a higher rate base and higher depreciation expense.

DEPRECIATION For financial statement purposes, IP depreciates the various classes of depreciable property over their estimated useful lives by applying composite rates on a straight-line basis. In 1995, 1994 and 1993, provisions for depreciation were 2.8% of the average depreciable cost for Clinton. Provisions for depreciation for all other electric plant were 2.6% in 1995 and 2.5% in 1994 and 1993. Provisions for depreciation of gas utility plant, as a percentage of the average depreciable cost, were 3.4% in 1995 and 1994 and 4% in 1993.

AMORTIZATION OF NUCLEAR FUEL IP leases nuclear fuel from Illinois Power Fuel Company (Fuel Company) under a capital lease. Amortization of nuclear fuel (including related financing costs) is determined on a unit of production basis. See "Note 4—Commitments and Contingencies" of the "Notes to Consolidated Financial Statements" for discussion of decommissioning and nuclear fuel disposal costs. A provision for spent fuel disposal costs is charged to fuel expense based on kilowatt-hours generated.

DEFERRED CLINTON COSTS In accordance with an ICC order in April 1987, IP began deferring certain Clinton post-construction operating and financing costs until rates to reflect such costs became effective (April 1989). After issuance of the March 1989 ICC rate order, deferral of Clinton post-construction costs ceased and amortization of the previously deferred post-construction costs over a 37.5-year period began. Although cash is not currently realized from these deferrals, it is realized under the ratemaking process over the service life of Clinton through increased revenues, resulting from a higher rate base and higher amortization expense.

UNAMORTIZED DEBT DISCOUNT, PREMIUM AND EXPENSE Discount, premium and expense associated with long-term debt are amortized over the lives of the related issues. Costs related to refunded debt are amortized over the lives of the related new debt issues or the remaining life of the old debt if no new debt is issued.

REVENUE AND ENERGY COST IP records revenue for services provided but not yet billed to more closely match revenues with expenses. Unbilled revenues represent the estimated amount customers will be billed for service delivered from the time meters were last read to the end of the accounting period. Operating revenues include related taxes that have been billed to customers in the years 1995, 1994 and 1993 in the amount of $66 million, $66 million and $65 million, respectively. The cost of fuel for the generation of electricity, purchased power and gas purchased for resale is recovered from customers pursuant to the electric fuel and purchased gas adjustment clauses. Accordingly, allowable energy costs that are to be passed on to customers in a subsequent accounting period are deferred. The recovery of costs deferred under these clauses is subject to review and approval by the ICC.

On April 6, 1994, the ICC approved an increase of $18.9 million, or 6.1%, in IP's gas base rates. The increase to customers is partially offset by savings from lower gas costs resulting from the expansion of the Hillsboro gas storage field. The approved authorized rate of return on rate base is 9.29%, with a rate of return on common equity of 11.24%.

INCOME TAXES Under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (FAS 109), deferred tax assets and liabilities are recognized for the tax consequences of transactions that have been treated differently for financial reporting and tax return purposes, measured on the basis of the statutory tax rates. In accordance with FAS 71, a regulatory asset (recoverable income taxes) has been recorded representing the probable recovery from customers of additional deferred income taxes established under FAS 109.

Investment tax credits used to reduce federal income taxes have been deferred and are being amortized to income over the "service life" of the property that gave rise to the credits. Illinova and its subsidiaries file a consolidated federal income tax return. Income taxes are allocated to the individual companies based on their respective taxable income or loss. See "Note 7—Income Taxes" of the "Notes to Consolidated Financial Statements" for additional discussion.

PREFERRED DIVIDEND REQUIREMENTS OF SUBSIDIARY Preferred dividend requirements of IP reflected in the Consolidated Statements of Income are recorded on the accrual basis and relate to the period for which the dividends are applicable.

CONSOLIDATED STATEMENTS OF CASH FLOWS Cash and cash equivalents include cash on hand and temporary investments purchased with an initial maturity of three months or less. Capital lease obligations not affecting cash flows increased by $19 million, $28 million and $27 million during 1995, 1994 and 1993, respectively. Income taxes and interest paid are as follows:

	Years ended December 31,		
(Millions of dollars)	1995	1994	1993
Income taxes	$ 64.7	$ 71.1	$ 26.0
Interest	$ 152.4	$ 165.9	$ 166.4

The increase in income taxes paid from 1993 to 1994 was due to an increase in taxable income and the settlement of an IRS audit. The results of the settlement did not have a material effect on Illinova's or IP's financial position or results of operations. See "Note 7—Income Taxes" of the "Notes to Consolidated Financial Statements" for additional information.

INTEREST RATE CAP Premiums paid for the purchased interest rate cap agreements are being amortized to interest expense over the terms of the caps. Unamortized premiums are included in Current Assets, "Prepayments and Other," in the Consolidated Balance Sheets. Amounts to be received under the cap agreements are recognized as a reduction in interest expense.

NOTE 2—ILLINOVA SUBSIDIARIES

Illinova, a holding company, is the parent of IP, IGC and IPMI. IP, the primary business and subsidiary of Illinova, is engaged in the generation, transmission, distribution and sale of electric energy and the distribution, transportation and sale of natural gas in the state of Illinois. IGC, Illinova's wholly owned independent power subsidiary, invests in energy-related projects throughout the world and competes in the independent power market. IPMI, Illinova's wholly owned subsidiary, is in the business of marketing energy and energy-related services to various customers.

In 1993, IGC invested in a 168 MW co-generation project in Teesside, England. In 1994, IGC became an equity partner with Tenaska, Inc., in four natural gas-fired generation plants, of which two are in operation, one is under construction and one is suspended. Tenaska, Inc. is an Omaha, Nebraska-based developer of independent power projects throughout the U.S. In August 1994, IGC purchased 50 percent of the North American Energy Services Company (NAES). NAES supplies a broad range of operations, maintenance and support services to the worldwide independent power generation industry and will operate the Tenaska generation plants in which IGC purchased an equity interest. In November 1994, IGC became an equity partner in an 80 MW operating diesel engine-powered generating plant in Puerto Cortez, Honduras.

In March 1995, IGC invested in Brazos, a 258 MW plant located near Claiborne, Texas. In May 1995, IGC became an equity partner in the Indeck North American Power Fund (Fund). The Fund's first project, in June 1995, a 70 MW plant, was the Harbor Cogeneration Project in Long Beach, California. In August 1995, the Fund acquired the Pepperell Cogeneration Project, a 38 MW gas-fired combined cycle facility located in Pepperell, Massachusetts. In the fourth quarter of 1995, IGC completed its first investment in the People's Republic of China by investing in the Xinchang Project, a 24 MW coal-fired plant located in Zhejiang Province. Additionally, IGC invested in the Carbontec Project located near Gillette, Wyoming. This coal-drying facility will utilize a recently developed proprietary CARBONDRY process to dry moderate to high moisture coals. In December 1995, IGC signed a limited liability company agreement to complete an initial investment in a 146 MW power project located near Aguaytia, Peru. Also, in December 1995, IGC invested in the Jamaica Energy Partners Project, a 74 MW barge-mounted facility located in Old Harbour, Jamaica. In 1996, IGC plans to make an equity investment in a 400 MW operating plant located in Colombia. See "Note 4—Commitments and Contingencies" of the "Notes to Consolidated Financial Statements" for information about IGC contingencies.

At December 31, 1995, Illinova's net investment in IGC was $49 million.

On May 16, 1995, IPMI obtained approval from the FERC to conduct business as a marketer of electric power and gas to various customers outside IP's present service territory. In September 1995, IPMI began buying and selling wholesale electricity in the western United States. IPMI acquired 50 percent ownership in Tenaska Marketing Ventures (TMV) on April 17, 1995, with the ownership interest retroactive to January 1, 1995. In October 1995, IPMI and TMV formed a natural gas company, Tenaska Marketing Canada, to market gas in Canada. IPMI secured sales commitments of $12 million for 1996. See "Note 4—Commitments and Contingencies" of the "Notes to Consolidated Financial Statements" for information about IPMI contingencies.

At December 31, 1995, Illinova's net investment in IPMI was $9 million.

In December 1995, Illinova established a new division, Illinova Energy Services, to provide energy-related services to customers inside and outside IP's service territory. These services involve the ways energy is used and distributed after its delivery at the meter.

NOTE 3—CLINTON POWER STATION

IP and Soyland Power Cooperative, Inc. (Soyland) share ownership of Clinton, with IP owning 86.8% and Soyland owning 13.2%. IP's ownership percentage is reflected in Utility Plant, at Original Cost, and in accumulated depreciation in the Consolidated Balance Sheets. Clinton was placed in service in 1987 and represents approximately 18% of IP's installed generation capacity. The investment in Clinton and its related deferred costs represented approximately 51% of Illinova's total assets at December 31, 1995. IP's 86.8% share of Clinton-related costs represented 34% of Illinova's total 1995 other operating, maintenance and depreciation expenses. Clinton's equivalent availability was 76%, 92% and 73% for 1995, 1994 and 1993, respectively. Clinton's equivalent availability was higher in 1994 due to no refueling outage.

Ownership of an operating nuclear generating unit exposes IP to significant risks, including increased and changing regulatory, safety and environmental requirements and the uncertain future cost of closing and dismantling the unit. IP expects to be allowed to continue to operate Clinton; however, if any unforeseen or unexpected developments prevent IP from doing so, Illinova and IP would be materially adversely affected. See "Note 4—Commitments and Contingencies" of the "Notes to Consolidated Financial Statements" for additional information.

RATE AND REGULATORY MATTERS

1992 RATE ORDER A September 1993 decision by the Illinois Appellate Court, Third District (Appellate Court Decision), upheld key components of the August 1992 Rehearing Order (Rehearing Order) issued by the ICC. The Rehearing Order denied IP recovery of certain deferred Clinton post-construction costs, which were recorded from the time Clinton began operations (April 1987) to the time the ICC allowed IP to begin recovering these deferred costs in rates (March 1989), otherwise known as the regulatory lag period.

Based on IP's assessment of the Appellate Court Decision and in accordance with FAS 71, IP recorded a loss of $271 million ($200 million or $2.65 per share, net of income taxes) in September 1993.

NOTE 4—COMMITMENTS AND CONTINGENCIES

COMMITMENTS

Estimated capital requirements in 1996 are $267 million, which includes $113 million for electric facilities, $28 million for gas facilities, $25 million for nuclear fuel, $24 million for general plant and $77 million for non-regulated subsidiary activities. The estimated five-year construction program for 1996 through 2000 is $1.2 billion. These expenditures do not include capital expenditures for full compliance with the Clean Air Act, as discussed below.

In addition, IP has substantial commitments for the purchase of coal under long-term contracts. Estimated coal contract commitments for 1996 through 2000 are $664 million (excluding price escalation provisions). Total coal purchases for 1995, 1994 and 1993 were $168 million, $191 million and $184 million, respectively. IP has contracts with various natural gas suppliers and interstate pipelines to provide natural gas supply, transportation and leased storage. Estimated committed natural gas, transportation and leased storage costs (including pipeline transition costs) for 1996 through 2000 total $39 million. Total natural gas purchased for 1995, 1994 and 1993 was $150 million, $168 million and $188 million, respectively. IP's share of estimated nuclear fuel commitments for Clinton is approximately $26 million for uranium concentrates through 1998, $7 million for conversion through 2002, $47 million for enrichment through 1999 and $213 million for fabrication through 2017. IP is committed to purchase approximately $74 million of emission allowances through 1999. IP anticipates that all of these costs will be recoverable under IP's electric fuel and purchased gas adjustment clauses, if found by the ICC to be prudently incurred.

INSURANCE IP maintains insurance on behalf of IP and Soyland for certain losses involving the operation of Clinton. One insurance program provides coverage for physical damage to the plant. Based on a review of this insurance, IP has reduced its limits from $2.7 billion to $1.6 billion effective December 15, 1994. IP's insurance program has two layers: 1) a primary layer of $500 million provided by nuclear insurance pools; and 2) an excess coverage layer of $1.1 billion provided by an industry-owned mutual insurance company. In the event of an accident with an estimated cost of reactor stabilization and site decontamination exceeding $100 million, Nuclear Regulatory Commission (NRC) regulations require that insurance proceeds be dedicated and used first to return the reactor to, and maintain it in, a safe and stable condition. After providing for stabilization and decontamination, the insurers would then cover property damage up to a total payout of $1.38 billion. Second, the NRC requires decontamination of the reactor station site in accordance with the plan approved by the NRC. The insurers would provide up to $220 million to cover decommissioning costs in excess of funds already collected for decommissioning, as discussed later. In the event insurance limits are not exhausted, the excess will cover a portion of the value of the undamaged property. In addition, while IP has no reason to anticipate a serious nuclear accident at Clinton, if such an incident should occur, the claims for property damage and other costs would materially exceed the limits of current or available insurance coverage. IP also carries approximately $.9 million per week of business interruption insurance coverage for its ownership share of Clinton through the industry-owned mutual insurance company in the event of an extended shutdown of Clinton due to accidental property damage. This insurance does not provide coverage until Clinton has been out of service for 21 weeks. Thereafter, the insurance provides up to 156 weeks of coverage.

Multiple major losses, covered under the current property damage and business interruption insurance coverage, involving Clinton or other stations insured by the industry-owned mutual insurance company would result in retrospective premium assessments of up to approximately $13 million. IP would allocate this assessment between IP and Soyland based on their respective ownership interest in Clinton.

All United States nuclear power station operators are subject to the Price-Anderson Act. This act currently limits public liability for a nuclear incident to $8.9 billion. Private insurance covers the first $200 million. Retrospective premium assessments against each licensed nuclear reactor in the United States provide excess coverage. Currently, the liability to these reactor operators/owners for such an assessment would be up to $79.3 million per incident, not including premium taxes which may be applicable, payable in annual installments of not more than $10 million.

A Master Worker Policy covers worker tort claims alleging bodily injury, sickness or disease as a result of initial radiation exposure occurring on or after January 1, 1988. The policy has an aggregate limit of $200 million that applies to the commercial nuclear industry as a whole. If the policy pays, then a provision for automatic reinstatement of policy limits up to an additional $200 million takes effect. There is also a provision for retrospective assessment of additional premiums if claims exceed funds available in the insurance company's reserve accounts. The maximum retrospective premium assessment for this contingency is approximately $3 million and may be subject to state premium taxes. IP and Soyland would allocate, based on their respective ownership in Clinton, any retrospective premium assessments pertaining to the Master Worker Policy or the Price-Anderson Act.

IP may be subject to other risks which may not be insurable, or the amount of insurance carried to offset the various risks may not be sufficient to meet potential liabilities and losses. There is also no assurance that IP will be able to maintain insurance coverages at their present levels. Under those circumstances, such losses or liabilities may have a substantial adverse effect on Illinova's and IP's financial position.

DECOMMISSIONING AND NUCLEAR FUEL DISPOSAL COSTS IP is responsible for its ownership share of the costs of decommissioning Clinton and for spent nuclear fuel disposal costs. IP is collecting future decommissioning costs through its electric rates based on an ICC-approved formula that allows IP to adjust rates annually for changes in decommissioning cost estimates.

Based on NRC regulations that establish a minimum funding level, IP estimates its 86.8% share of Clinton decommissioning costs to be approximately $376 million (1995 dollars) or $692 million (2026 dollars, assuming a 2% inflation factor). The NRC bases the minimum only on the cost of removing radioactive plant structures. IP is concluding a site-specific study to estimate the costs of dismantlement, removal and disposal of Clinton. This study is expected to result in projected decommissioning costs higher than the NRC-specified funding level.

External decommissioning trusts, as prescribed under Illinois law and authorized by the ICC, accumulate funds based on the expected service life of the plant for the future decommissioning of Clinton. For the years 1995, 1994 and 1993, IP contributed $5.0 million, $5.5 million and $3.9 million, respectively, to its external nuclear decommissioning trust funds. The balances in these nuclear decommissioning funds at December 31, 1995, and 1994, were $32.7 million and $22.4 million, respectively. IP recognizes earnings and expenses from the trust fund as changes in its assets and liabilities relating to these funds. In November 1994, the ICC granted IP permission to invest up to 60% of the nuclear decommissioning trust assets in selected equity securities.

The FASB is reviewing the accounting for removal costs of nuclear generating stations, including decommissioning. Changing current electric utility industry accounting practices for such decommissioning may result in: 1) increasing annual provisions for decommissioning through increases in depreciation; 2) recording the estimated total cost for decommissioning as a liability with a gross-up to plant balances; and 3) reporting trust fund income from the external decommissioning trusts as investment income rather than as a reduction to decommissioning expense. Changes to current electric utility industry accounting practices for decommissioning will likely be effective in 1997. IP believes that, based on current information, these changes will not have an adverse effect on results of operations due to existing and anticipated future ability to recover decommissioning costs through rates.

In 1992, the ICC entered an order in which it expressed concern that IP take all reasonable action to ensure that Soyland contributes its ownership share of the current or any revised estimate of decommissioning costs. The order also states that if IP becomes liable for decommissioning expenses attributable to Soyland, the ICC will then decide whether that expense should be the responsibility of IP stockholders or its customers. If Soyland were to fail to meet these or other obligations related to its ownership of Clinton, then IP could become liable for such payments.

Under the Nuclear Waste Policy Act of 1982, the Department of Energy (DOE) is responsible for the permanent storage and disposal of spent nuclear fuel. The DOE currently charges one mill ($.001) per net kilowatt-hour (one dollar per MWH) generated and sold for future disposal of spent fuel. IP is recovering these charges through rates.

ENVIRONMENTAL MATTERS

CLEAN AIR ACT In August 1992, IP announced that it had suspended construction of two scrubbers at the Baldwin Power Station. At December 31, 1995, approximately $24 million in costs for the suspended Baldwin scrubber program continue to be recorded by Illinois Power as plant held for future use. After suspending scrubber construction, IP reconsidered its alternatives for complying with Phase I of the 1990 Clean Air Act Amendments.

To comply with the sulfur dioxide (SO_2) emission reduction requirements of Phase I (1995–1999) of the 1990 Clean Air Act Amendments, IP continues to purchase emission allowances. An emission allowance is the authorization by the United States Environmental Protection Agency (U.S.EPA) to emit one ton of SO_2. The ICC approved IP's Phase I Clean Air Act compliance plan in September 1993, and IP is continuing to implement that plan. IP has acquired sufficient emission allowances to meet most of its anticipated needs for 1996 and will purchase the remainder on the spot market. In 1993, the Illinois General Assembly passed and the governor signed legislation authorizing, but not requiring, the ICC to permit expenditures and revenues from emission allowance purchases and sales to be included in rates charged to customers as a cost of fuel. In December 1994, the ICC approved the recovery of emission allowance costs through the Uniform Fuel Adjustment Clause. IP's compliance plan will defer, until at least 2000, any need for scrubbers or other capital projects associated with SO_2 emission reductions. Phase II (2000 and beyond) SO_2 emission requirements of the Clean Air Act will require additional actions and may result in capital expenditures.

To comply with the Phase I nitrogen oxide (NO_X) emission reduction requirements of the acid rain provisions of the Clean Air Act, IP installed low-NO_X burners at Baldwin Unit 3 and Vermilion Unit 2. On November 29, 1994, the U.S. Appellate Court remanded the Phase I NO_X rules back to the U.S.EPA. On April 13, 1995, the U.S.EPA reinstated, with some modifications, the Phase I NO_X rules effective January 1, 1996. IP was positioned to comply with these revised rules without additional modifications to any of its generating plants. The U.S.EPA will issue Phase II NO_X emission limits by January 1, 1997.

IP anticipates additional capital expenditures prior to 2000 to comply with the Phase II NOx requirements, as well as potential requirements to further reduce NOx emissions from IP plants to help achieve compliance with air quality standards in the St. Louis and Chicago metropolitan areas. IP has installed continuous emission monitoring systems at its major generating stations, as required by the acid rain provisions of the Clean Air Act.

IP is monitoring the developments of several emerging clean air compliance issues which could have a significant impact on its fossil-fueled generating plants. These issues include global climate change (theorized to result from emissions of "greenhouse gasses" such as carbon dioxide), controls on "hazardous air pollutants," and standards for fine particulates. Compliance with potential new regulations in these areas may require significant expenditures prior to 2000.

MANUFACTURED-GAS PLANT (MGP) In September 1995, IP increased its liability for MGP site remediation by $41 million to a total of $76 million. This amount represents IP's current best estimate of its cost to remediate MGP sites for which it is responsible. This estimate reflects the results of a site-by-site survey utilizing current site information and remediation techniques. The estimate, determined by IP with assistance from several external environmental consultants, is in accordance with Electric Power Research Institute guidelines. Because of the unknown and unique characteristics of each site and uncertain regulatory requirements, IP is not able to determine its ultimate liability for remediation of the 24 sites. The previously recorded liability of $35 million was an estimate of the minimum cost based on ongoing remediation efforts at eight sites and ongoing investigations of the remaining 16 sites.

IP is currently recovering MGP site cleanup costs from its customers through tariff riders approved by the ICC in April 1993. On April 20, 1995, the Illinois Supreme Court issued a ruling that upheld the ICC authorization of cost recovery and reversed the ICC's disallowance of carrying costs, mandating the ICC to reissue an order providing for recovery of prudently incurred MGP site cleanup costs, including carrying costs. On November 20, 1995, the ICC issued an order on remand allowing full recovery of all such MGP site cleanup costs. Accordingly IP has recorded a regulatory asset in the amount of $76 million, reflecting management's expectation that remediation costs will be recovered from customers.

IP has begun settlement discussions with its insurance carriers regarding the recovery of estimated MGP site remediation costs. A settlement has been reached with one carrier and an agreement in principle has been reached with two other carriers. On October 17, 1995, IP filed a lawsuit in the Circuit Court of Macon County seeking a declaratory judgment and damages regarding insurance coverage for four MGP sites. Any insurance recoveries received will be credited to IP's customers through the tariff rider mechanisms.

ELECTRIC AND MAGNETIC FIELDS (EMF) The possibility that exposure to EMF emanating from power lines, household appliances and other electric sources may result in adverse health effects continues to be the subject of litigation and governmental, medical and media attention. Litigants have also claimed that EMF concerns justify recovery from utilities for the loss in value of real property exposed to power lines, substations and other such sources of EMF. Scientific research worldwide has produced conflicting results and no conclusive evidence that electric and/or magnetic field exposure causes adverse health effects. Research is continuing to resolve scientific uncertainties. It is too soon to tell what, if any, impact these actions may have on Illinova's and IP's consolidated financial position.

OTHER

LEGAL PROCEEDINGS Illinova and IP are involved in legal or administrative proceedings before various courts and agencies with respect to matters occurring in the ordinary course of business, some of which involve substantial amounts of money. Management believes that the final disposition of these proceedings will not have a material adverse effect on the consolidated financial position or the results of operations.

ACCOUNTS RECEIVABLE IP sells electric energy and natural gas to residential, commercial and industrial customers throughout Illinois. At December 31, 1995, 67%, 17% and 16% of Accounts receivable—Service were from residential, commercial and industrial customers, respectively. IP maintains reserves for potential credit losses and such losses have been within management's expectations.

CONTINGENCIES

IPMI is a 50% partner with TMV which markets natural gas. At its April 1995 meeting, the Illinova Board authorized IPMI to provide certain guarantees on its behalf in the performance of IPMI's business. Illinova guarantees the performance of TMV up to an aggregate of $50 million for net accounts payable or delivery obligations incurred during the ordinary course of purchasing and reselling natural gas. The level of payable guarantees in place during December 1995 peaked at $19 million. Illinova also guarantees performance by TMV of all obligations to parties providing price-hedging services. The guarantees to the parties providing hedging services is a function of the market price of gas. Management believes that the exposure is minimal. See "Note 2—Illinova Subsidiaries" of the "Notes to Consolidated Financial Statements" for additional information about IPMI.

IGC has signed equity contribution agreements up to an aggregate amount of $32 million secured by Illinova Corporation parent guarantees. See "Note 2—Illinova Subsidiaries" of the "Notes to Consolidated Financial Statements" for additional information about IGC.

NOTE 5—LINES OF CREDIT AND SHORT-TERM LOANS

IP has total lines of credit represented by bank commitments amounting to $354 million, all of which were unused at December 31, 1995. These lines of credit are renewable in May 1996, August 1996 and May 2000. These bank commitments support the amount of commercial paper outstanding at any time, limited only by the amount of unused bank commitments, and are available to support other IP activities.

IP pays facility fees up to .175% per annum on $350 million of the total lines of credit, regardless of usage. The interest rate on borrowings under these agreements is, at IP's option, based upon the lending banks' reference rate, their Certificate of Deposit rate, the borrowing rate of key banks in the London interbank market or competitive bid.

IP has letters of credit totaling $204 million and pays fees up to .45% per annum on the unused amount of credit.

In addition, IP Fuel Company has a short-term financing option to obtain funds not to exceed $30 million. IP Fuel Company pays no fees for this uncommitted facility and funding is subject to availability upon request.

For the years 1995, 1994 and 1993, IP had short-term borrowings consisting of bank loans, commercial paper, extendible floating rate notes and other short-term debt outstanding at various times as follows:

(Millions of dollars, except rates)	1995	1994	1993
Short-term borrowings at December 31,	$ 359.6	$ 238.8	$ 92.3
Weighted average interest rate at December 31,	6.0%	6.2%	3.5%
Maximum amount outstanding at any month end	$ 359.6	$ 238.8	$ 123.7
Average daily borrowings outstanding during the year	$ 306.5	$ 165.4	$ 85.0
Weighted average interest rate during the year	6.2%	4.6%	3.5%

Illinova's total lines of credit represented by bank commitments amount to $50 million, all of which was unused at December 31, 1995. Illinova's letters of credit total $6.5 million.

Illinova has derivative financial instruments, however, it does not use them for trading purposes. Illinova uses them to manage well defined interest rate and commodity risks.

Interest rate cap agreements are used to reduce the potential impact of increases in interest rates on floating-rate debt. IP has two variable rate interest rate cap agreements covering up to $189 million of commercial paper. These agreements entitle IP to receive from a counterparty on a monthly basis the amount, if any, by which IP's interest payments on a nominal amount of commercial paper exceed the interest rate set by the cap. On December 31, 1995, the cap rates were set at 6.25% and 7.0% while the current market rate available to IP was 5.9%.

NOTE 6—FACILITIES AGREEMENTS

IP and Soyland share ownership of Clinton, with IP owning 86.8% and Soyland owning 13.2%. Agreements between IP and Soyland provide that IP has control over construction and operation of the generating station, that the parties share electricity generated in proportion to their ownership interests and that IP will have certain obligations to provide replacement power to Soyland if IP ceases to operate or reduces output from Clinton.

Under the provisions of a Power Coordination Agreement (PCA) between Soyland and IP dated October 5, 1984, as amended, IP is required to provide Soyland with 12.0% (436 megawatts) of the electrical capacity from its fossil-fueled generating plants until the agreement expires or is terminated. This is in addition to the capacity Soyland receives as an owner of Clinton. IP is compensated with capacity charges and for energy costs and variable operating expenses. IP transmits energy for Soyland through IP's transmission and subtransmission systems. Under provisions of the PCA, Soyland has the option of participating financially in major capital expenditures at the fossil-fueled plants, such as those needed for Phase II Clean Air Act compliance, to the extent of its capacity entitlement with each party bearing its own direct capital costs, or by having the costs treated as plant additions and billed to Soyland in accordance with other billing provisions of the PCA. See "Note 4—Commitments and Contingencies" of the "Notes to Consolidated Financial Statements" for discussion of the Clean Air Act. At any time after December 31, 2004, either IP or Soyland may terminate the PCA by giving not less than seven years' prior written notice to the other party. The party to whom termination notice has been given may designate an earlier effective date of termination which shall be not less than 12 months after receiving notice.

NOTE 7—INCOME TAXES

Deferred tax assets and liabilities were comprised of the following:

(Millions of dollars)	Balances as of December 31, 1995	1994
Deferred Tax Assets:		
Current:		
Misc. book/tax recognition differences	$ 26.1	$ 19.7
Noncurrent:		
Depreciation and other property related	45.5	52.6
Alternative minimum tax	183.1	186.0
Tax credit and net operating loss carryforward	32.4	27.6
Unamortized investment tax credit	126.1	122.0
Misc. book/tax recognition differences	66.7	57.0
	453.8	445.2
Total deferred tax assets	$ 479.9	$ 464.9
Deferred Tax Liabilities:		
Current:		
Misc. book/tax recognition differences	$ 6.5	$ 8.2
Noncurrent:		
Depreciation and other property related	1,303.5	1,252.0
Deferred Clinton costs	60.1	62.1
Misc. book/tax recognition differences	103.0	109.7
	1,466.6	1,423.8
Total deferred tax liabilities	$ 1,473.1	$ 1,432.0

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

(Millions of dollars)	Years Ended December 31, 1995	1994	1993
Current taxes—			
Included in operating expenses and taxes	$ 98.6	$ 58.3	$ 25.3
Included in other inco'ne and deductions	(20.3)	—	—
Total current taxes	78.3	58.3	25.3
Deferred taxes—			
Included in operating expenses and taxes			
Property-related differences	62.2	60.0	72.3
Alternative minimum tax	2.9	(50.4)	(31.8)
Gain/loss on reacquired debt	(1.9)	—	16.5
Net operating loss carryforward	(.2)	62.0	22.8
Enhanced retirement and severance	(15.0)	—	—
Misc. book/tax recogr.ition differences	(13.9)	(7.8)	4.1
Internal Revenue Service interest on tax issues	—	7.5	(1.9)
Included in other income and deductions			
Property-related differences	9.7	10.0	6.0
Net operating loss carryforward	—	(17.4)	(15.4)
Misc. book/tax recognition differences	(1.2)	(.7)	(2.5)
Disallowed Clinton costs	—	—	(62.2)
Total deferred taxes	42.6	63.2	7.9
Deferred investment tax credit—net			
Included in operating expense and taxes	(6.9)	(11.3)	(.8)
Included in other income and deductions	—	(.3)	(.7)
Disallowed investment tax credit	—	—	(8.4)
Total investment tax credit	(6.9)	(11.6)	(9.9)
Total income taxes	$ 114.0	$ 109.9	$ 23.3

The reconciliations of income tax expense to amounts computed by applying the statutory tax rate to reported pretax results for the period are set below:

	Years Ended December 31,		
(Millions of dollars)	1995	1994	1993
Income tax expense at the federal statutory tax rate	$ 92.9	$ 91.6	$ (20.5)
Increases/(decreases) in taxes resulting from—			
State taxes, net of federal effect	12.4	13.8	5.8
Investment tax credit amortization	(6.9)	(7.8)	(8.8)
Depreciation not normalized	7.4	4.3	7.1
Preferred dividend requirement of subsidiary	5.8	8.7	9.1
Disallowed Clinton costs (including ITC)	—	—	27.4
Other—net	2.4	(.7)	3.2
Total income taxes	$ 114.0	$ 109.9	$ 23.3

Combined federal and state effective income tax rates were 42.9%, 42.0% and (39.8%) for the years 1995, 1994 and 1993, respectively. The negative effective tax rate for 1993 is a result of the loss recorded by IP due to the Rehearing Order which denied IP recovery of certain deferred Clinton costs. The 1993 effective tax rate excluding the effect of this loss is 44.2%.

Illinova is subject to the provisions of the Alternative Minimum Tax System (AMT). As a result, Illinova has an AMT credit carryforward at December 31, 1995, of approximately $183 million. This credit can be carried forward indefinitely to offset future regular income tax liabilities in excess of the tentative minimum tax.

In 1994, the Internal Revenue Service (IRS) completed its audit of IP's federal income tax returns for the years 1989 through 1990. IP and the IRS reached an agreement on all audit issues. The results of the agreement did not have a material effect on Illinova's or IP's consolidated financial positions or results of operations.

NOTE 8—CAPITAL LEASES

Illinois Power Fuel Company (Fuel Company), which is 50% owned by IP, was formed in 1981 for the purpose of leasing nuclear fuel to IP for Clinton. Lease payments are equal to the Fuel Company's cost of fuel as consumed (including related financing and administrative costs). Billings under the lease agreement during 1995, 1994 and 1993 were $41 million, $52 million and $45 million, respectively, including financing costs of $7 million, $7 million and $6 million, respectively. IP is obligated to make subordinated loans to the Fuel Company at any time the obligations of the Fuel Company that are due and payable exceed the funds available to the Fuel Company. IP has an obligation for nuclear fuel disposal costs of leased nuclear fuel. See "Note 4—Commitments and Contingencies" of the "Notes to Consolidated Financial Statements" for discussion of decommissioning and nuclear fuel disposal costs. Nuclear fuel lease payments are included with Fuel for electric plants on Illinova's Consolidated Statements of Income.

At December 31, 1995 and 1994, current obligations under capital lease for nuclear fuel were $33.3 million.

Over the next five years, estimated payments under capital leases are as follows:

	(Millions of dollars)
1996	$ 37.9
1997	31.1
1998	17.3
1999	12.4
2000	4.5
Thereafter	1.9
	105.1
Less: Interest	10.0
Total	$ 95.1

NOTE 9—LONG-TERM DEBT OF SUBSIDIARY

		(Millions of dollars)
December 31,	1995	1994
First mortgage bonds—		
5.85% series due 1996	$ 40.0	$ 40.0
6½ % series due 1999	72.0	72.0
6.60% series due 2004 (Pollution Control Series A)	6.8	7.0
7.95% series due 2004	72.0	72.0
6% series due 2007 (Pollution Control Series B)	18.7	18.7
7⅝% series due 2016 (Pollution Control Series F, G and H)	150.0	150.0
8.30% series due 2017 (Pollution Control Series I)	33.8	33.8
7⅜% series due 2021 (Pollution Control Series J)	84.7	84.7
8¾% series due 2021	120.0	125.0
5.70% series due 2024 (Pollution Control Series K)	35.6	35.6
7.40% series due 2024 (Pollution Control Series L)	84.1	84.1
Total first mortgage bonds	717.7	722.9
New mortgage bonds—		
6⅛% series due 2000	40.0	40.0
5.625% series due 2000	110.0	110.0
6½% series due 2003	100.0	100.0
6¾% series due 2005	70.0	70.0
8% series due 2023	235.0	235.0
7½% series due 2025	200.0	200.0
Adjustable rate series due 2028 (Pollution Control Series M, N and O)	111.8	111.8
Total new mortgage bonds	866.8	866.8
Total mortgage bonds	1,584.5	1,589.7
Short-term debt to be refinanced as long-term debt	—	125.0
Medium-term notes, series A	100.0	100.0
Variable rate long-term debt due 2017	75.0	75.0
Total other long-term debt	175.0	300.0
	1,759.5	1,889.7
Unamortized discount on debt	(20.3)	(21.6)
Total long-term debt excluding capital lease obligations	1,739.2	1,868.1
Obligation under capital leases	95.1	111.5
	1,834.3	1,979.6
Long-term debt and lease obligations maturing within one year	(95.0)	(33.5)
Total long-term debt	$ 1,739.3	$ 1,946.1

In August 1995, $5.0 million of 8 3/4% First Mortgage Bonds due 2021 were purchased on the open market.

Short-term debt to be refinanced as long-term debt consisted of commercial paper that would be renewed regularly on a long-term basis. In September 1995, IP reclassified the $125 million to short-term debt in accordance with Statement of Financial Accounting Standards No. 6, "Classification of Short-Term Obligations Expected to be Refinanced." In 1989 and 1991, IP issued a series of fixed rate medium-term notes. At December 31, 1995, the maturity dates on these notes ranged from 1996 to 1998 with interest rates ranging from 9% to 9.31%. Interest rates on variable rate long-term debt due 2017 are adjusted weekly and ranged from 5.3% to 5.5% at December 31, 1995.

For the years 1996, 1997, 1998, 1999 and 2000, IP has long-term debt maturities and cash sinking fund requirements in the aggregate of (in millions) $61.7, $10.8, $68.8, $72.8 and $150.8, respectively. These amounts exclude capital lease requirements. See "Note 8—Capital Leases" of the "Notes to Consolidated Financial Statements." Certain supplemental indentures to the First Mortgage require that IP make annual deposits, as a sinking and property fund, in amounts not to exceed $1.8 million in each of the years 1997 through 2000. These amounts are subject to reduction and historically have been met by pledging property additions, as permitted by the First Mortgage.

At December 31, 1995, the aggregate total of unamortized debt expense and unamortized loss on reacquired debt was approximately $105.8 million.

IP's First Mortgage bonds are secured by a first mortgage lien on substantially all of the fixed property, franchises and rights of IP with certain minor exceptions expressly provided in the First Mortgage. In 1992, the Board authorized a new general obligation mortgage, which is intended to replace the First Mortgage. Bonds issued under the New Mortgage were secured by a corresponding issue of First Mortgage bonds under the First Mortgage. The remaining balance of net bondable additions at December 31, 1995, was approximately $1.4 billion.

NOTE 10—PREFERRED STOCK OF SUBSIDIARY

December 31,			(Millions of dollars) 1995	1994
SERIAL PREFERRED STOCK OF SUBSIDIARY, cumulative, $50 par value— Authorized 5,000,000 shares; 1,356,800 and 3,325,815 shares outstanding, respectively				
SERIES	SHARES	REDEMPTION PRICES		
4.08%	300,000	$ 51.50	$ 15.0	$ 15.0
4.26%	150,000	51.50	7.5	7.5
4.70%	200,000	51.50	10.0	10.0
4.42%	150,000	51.50	7.5	7.5
4.20%	180,000	52.00	9.0	9.0
8.24%	—	—	—	30.0
7.56%	—	—	—	33.8
8.00%	—	—	—	34.7
7.75%	376,800	50.00 after July 1, 2003	18.8	18.8
Net premium on preferred stock			.2	.8
Total Preferred Stock of Subsidiary, $50 par value			$ 68.0	$ 167.1
SERIAL PREFERRED STOCK OF SUBSIDIARY, cumulative, without par value— Authorized 5,000,000 shares; 1,152,550 and 1,512,550 shares outstanding, respectively (including 0 and 360,000 shares, respectively, of redeemable preferred stock)				
SERIES	SHARES	REDEMPTION PRICES		
A	742,300	$50.00	$ 37.1	$ 37.1
B	410,250	50.00	20.5	20.5
Total Preferred Stock of Subsidiary, without par value			$ 57.6	$ 57.6
PREFERENCE STOCK OF SUBSIDIARY, cumulative, without par value— Authorized 5,000,000 shares; none outstanding			—	—
Total Serial Preferred Stock, Preference Stock and Preferred Securities of Subsidiary			$ 125.6	$ 224.7
COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF ILLINOIS POWER CAPITAL, L.P.				
Monthly Income Preferred Securities, cumulative, $25 liquidation preference— 3,880,000 shares authorized and outstanding			$ 97.0	$ 97.0
MANDATORILY REDEEMABLE SERIAL PREFERRED STOCK OF SUBSIDIARY, cumulative—				
SERIES	SHARES	PAR VALUE		
8.00%	—	—	—	36.0
Total Mandatorily Redeemable Preferred Stock of Subsidiary			$ 97.0	$ 133.0

Serial Preferred Stock ($50 par value) is redeemable at the option of IP in whole or in part at any time with not less than 30 days and not more than 60 days notice by publication.

Quarterly dividend rates for Serial Preferred Stock, Series A, are determined based on market interest rates of certain U.S. Treasury securities. Dividends paid in 1995 and 1994 were $.75 per quarter. The dividend rate for any dividend period will not be less than 6% per annum or greater than 12% per annum applied to the liquidation preference value of $50 per share.

Quarterly dividend rates for Serial Preferred Stock, Series B, are determined based on market interest rates of certain U.S. Treasury securities. Dividends paid in 1995 and 1994 were $.875 per quarter. The dividend rate for any dividend period will not be less than 7% per annum or greater than 14% per annum applied to the liquidation preference value of $50 per share.

Illinois Power Capital, L.P., is a limited partnership in which IP serves as a general partner. In October 1994, Illinois Power Capital issued $97 million of tax-advantaged monthly income preferred securities (MIPS) at 9.45% (5.67% after-tax rate) with a liquidation preference of $25 per share. The proceeds were loaned to IP and were used to redeem $97 million (principal value) of higher-cost outstanding preferred stock of IP. The carrying amount of redeemed preferred stock over consideration paid amounted to $6.4 million, which was recorded in equity and included in Net income applicable to common stock. IP consolidates the accounts of Illinois Power Capital.

In February 1995 and 1994, IP redeemed $12.0 million of the 8.00% mandatorily redeemable serial preferred stock. In May 1995, IP redeemed the remaining $24.0 million of the 8.00% mandatorily redeemable serial preferred stock.

In March 1995, IP redeemed $.2 million of the 7.56% serial preferred stock and $3.0 million of the 8.24% serial preferred stock. In December 1995, IP redeemed $34.7 million of its 8.00% serial preferred stock, $33.6 million of its 7.56% serial preferred stock and $27.0 million of its 8.24% serial preferred stock. The carrying amount under consideration paid for redeemed preferred stock amounted to $3.5 million, which was recorded in equity and included in net income applicable to common stock.

Note 11—Common Stock and Retained Earnings

IP has an Incentive Savings Plan (Plan) for salaried employees. IP's matching contribution is used to purchase Illinova common stock. Under this Plan, 27,545 shares of common stock were designated for issuance at December 31, 1995.

IP has an Incentive Savings Plan for Employees Covered Under a Collective Bargaining Agreement. IP's matching contribution is used to purchase Illinova common stock. Under this plan, 69,167 shares of stock were designated for issuance at December 31, 1995.

Illinova has an Employees' Stock Ownership Plan (ESOP) that includes an incentive compensation feature which is tied to employee achievement of specified corporate performance goals. This arrangement began in 1991 when IP loaned $35 million to the Trustee of the Plans, which used the loan proceeds to purchase 2,031,445 shares of IP's common stock on the open market. The loan and common shares were converted to Illinova instruments with the formation of Illinova in May 1994. These shares are held in a suspense account under the Plans and are being distributed to the accounts of participating employees as the loan is repaid by the Trustee with funds contributed by IP, together with dividends on the shares acquired with the loan proceeds. IP financed the loan with funds borrowed under its bank credit agreements.

For the year ended December 31, 1995, 75,729 shares were allocated to salaried employees and 70,830 shares to employees covered under the Collective Bargaining Agreement through the matching contribution feature of the ESOP arrangement. Under the incentive compensation feature, 109,662 shares were allocated to employees for the year ended December 31, 1995. During 1995, IP contributed $6.0 million to the ESOP and using the shares allocated method, recognized $4.4 million of expense. Interest paid on the ESOP debt was approximately $2.1 million in 1995 and dividends used for debt services were approximately $2.0 million.

Illinova has an Automatic Reinvestment and Stock Purchase Plan and an Employees' Stock Ownership Plan for which, at December 31, 1995, 3,270,236 and 29,115 shares, respectively, of common stock were designated for issuance. Illinova has the responsibility for administering both of these plans. The plans allow purchases of shares on the open market, as well as purchases of new issue shares directly from Illinova.

In 1992, the Board of Directors adopted and the shareholders approved a Long-Term Incentive Compensation Plan (the Plan) for officers or employee members of the Board, but excluding directors who are not officers or employees. The types of awards that may be granted under the Plan are restricted stock, incentive stock options, non-qualified stock options, stock appreciation rights, dividend equivalents and other stock-based awards. The Plan provides that any one or more types of awards may be granted for up to 1,500,000 shares of Illinova's common stock. The following table outlines the activity thus far under this plan:

Year Granted	Options Granted	Grant Price	Year Exercisable
1992	62,000	$ 23 3/8	1996
1993	73,500	$ 24 1/4	1997
1994	82,650	$ 20 7/8	1997
1995	69,300	$ 24 7/8	1998

The provisions of Supplemental Indentures to IP's General Mortgage Indenture and Deed of Trust contain certain restrictions with respect to the declaration and payment of dividends. IP was not limited by any of these restrictions at December 31, 1995. Under the Restated Articles of Incorporation, common stock dividends are subject to the preferential rights of the holders of preferred and preference stock.

Note 12—Pension and Other Benefit Costs

IP has defined-benefit pension plans covering all officers and employees. Benefits are based on years of service and compensation. IP's funding policy is to contribute annually at least the minimum amount required by government funding standards, but not more than can be deducted for federal income tax purposes.

Pension costs, a portion of which have been capitalized for 1995, 1994 and 1993, include the following components:

	Years Ended December 31		
(Millions of dollars)	1995	1994	1993
Service cost on benefits earned during the year	$ 10.4	$ 11.9	$ 11.3
Interest cost on projected benefit obligation	23.6	21.8	20.8
Return on plan assets	(58.3)	(7.9)	(28.1)
Net amortization and deferral	29.6	(19.2)	1.9
Effect of enhanced retirement program	15.7	—	—
Net periodic pension cost	$ 21.0	$ 6.6	$ 5.9

The estimated funded status of the plans at December 31, 1995 and 1994, using discount rates of 7.75% and 8.75%, respectively, and future compensation increases of 4.5% was as follows:

	Balances as of December 31,	
(Millions of dollars)	1995	1994
Actuarial present value of:		
Vested benefit obligation	$ (276.8)	$ (209.6)
Accumulated benefit obligation	$ (297.5)	$ (220.8)
Projected benefit obligation	$ (343.6)	$ (267.3)
Plan assets at fair value	331.5	284.0
Funded status	(12.1)	16.7
Unrecognized net (gain)/loss	(5.1)	(38.8)
Unrecognized net asset at transition	(34.6)	(15.0)
Unrecognized prior service cost	21.2	24.5
Accrued pension cost included in accounts payable	$ (30.6)	$ (12.6)

The plan's assets consist primarily of common stocks, fixed income securities, cash equivalents and real estate. The actuarial present value of accumulated plan benefits at January 1, 1995 and 1994, were $258 million and $230 million, respectively, including vested benefits of $239 million and $213 million, respectively. The pension cost for 1995, 1994 and 1993 was calculated using: a discount rate of 8.75%, 7.75% and 8.25%, respectively; future compensation increases of 4.5% for 1995, 4.5% for 1994 and 5.5% for 1993; and a return on assets of 9% for 1995, 1994 and 1993. The unrecognized net asset at transition and unrecognized prior service cost are amortized on a straight-line basis over the average remaining service period of employees who are expected to receive benefits under the plan. IP did not make any cash contributions during 1993 for the pension plans due to its overfunded status. IP made cash contributions of $2 million in 1995 and $10 million in 1994.

IP provides health care and life insurance benefits to certain retired employees, including their eligible dependents, who attain specified ages and years of service under the terms of the defined-benefit plans. Postretirement benefits, a portion of which have been capitalized, for 1995 and 1994 included the following components:

	Years Ended December 31,	
(Millions of dollars)	1995	1994
Service cost on benefits earned during the year	$ 2.1	$ 3.3
Interest cost on projected benefit obligation	5.5	6.2
Return on plan assets	(4.7)	.2
Amortization of unrecognized transition obligation	6.3	2.1
Effect of enhanced retirement program	9.5	—
Net periodic postretirement benefit cost	$ 18.7	$ 11.8

The net periodic postretirement benefit cost in the preceding table includes amortization of the previously unrecognized accumulated postretirement benefit obligation, which was $52.3 million and $55.2 million as of January 1, 1995 and 1994, respectively, over 20 years on a straight-line basis.

IP has established two separate trusts for those retirees who were subject to a collectively bargained agreement and all other retirees to fund retiree health care and life insurance benefits. IP's funding policy is to contribute annually an amount at least equal to the revenues collected for the amount of postretirement benefit costs allowed in rates. The plan assets consist of common stocks and fixed income securities at December 31, 1995 and 1994. The estimated funded status of the plans at December 31, 1995 and 1994, using weighted average discount rates of 7.75% and 8.75%, respectively, and a return on assets of 9% was as follows:

	Balances as of December 31,	
(Millions of dollars)	1995	1994
Accumulated postretirement benefit obligation		
Retirees	$ (54.5)	$ (26.7)
Other fully eligible participants	(3.0)	(11.6)
Other active plan participants	(27.5)	(27.3)
Total benefit obligation	(85.0)	(65.6)
Plan assets at fair value	25.6	15.2
Funded status	(59.4)	(50.4)
Unrecognized transition obligation	44.2	52.3
Unrecognized net (gain)/loss	—	(7.8)
Accrued postretirement benefit cost included in accounts payable	$ (15.2)	$ (5.9)

The pre-65 health-care-cost trend rate decreases from 7.6% to 5.5% over nine years and the post-65 health-care-cost trend rate is level at 1.5%. A 1 percent increase in each future year's assumed health-care-cost trend rates increases the service and interest cost from $7.6 million to $8.5 million and the accumulated postretirement benefit obligation from $85.0 million to $93.0 million.

Enhanced Retirement

In December 1994, IP announced plans for voluntary enhanced retirement programs. During the fourth quarter of 1995, enhanced retirement and severance reduced the number of employees by 492 and 235, respectively. At January 1, 1996, Illinova employed 3,596 people, as compared to 4,350 at December 31, 1994. The enhanced retirement and severance programs generated pre-tax charges of approximately $26 and $12 million, respectively, against fourth quarter 1995 earnings and will generate savings of approximately $36 million annually, starting in 1996.

NOTE 13—SEGMENTS OF BUSINESS

(Millions of dollars)

	1995			1994			1993		
	Electric	Gas	Total Corporation	Electric	Gas	Total Corporation	Electric	Gas	Total Corporation
Operation information —									
Operating revenues	$ 1,368.9	$ 272.5	$ 1,641.4	$ 1,287.5	$ 302.0	$ 1,589.5	$ 1,266.4	$ 314.8	$ 1,581.2
Operating expenses, excluding provision for income taxes and deferred Clinton costs	942.7	245.0	1,187.7	872.6	274.7	1,147.3	873.9	286.2	1,160.1
Deferred Clinton costs	3.5	—	3.5	3.5	—	3.5	9.3	—	9.3
Pre-tax operating income	422.7	27.5	450.2	411.4	27.3	438.7	383.2	28.6	411.8
Allowance for funds used during construction (AFUDC)	5.5	.5	6.0	8.9	.4	9.3	6.2	1.0	7.2
Disallowed Clinton costs (net of taxes)	—	—	—	—	—	—	(200.4)	—	(200.4)
Pre-tax operating income, including AFUDC and disallowed Clinton costs	$ 428.2	$ 28.0	$ 456.2	$ 420.3	$ 27.7	$ 448.0	$ 189.0	$ 29.6	$ 218.6
Other deductions, net			18.9			17.5			15.6
Interest charges			148.0			143.9			164.9
Provision for income taxes			114.0			109.9			93.9
Preferred dividend requirements of subsidiary			23.7			24.9			26.1
Net income (loss)			151.6			151.8			(81.9)
Carrying value over (under) consideration paid for redeemed preferred stock of subsidiary			(3.5)			6.4			—
Net income (loss) applicable to common stock			$ 148.1			$ 158.2			$ (81.9)
Other information —									
Depreciation	$ 161.4	$ 21.6	$ 183.0	$ 156.1	$ 21.1	$ 177.2	$ 148.2	$ 21.0	$ 169.2
Capital expenditures	$ 185.7	$ 23.6	$ 209.3	$ 173.1	$ 20.6	$ 193.7	$ 221.3	$ 56.4	$ 277.7
Investment information —									
Identifiable assets*	$ 4,580.4	$ 446.3	$ 5,026.7	$ 4,589.0	$ 442.6	$ 5,031.6	$ 4,526.8	$ 406.4	$ 4,933.2
Nonutility plant and other investments			65.5			37.2			19.9
Assets utilized for overall operations			517.6			507.9			470.4
Total assets			$ 5,609.8			$ 5,576.7			$ 5,423.5

**Utility plant, nuclear fuel, materials and supplies, deferred Clinton costs and prepaid and deferred energy costs.*

NOTE 14—FAIR VALUE OF FINANCIAL INSTRUMENTS

	1995		1994	
(Millions of dollars)	Carrying Value	Fair Value	Carrying Value	Fair Value
Nuclear decommissioning trust funds	$ 32.7	$ 32.7	$ 22.4	$ 22.4
Cash and cash equivalents	11.3	11.3	50.7	50.7
Mandatorily redeemable preferred stock of subsidiary	97.0	108.2	133.0	133.0
Long-term debt of subsidiary	1,739.2	1,855.8	1,868.1	1,750.7
Notes payable	359.6	359.6	238.8	238.8

The following methods and assumptions were used to estimate the fair value of each class of financial instruments listed in the table above:

NUCLEAR DECOMMISSIONING TRUST FUNDS The fair values of available-for-sale marketable debt securities and equity investments held by the Nuclear Decommissioning Trust are based on quoted market prices at the reporting date for those or similar investments.

CASH AND CASH EQUIVALENTS The carrying amount of cash and cash equivalents approximates fair value due to the short maturity c' these instruments.

MANDATORILY REDEEMABLE SERIAL PREFERRED STOCK OF SUBSIDIARY AND LONG-TERM DEBT OF SUBSIDIARY The fair value of IP mandatorily redeemable preferred stock and IP long-term debt is estimated based on the quoted market prices for similar issues or by discounting expected cash flows at the rates currently offered tc IP for debt of the same remaining maturities, as advised by IP's bankers.

NOTES PAYABLE The carrying amount of notes payable approximates fair value due to the short maturity of these instruments.

NOTE 15—QUARTERLY CONSOLIDATED FINANCIAL INFORMATION AND COMMON STOCK DATA (UNAUDITED)

(Millions of dollars except per common share amounts)

	First Quarter 1995	Second Quarter 1995	Third Quarter 1995	Fourth Quarter 1995
Operating revenues	$ 425.5	$ 344.3	$ 486.1	$ 385.5
Operating income	78.3	67.1	137.2	41.8
Net income	32.4	26.3	89.9	3.0
Net income (loss) applicable to common stock	32.4	26.3	89.9	(.5)
Earnings per common share	$ .43	$ .35	$ 1.18	$ .00
Common stock prices and dividends				
High	$ 23⅜	$ 26	$ 27¼	$ 30
Low	$ 21¼	$ 22¾	$ 24¼	$ 27
Dividends declared	$ .25	$ .25	$ .25	$ .28
	First Quarter 1994	**Second Quarter 1994**	**Third Quarter 1994**	**Fourth Quarter 1994**
Operating revenues	$ 442.9	$ 349.6	$ 428.9	$ 368.1
Operating income	71.3	72.2	112.2	64.7
Net income	27.3	29.5	71.8	23.2
Net income applicable to common stock	27.3	29.5	71.8	29.6
Earnings per common share	$ .36	$ .39	$ .95	$ .39
Common stock prices and dividends				
High	$ 22½	$ 22⅝	$ 21½	$ 21⅞
Low	$ 19⅞	$ 18¼	$ 18⅛	$ 18⅞
Dividends declared	$ .00	$ .20	$ .20	$ .25

The 1995 fourth quarter earnings include $23 million net of tax, $(.30) per share, for the enhanced retirement and severance program and $3.5 million, $(.05) per share, for the carrying amount under consideration paid for redeemed preferred stock of IP.

The 1994 fourth quarter earnings include $6.4 million, $.08 per share, for the carrying amount over consideration paid for redeemed preferred stock of IP.

The common stock is listed on the New York Stock Exchange and the Chicago Stock Exchange. The stock prices above are the prices reported on the Composite Tape. There were 35,035 registered holders of common stock at January 10, 1996. On May 31, 1994, common shares of Illinois Power began trading as common shares of Illinova.

ILLINOVA CORPORATION

SELECTED CONSOLIDATED FINANCIAL DATA*

(Millions of dollars)

	1995	1994	1993	1992	1991	1985
Operating revenues						
Electric	$ 1,252.6	$ 1,177.5	$ 1,135.6	$ 1,117.9	$ 1,101.2	$ 766.5
Electric interchange	116.3	110.0	130.8	73.0	85.5	36.0
Gas	272.5	302.0	314.8	288.6	288.2	400.9
Total operating revenues	$ 1,641.4	$ 1,589.5	$ 1,581.2	$ 1,479.5	$ 1,474.9	$ 1,203.4
Net income (loss)	$ 151.6	$ 151.8	$ (81.9)	$ 93.2	$ 78.4	$ 207.2
Effective income tax rate	42.9%	42.0%	(39.8)%	46.0%	48.6%	29.1%
Net income (loss) applicable to common stock	$ 148.1	$ 158.2	$ (81.9)	$ 93.2	$ 78.4	$ 207.2
Earnings (loss) per common share	$ 1.96	$ 2.09	$ (1.08)	$ 1.23	$ 1.04	$ 3.48
Cash dividends declared per common share	$ 1.03	$ .65	$ .40	$ 1.40	$ .40	$ 2.64
Dividend payout ratio (declared)	52.3%	30.7%	N/A	112.9%	38.4%	76.6%
Book value per common share	$ 20.19	$ 19.17	$ 17.46	$ 18.81	$ 19.25	$ 24.51
Price range of common shares						
High	$ 30	$ 22⅝	$ 25⅞	$ 25⅛	$ 24⅛	$ 27½
Low	$ 21¼	$ 18⅛	$ 20½	$ 19¼	$ 15⅛	$ 21⅜
Weighted average number of common shares outstanding during the period (thousands)	75,644	75,644	75,644	75,644	75,644	59,619
Total assets**	$ 5,609.8	$ 5,576.7	$ 5,423.5	$ 5,331.7	$ 5,271.8	$ 4,894.6
Capitalization						
Common stock equity	$ 1,527.0	$ 1,450.2	$ 1,321.0	$ 1,422.7	$ 1,456.1	$ 1,539.3
Preferred stock of subsidiary	125.6	224.7	303.7	303.1	303.1	315.2
Mandatorily redeemable preferred stock of subsidiary	97.0	133.0	48.0	100.0	110.0	86.0
Long-term debt of subsidiary**	1,739.3	1,946.1	1,926.3	2,017.4	2,153.1	1,997.5
Total capitalization**	$ 3,488.9	$ 3,754.0	$ 3,599.0	$ 3,843.2	$ 4,022.3	$ 3,938.0
Embedded cost of long-term debt	7.9%	7.6%	7.5%	8.3%	8.7%	10.0%
Retained earnings (deficit)	$ 129.6	$ 58.8	$ (64.6)	$ 41.0	$ 75.8	$ 398.8
Capital expenditures	$ 209.3	$ 193.7	$ 277.7	$ 244.4	$ 141.2	$ 870.7
Cash flows from operations	$ 413.2	$ 268.6	$ 369.7	$ 344.8	$ 281.3	$ 242.7
AFUDC as a percent of earnings applicable to common stock	4.1%	5.9%	N/A	5.6%	3.7%	78.2%
Return on average common equity	10.2%	11.0%	(6.0)%	6.5%	5.5%	14.4%
Ratio of earnings to fixed charges	2.56	2.56	.66	1.87	1.70	2.66

* Millions of dollars except earnings (loss) per common share, cash dividends declared per common share, book value per common share and price range of common shares.

** Restated for the effect of capitalized nuclear fuel lease.

SELECTED ILLINOIS POWER COMPANY STATISTICS

	1995	1994	1993	1992	1991	1985
ELECTRIC SALES IN KWH (MILLIONS)						
Residential	4,754	4,537	4,546	4,138	4,620	3,927
Commercial	3,804	3,517	3,246	3,055	3,111	2,706
Industrial	8,670	8,685	8,120	8,083	7,642	6,933
Other	367	536	337	466	699	861
Sales to ultimate consumers	17,595	17,275	16,249	15,742	16,072	14,427
Interchange	4,444	4,837	6,015	2,807	3,360	1,692
Wheeling	642	622	569	402	292	—
Total electric sales	22,681	22,734	22,833	18,951	19,724	16,119
ELECTRIC REVENUES (MILLIONS)						
Residential	$ 500	$ 471	$ 463	$ 435	$ 447	$ 276
Commercial	321	295	269	263	251	179
Industrial	392	378	360	381	355	277
Other	37	30	40	38	47	34
Revenues from ultimate consumers	1,250	1,174	1,132	1,117	1,100	766
Interchange	116	110	131	73	86	36
Wheeling	3	3	3	1	1	—
Total electric revenues	$ 1,369	$ 1,287	$ 1,266	$ 1,191	$ 1,187	$ 802
GAS SALES IN THERMS (MILLIONS)						
Residential	356	359	371	339	339	365
Commercial	144	144	148	138	133	166
Industrial	88	81	78	136	98	136
Sales to ultimate consumers	588	584	597	613	570	667
Transportation of customer-owned gas	273	262	229	204	253	—
Total gas sold and transported	861	846	826	817	823	667
Interdepartmental sales	21	5	7	12	8	1
Total gas delivered	882	851	833	829	831	668
GAS REVENUES (MILLIONS)						
Residential	$ 173	$ 192	$ 200	$ 181	$ 184	$ 228
Commercial	60	66	68	61	61	89
Industrial	24	31	34	37	31	68
Revenues from ultimate consumers	257	289	302	279	276	385
Transportation of customer-owned gas	8	9	8	7	9	—
Miscellaneous	7	4	5	3	3	16
Total gas revenues	$ 272	$ 302	$ 315	$ 289	$ 288	$ 401
System peak demand (native load) in kw (thousands)	3,667	3,395	3,415	3,109	3,272	2,929
Firm peak demand (native load) in kw (thousands)	3,576	3,232	3,254	2,925	3,108	2,771
Net generating capability in kw (thousands)	3,862	4,121	4,045	4,052	3,909	3,770
Electric customers (end of year)	529,966	553,869	554,270	549,391	565,421	537,047
Gas customers (end of year)	374,299	388,170	394,379	386,261	401,763	382,442
Employees (end of year)	3,559	4,350	4,540	4,624	4,514	4,550

illinova

ILLINOVA 1995 PROXY STATEMENT

500 South 27th Street,
Decatur, Illinois 62525-1805

1995 Annual Report

Introduction

Soyland Power Cooperative is a member-owned, not-for-profit electric generation and transmission cooperative which produces and supplies electricity to 21 member distribution cooperatives. These distribution cooperatives provide retail electric service to approximately one-half million member consumers within their local service territories. Soyland is one of more than 60 generation and transmission (G&T) cooperatives that supply wholesale electric power to rural utilities in the United States.

Soyland was organized by six distribution cooperatives in September, 1963, under the General Not-For-Profit Corporation Act of the State of Illinois. Leaders of those cooperatives saw Soyland as a way to gain energy independence and control over electric power costs. In 1975, nine additional cooperatives joined the original six (two have since merged), and plans were launched to develop a reliable and economical power supply system. Western Illinois Power Cooperative, with seven member distribution cooperative systems, merged into Soyland in March, 1989, to form the cooperative federation that today supplies the electric power needs of nearly two-thirds of the land mass of the State of Illinois.

Applied Energy Systems of Ilinois, Inc., the parent company of WaterFurnace Midwest, is a wholly owned for-profit subsidiary of Soyland Power Cooperative. WaterFurnace Midwest markets and sells geothermal heating, cooling and hot water equipment through a trained and certified dealer network. This network extends throughout Illinois, the eastern half of Missouri and eastern third of Iowa. Applied Energy Systems is pursuing other business opportunities to assist Soyland's members meet the needs of the consumers they serve.

Soyland and its 21 member distribution cooperatives are united through a common purpose of making rural Illinois a better place in which to live. We remain committed to enhancing community and economic development opportunities in rural areas.

Since its inception in 1963, Soyland's goal has been to provide a dependable source of wholesale electric power to its member systems at a competitive cost. Today, through its unique blend of fuels and generating plants, Soyland has built a stable base from which to meet the electric energy requirements of its member systems.

Soyland's main headquarters are located at 788 North Sunnyside Road in Decatur, Illinois.

Executive Report

Rural Electric Cooperative men and women have historically been the motivators of change. In the 1940s, the landscape and lives of rural America were forever altered by those men and women united and working together for a better future. With deregulation of the electric utility industry on the horizon, and the constant threat of federal budget cuts to eliminate or reduce programs, now, more than at any time since our humble beginnings, electric coopreatives are pushing towards rapid change.

In 1995, the twenty-one members of Soyland Power continued their committment to have control over the destiny of their cooperative. Soyland and its members remain united to accept the challenge of the changing utility industry. As part of Soyland's financial planning, we explored ways to cut costs and encourage development of our members. Soyland's Board and staff took a hard look at day to day operations, streamlining costs wherever possible and pursuing every avenue to increase our competitive edge. Together, we continue to evaluate alternatives for the future of Soyland.

In 1995, the twenty-one members of Soyland Power continued their commitment to have control over the destiny of their cooperative. Together, we continue to evaluate alternatives for the future of Soyland.

EXECUTIVE COMMITTEE (left to right): Robert Smith, Vice Chairman; Jim Coleman, Secretary; Joe Firlit, President and CEO; Steven Schertz, Assistant Secretary; Eldon Moore, Assistant Treasurer; Ed Gant, Treasurer. Not pictured: Jim Hinman, Chairman; and Jeff Reeves, Immediate Past Chairman.

Knowing the success of Soyland depends upon the success of our member cooperatives, Soyland implemented a new rate in 1995 to encourage economic development and help our member cooperatives retain "at risk" loads. The benefit of this large load incentive rate (LL rider) was realized within a short period of time with the application of the LL rider to retain a 5-MW load for one member cooperative and the contract extension of an 18-MW municipal system by another member. By providing economic development and marketing programs to our members, Soyland has further assisted them in their goals of increased sales of electricity and/or energy services. With the uncertain future of the electric utility industry, our member cooperatives have taken a pro-active approach to their future, along with Soyland. A desire to lead change has led to internal cost cutting and the exploration of mergers or sharing of services among local cooperatives.

While the Soyland board worked on accepting the challenges of the changing industry, Soyland's staff continued the business of being a generation and transmission cooperative for its twenty-one members. Severe spring flooding and an extended heat wave resulted in record temperatures. Soyland's coincident peak demand of 634 MW surpassed the previous peak set in 1991 by nearly 11%. The Soyland integrated system handled the peak loads even with a June fire at the Winchester 34 kv substation that caused substantial damage. Soyland's record energy sales of 2,751,000 MWh was attributable to the severe weather of 1995.

Negotiations for coal supply resulted in a contract which will provide Soyland with a quality source of coal until the end of the century. Soyland also addressed the concerns of planning for the decommissioning of the nuclear Clinton Power Station by entering into a new investment agreement which is anticipated to earn a higher return and enable the trust to grow at an increased rate to fund the eventual decommissioning of the plant. Soyland also took advantage of an economical source of energy available from newly organizing power marketing firms. Soyland purchased nearly 352,000 MWh, or 12% of our energy needs, from the power marketing firms of LG&E Power Marketing and Enron Power Marketing. Soyland will continue to avail itself of these cost-efficient energy sources.

Providing support and assistance for member cooperatives in the areas of marketing, economic development and engineering was a major emphasis of Soyland staff in 1995. Soyland developed a new and comprehensive marketing program in conjunction with member-cooperatives which focuses on marketing and sales of electric technology. Soyland conducted a seminar in November showcasing energy efficient construction practices and electric technologies. This seminar promoted the geothermal technology adopted by many member cooperatives. Applied Energy Systems of Illinois, Inc., dba WaterFurnace Midwest, a wholly owned subsidiary of Soyland, was a co-sponsor of the program. Promotion of geothermal heating and cooling systems resulted in 285 system installations on Soyland member distribution system lines in 1995 and increased WaterFurnace Midwest's market share from 78% to 82%.

EXECUTIVE STAFF (left to right): Alice Clark, Director of Human Resources/Attorney; Ken Kammeier, Vice President/Finance & Marketing; Jeannie Rade, Administrative Assistant; and Bob Harbour, Vice President/Engineering & Operations.

Our continued commitment to develop our rural areas resulted in the adoption of a community and economic development business plan with five major areas of concentration. Those include community development, community development corporations, advertising, economic development network and new program development. Soyland's support of economic development was recognized this year by the National Rural Electric Development Association for the leadership we provided to RURAL PARTNERS, the Illinois Private-Public Partnership for Rural Community Development.

Sweeping changes in the electric utility industry have been initiated in 1995. On a national level, the Federal Energy Regulatory Commission put forth its MegaNOPR covering the regulation of wholesale power transactions with the goal of providing open transmission access, allowing a transition from regulated to market-based generation transactions. On the state level, a study was begun into the concept of retail wheeling which will allow for various levels of customer choice for power supply. Soyland, along with its national and state cooperative associations, is an active participant in these developments as we strive to protect the interests of our members, and to pursue any opportunities which may result from the changing regulatory environment.

1995 has been a year of change, activity and unity for Soyland and Soyland members. When Board Chairman James Hinman became ill mid-year, the board was unified and supported Vice Chair Robert Smith. The strength of our organization lies in our ability to control the destiny of our cooperative, rather than to allow outside forces to control it for us. The Soyland board and staff are committed to making the necessary decisions to adapt our cooperative to meet the challenges which face us. It is with this determination that we look forward to the opportunities that will be presented to us in 1996.

James E. Hinman
Chairman

Robert D. Smith
Vice Chairman

Joseph F. Firlit
President and CEO

Soyland

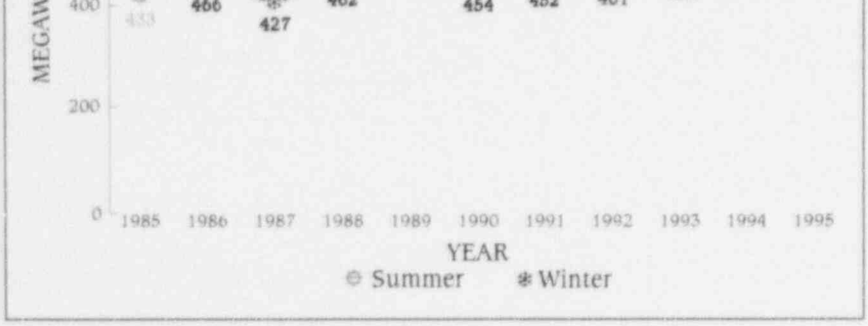
Engineering and Operations

Engineering and Operations

Soyland has a broad mix of generating capacity to meet its twenty-one member cooperatives' power supply needs. Soyland owns 13.21% of the Clinton Nuclear Power Station, which is operated by Illinois Power (IP), owner of the balance of the plant. This 123 MW of nuclear capacity was 17% of the available Soyland generating capacity in 1995. Clinton provided 806,617 MWh or 28% of Soyland's total energy requirement. The fifth refueling since Clinton began commercial operation in 1987 was completed on April 29, 1995 after the plant's best ever outage duration of only 49 days. The plant achieved high performance levels in 1995 with an equivalent availability of 81.5% and a capacity factor of 74.7%. These continuing improvements are the result of concerted joint efforts between Soyland and Illinois Power for improving plant performance. Total operation and maintenance expenses were on budget and capital improvements were under budget for the 1995 year. Staffing level reductions to 840 positions at year end are indicative of the management goal at both IP and Soyland to reduce costs while improving operational efficiencies.

The Soyland-owned system, comprising about 600 miles of transmission lines and nearly 100 substations, performed outstandingly through severe floods, torradoes, ice storms and record electrical demand.

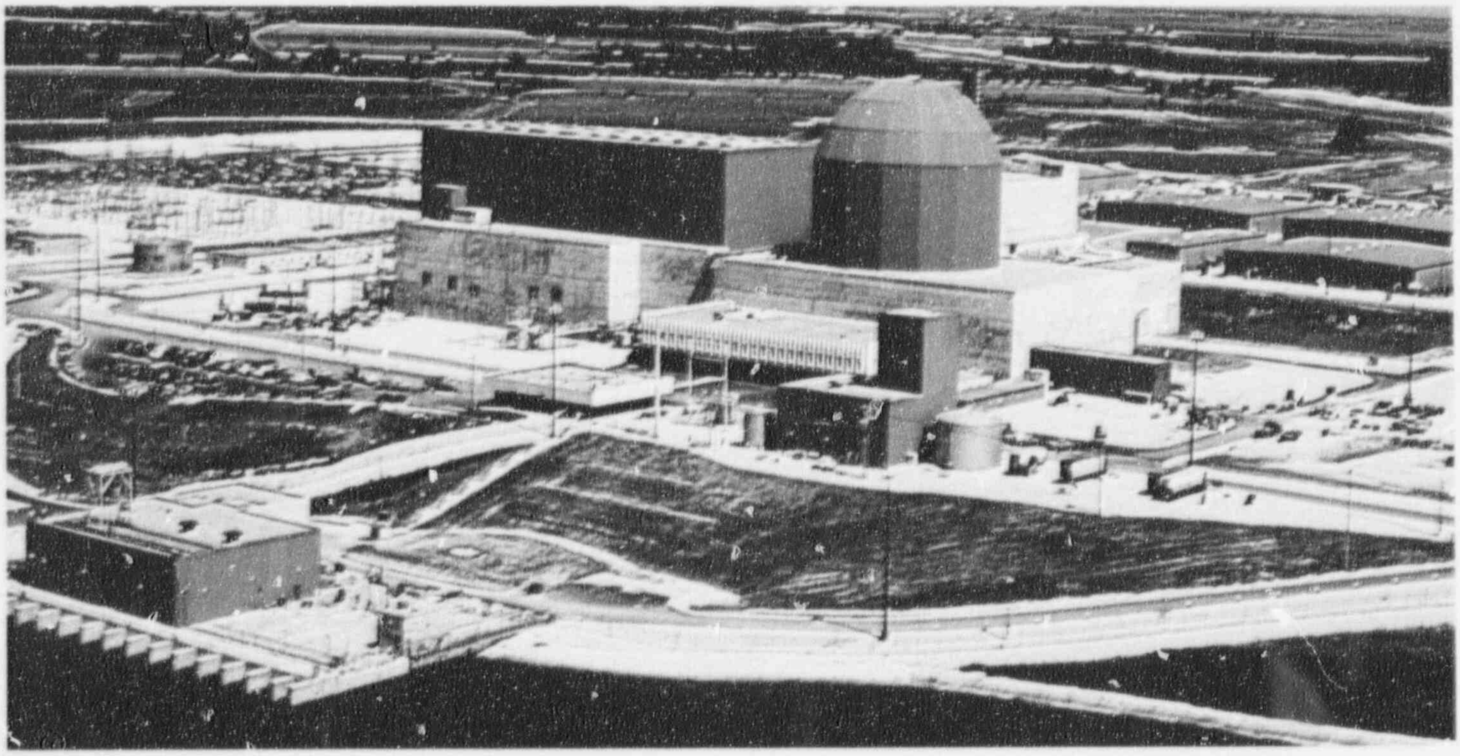
The 22 MW Pearl station coal fired plant provided nearly 117,092 MW hours toward meeting Soyland's energy requirement. Operating at 66% capacity factor, the unit had an equivalent availability of 70% during the year, despite record flooding levels on the Illinois River which covered the coal storage area and disrupted the trucked coal supply to the plant in May and June. The 22 MW combustion turbine, which is also located at the Pearl station, is available to provide support during system emergencies or for power pool use, if necessary. The combustion turbine and the Pittsfield diesels were called upon during the summer to provide generation when the extreme heat and humidity across much of the eastern two-thirds of the United States created record electrical demand. Soyland set a record coincident peak de-



mand of 634 MW, surpassing the previous peak set in 1991 by nearly 11%. During the peak hour of the IP/Soyland pool, Soyland's demand was 545 MW, taking advantage of Soyland's diversity with its pool partners and load curtailed by its members due to Soyland peak warning.

In addition to the Clinton and Pearl plants, Soyland has long term power supply contracts with Illinois Power and Central Illinois Public Service Company (CIPS) for use of their fossil fuel capacity and transmission systems on a fully allocated, cost of service basis. The Soyland percentage share of the IP fossil plants increased 50% in 1995, from 8% to 12%, due to contractual changes. Approximately 1,336,000 MWh, which is 46% of Soyland energy, was provided by the IP fossil generation and ap-

POWER SUPPLY COMMITTEE (seated, left to right): Tim Christensen, Chairman; and Doug Aeil.s, Vice Chairman. (Standing, left to right): Joe Welsh; Don Gleiber and Ken Heinzman.



The 950-megawatt Clinton Power Station, near Clinton, Illinois.

proximately 352,000 MWh, equaling 10% of Soyland energy, was provided by CIPS' fossil generation. In addition, Soyland purchased approximately 352,000 MWh, or 12% of its energy, from the power marketing firms LG&E Power Marketing and Enron Power Marketing.

The Soyland-owned system is comprised of approximately 600 miles of transmission lines and nearly 100 substations. The Soyland Operations Department performed in outstanding fashion operating and maintaining the system this year, battling severe floods, tornadoes, winter ice storms, and record electrical demand, and rebuilt a 34kv substation at Winchester, Illinois, which sustained substantial fire damage. Clean up and repair of the damage required approximately one month. The crews also constructed two distribution substations, approximately five miles of transmission lines, and provided countless hours of construction and maintenance support to the member systems. With the design projects in process and the need to replace and upgrade transformation capacity to handle expected summer distribution substation loading, 1996 will be a challenging construction year.

Design assistance was also provided by the Engineering Department to member systems. This included 19 miles of 69kv and 34.5kv transmission line, two distribution substations, and two capacitor bank installations, in addition to providing routine technical support. Projects under way for 1996 include four distribution substations, and approximately 15 miles of 69kv transmission line.

The 22-megawatt Pearl Station, located on the Illinois River.

Soyland

Marketing

Marketing Programs

Soyland took an aggressive posture to marketing in 1995 with the development of an aggressive marketing program. The function of marketing electric technologies was separated from economic development activities.

The mission of the marketing program is defined as "to increase the short and long term financial integrity of Soyland and its member cooperatives through the increased sale of electricity and/or energy services." An integral step in the development and implementation of the Marketing Program was the formation of an Advisory Marketing Committee comprised of Marketing and Member Services representatives from member cooperatives. This committee served in an "advisory" role to Soyland's Marketing Committee. Through the combined efforts of the Advisory and Marketing Committees, a variety of existing and new joint marketing strategies were implemented in 1995 by Soyland and its member cooperatives. Another key focus of these committees was the development of a 1996 Marketing Program Business Plan for Soyland and its member cooperatives.

The mission of the marketing program is defined as "to increase the short and long term financial integrity of Soyland and its member cooperatives through the increased sale of electricity and/or energy services."

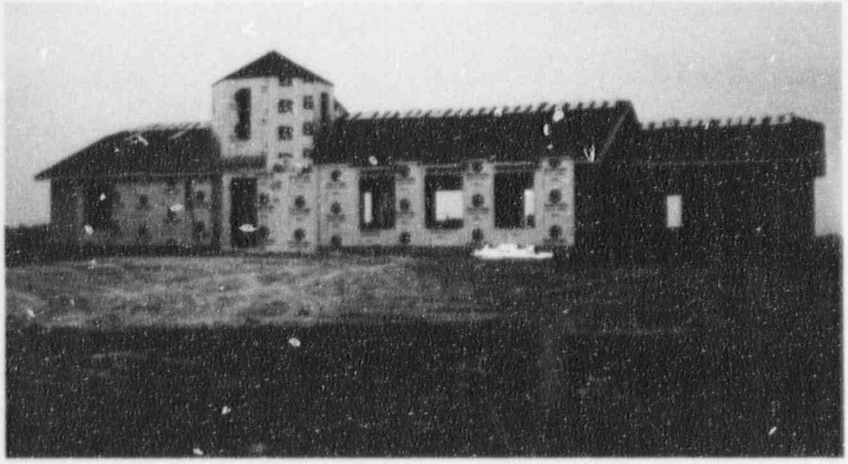
The 1995 marketing program included brochures and posters distributed through targeted mailings or as bill stuffers and handouts by the member-cooperatives.

Major marketing activities completed in 1995 included continuation of the Matching Grant Ad Program and System GT Rebates, in addition to implementation of a "Designing for Energy Efficiency Seminar," "Wholesale/Retail Rate Seminar," Night Light Promotional Blitz, CO Detectors Program and a Marketing & Sales Survey of member cooperatives' marketing activities and programs. Over $100,000 in Matching Grant Ad monies were distributed to member cooperatives to support marketing initiatives including technology advertising, rebates, development of marketing brochures, homebuilders' events and trade shows, and geothermal open houses. The program leveraged over $237,000 for marketing materials and activities which increased member and trade ally awareness of the benefits of electric technologies.

System:GT rebates for member purchases of geothermal heating and cooling systems and the increased sales efforts of member cooperatives related to geothermal technology resulted in 285 geothermal system installations in the Soyland member distribution system in 1995. While these sales fell just short of 1994 system sales of 290 units, the sale of WaterFurnace units increased by 3% and market share increased from 78% to 82%.

WaterFurnace Midwest, Soyland and its member cooperatives also hosted their first energy efficiency seminar in 1995 to promote geothermal technology and strengthen trade ally relationships. The "Designing for Energy Efficiency Seminar" conducted in November, drew nearly 200 trade allies representing builders, HVAC dealers, bankers, realtors, architects and new home owners to Decatur. Nationally known energy consultant and architect, Doug Rye, informed and entertained the audience on energy efficient construction practices and electric technologies. The Seminar reinforced the Certified Comfort Home Program adopted by member cooperatives and promoted geothermal technology. The Seminar generated inquiries regarding geothermal and other heat pump systems, cellulose insulation, energy efficient mortgages and dealer opportunities. Attendees' evaluations of the Seminar were excellent, providing Soyland and its member cooperatives with very positive recognition as energy experts among trade allies and members. Co-sponsors for the Seminar included Nu Wool Company, First of America Bank, Illinois Power Company and WaterFurnace Midwest.

MARKETING COMMITTEE (seated, left to right): Dennis Keiser, Chairman; Dave Champion, Vice Chairman; and David White. (Standing, left to right): Jim Campbell, Dave Bergland and Stuart Yagow.



Several Soyland marketing programs encourage people to avoid high electric bills by building energy-efficient homes.

A "Wholesale/Retail Rate Seminar" conducted in December, provided cooperative staff and directors with an overview of rate philosophies, structures, changing pricing strategies and an outlook on deregulation of the electric utility industry in the future.

To assist in the development of a 1996 Marketing Program Business Plan, Soyland conducted a Marketing Survey of member cooperatives in the fall of 1995. The Survey was intended to identify cooperatives' marketing personnel, programs, interests and successes. The results of the Survey suggested the need for expanding technology rebates to other technologies beyond geothermal heating and cooling systems, the need for technology financing programs to assist in member purchases of electric technologies, more formalized marketing, sales and technology training, additional market research, cooperative advertising, and further emphasis on trade ally development efforts. These suggestions and others have been incorporated into Soyland's 1996 Marketing Program.

The "Designing for Energy Efficiency Seminar" hosted by nationally-known consultant Doug Rye, was very well attended in November. Repeat performances are planned in 1996.

Soyland

Economic Development

Economic Development

During 1995, Soyland continued to pursue an aggressive position in its community and economic development program. During the past several years, Soyland has laid a solid foundation on which future load growth will continue to develop. In today's competitive environment, Soyland and its 21 member distribution cooperatives are prepared to meet the challenges that face utilities. The cooperatives have become actively involved in such activities as Community Development Corporations, RURAL PARTNERS, assumed positions of responsibility in economic development organizations, identified industrial sites and numerous other activities that represent the groundwork for economic development.

> *Soyland and its 21 member distribution cooperatives are prepared to meet the challenges that face utilities.*

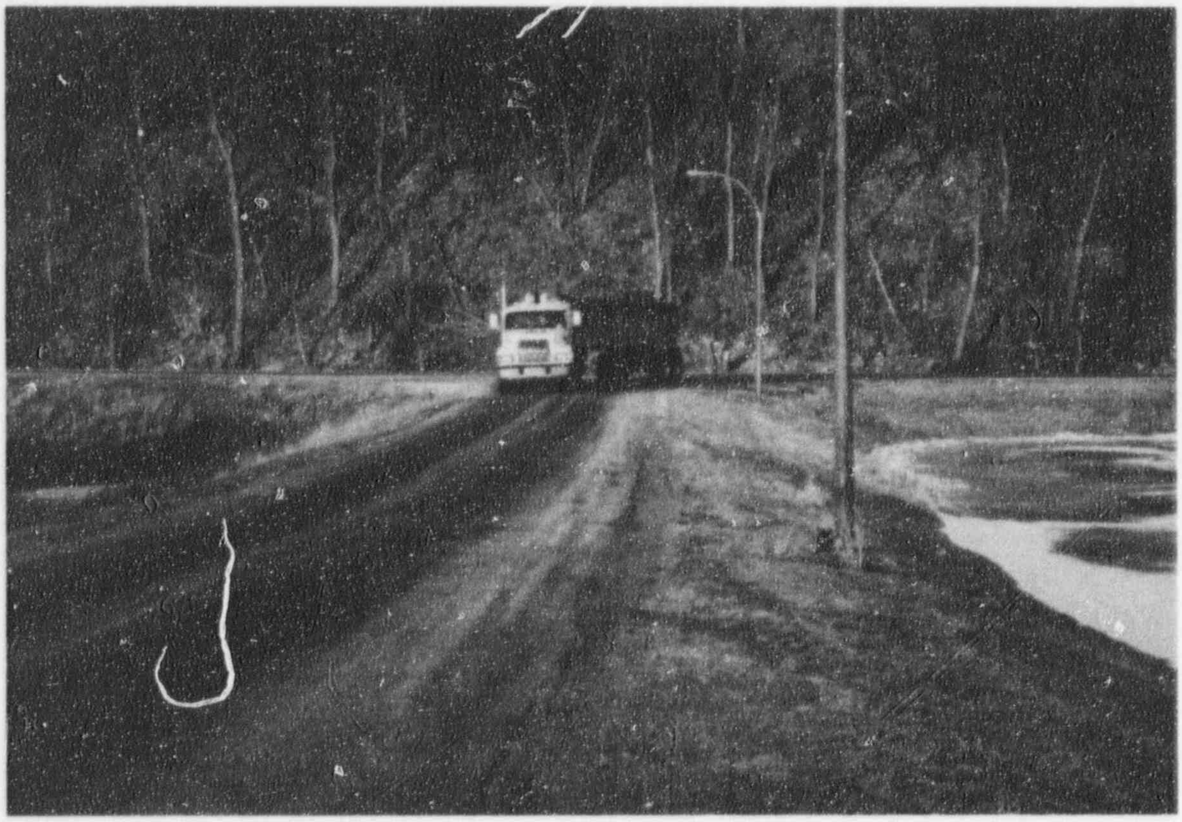
In 1995 Soyland developed a Community and Economic Development Business Plan that emphasizes five major areas of concentration. These areas include: Community Development, building the infrastructure for future economic development activities; Community Development Corporations, regional financial entities which identify and assist in funding economic development projects; Advertising, focused on national and statewide projects to promote business development in cooperative service territories; Economic Development Network, utilizes the professional network to facilitate every aspect of retaining, expanding and attracting electric load to cooperative service area's; and New Program Development, identifying new initiatives to enhance both life and economic growth in rural Illinois. All these components represent opportunities for distribution cooperatives to interact in the economic development processes.

As in the past, 1995 had several significant accomplishments despite the potential deregulation of the utility industry. Soyland's participation in community development was recognized nationally by the National Rural Eco-

LEGAL COMMITTEE (seated, left to right): Dorland Smith, Chairman; Joe Fellin, Vice Chairman; and French Fraker, Attorney. (Standing, left to right): Irv Stanford, Alan Libbra and Tom Hentz.

nomic Development Association. An award was presented to Soyland at the NREDA's annual meeting in Austin, Texas, for Soyland's leadership role in the innovative and creative RURAL PARTNERS/Kellogg Foundation "Helping Prepare Rural Communities For Economic Development Program." This ten-county demonstration project extended over four years and cost in excess of $1.5 million.

Around the state many cooperatives were successful with both attraction and expansion of businesses in their service areas. Yale South Haven Company, a rubber resin facility located in Carmi, employs 50 people and utilizes approximately 3 megawatts of energy from Wayne-White Electric Cooperative. Heartland Pork Enterprises, a pork production facility, located east of Paris in Eastern Illinois employs 60 people. Another new 70,000 square foot facility was built for Paper Production in Martinsville, a company that supplies coin wrappers to several industries. This company employs 65 individuals and uses approximately 1.6 megawatts of energy from Edgar Electric. Two pork production facilities became operative in Western Illinois namely: Hanor Industries and Land of Lakes. These companies made capital investments exceeding $4-million and will be in full operation in early 1997 on Illinois Rural Electric Co.'s and Menard Electric Cooperative's lines. In central Illinois, Nor-



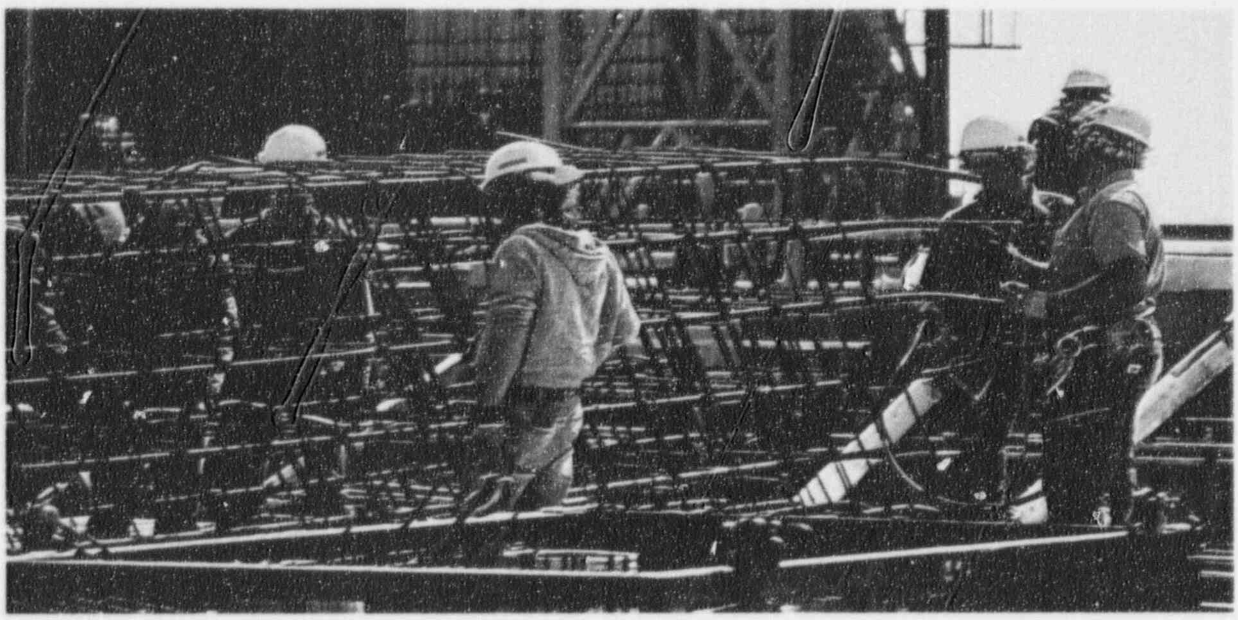
Loaded with coal from the mines of Illinois, a truck arrives with fuel for Soyland's Pearl Plant.

mal Community West High School came on-line and Vuquetec Industrial, a supplier for Diamond Star Motors, expanded for the third time. These projects accounted for 45 new jobs and 450 KVA on Corn Belt Electric Cooperative's system. Several commercial companies came on line this past year in Mt. Vernon providing employment for 55 individuals and requiring 850 KVA of electrical energy from Tri-County Electric Cooperative.

Several new economic development initiatives were developed in 1995 and will be aggressively continued during 1996. Soyland submitted an application to the Rural Utilities Service (RUS) for funding a Statewide Revolving Loan Program. This project will provide Soyland with $400,000 to be utilized for assisting new and expanding businesses in cooperative territory.

Another new initiative in 1996 will be Soyland's Spec Building Program that will capitalize on the critical shortage of quality industrial facilities throughout the State of Illinois. Utilizing a competitive and systematic approach, Soyland will select no more than three distribution cooperatives to participate in this program. Soyland and the distribution cooperatives will be minority participants that will share their expertise and experience with other investors and developers to construct economical and quality facilities at strategic locations for potential new or expanding businesses.

Overall 1995 has been successful for Soyland and many of the distribution cooperatives. The attraction and expansion of businesses, the RURAL PARTNERS Award and new initiatives in 1996 will serve as the building blocks for continued future Economic Development in the rural areas of Illinois.



New commercial construction and expansion was visible throughout the Soyland service area in 1995.

Soyland

Cooperative Information

Cooperative Information

Sales of electric energy increased last year throughout Soyland's market area in 1995 as 17 of 21 member electric distribution cooperatives experienced load growth. The increase was do in part to the extreme weather of 1995 but also to the marketing efforts of member-systems and the attraction of new development to their service areas.

Soyland's member-cooperatives are fulfilling their promise of being the primary rural utility service provider in their service areas.

Providing their consumers with different electric rate structures is an important element in the electric distribution cooperatives' marketing programs. All 21 distribution cooperatives offer a variety of rate schedules to their members. These rate schedules include: interruptable rates, all electric rates, electric heat rates, energy credits for controls on electric appliances and equipment and off-peak rates for residential consumers. These rates are designed to encourage customers to utilize electricity and to utilize it efficiently by providing control incentives.

For the commercial and industrial user, member-cooperatives offer a variety of time sensitive commercial rates along with custom rates tailored to shape and manage loads while meeting the energy needs of the individual user. In order to assist members in attracting and retaining industry, Soyland introduced a large load incentive rate in 1995 for loads of 250 kilowatts or larger. This rate has been utilized by two member-systems to help expand or retain approximately 23 megawatts of electric load among existing customers.

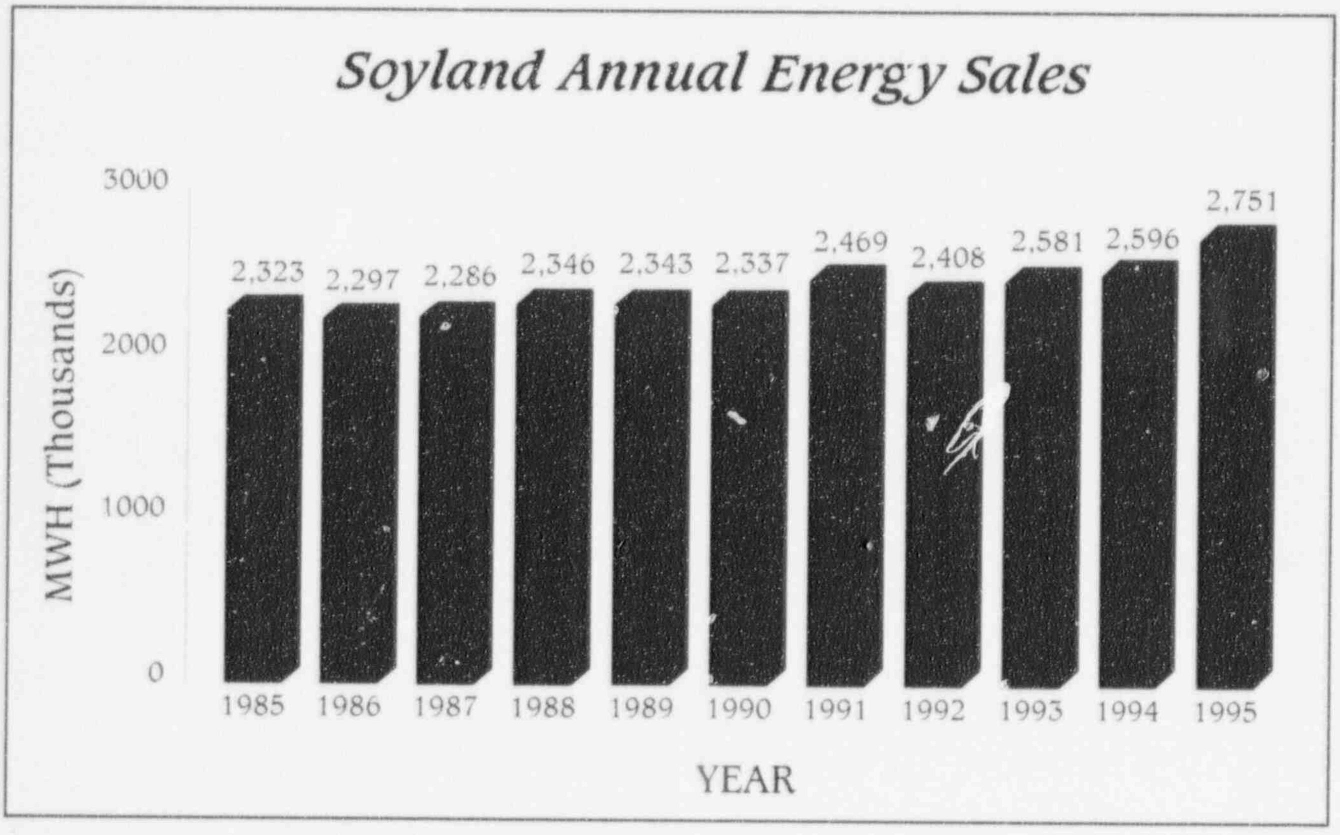
Numerous member-cooperatives are actively looking at ways to market electricity and to encourage its efficient use by consumers in their homes and businesses. Marketing strategies include the promotion of geothermal heating and cooling systems, air-to-air heat pumps and other electric heat systems, electric water heating, electric technology demonstration

POLICY COMMITTEE (seated, left to right): Joe Danielson, Jim Riddle, Chairman; and Dale Warren, Vice Chairman. (Standing, left to right): Bill Griswold, Dick Dunsworth and Paul Dion.

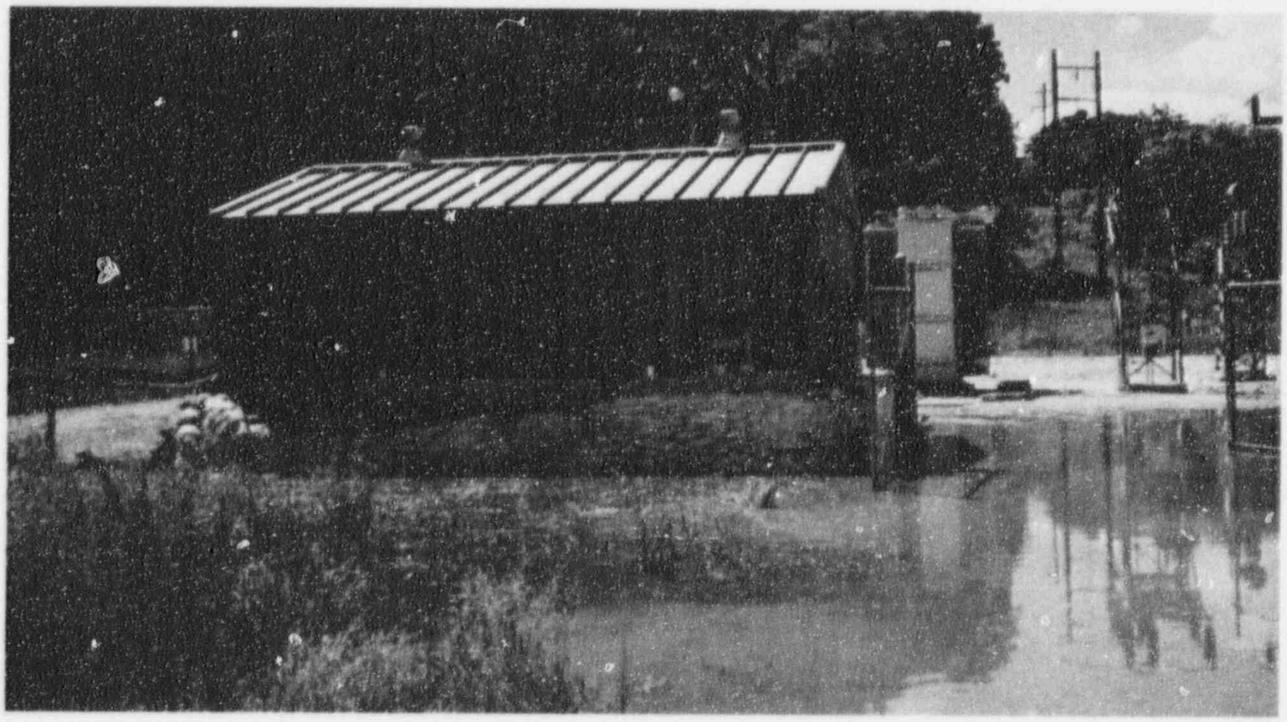
projects, geothermal subdivision development, customer education seminars, community development and new business development. These strategies are all employed by distribution cooperatives to increase energy sales and help Soyland Power achieve its financial o..ctives.

The goal of the rural electrification program has always been to improve the quality of life in the electric cooperatives' service territories. In recent years that goal has lead many cooperatives into exploring propane gas sales, rural television satellite systems, mobile communications, rural water systems and other ventures that will assist rural farms, homes and businesses. By diversifying into other services, Soyland's member-cooperatives are fulfilling their promise of being the primary ru-

FARM COMMITTEE (seated, left to right): Gene Warmbir, Chairman; Haven Vaughn, Vice Chairman; and Cliff Cammon. (Standing, left to right): Bill Pollock and David Collins.



ral utility service provider in their service areas. Soyland's member-cooperatives and Soyland Power Cooperative are united in meeting the ever-changing requirements of our rural service territories and are poised to meet the coming challenges of the electric utility industry.



Severe spring flooding again took its toll on rural Illinois as evidenced at this substation near Kampsville. The water was to rise another two feet shortly after this photograph was taken in early June.

Soyland

Applied Energy Systems

Applied Energy Systems

Applied Energy Systems of Illinois, Inc. d/b/a WaterFurnace Midwest, the wholly-owned subsidiary of Soyland, finished 1995 with strong sales. The year started very strong but sales were hampered in mid-year by heavy rain followed by a hot dry summer. There were a total of 743 units sold in 1995 with sales of $2,980,000 and a net margin of $102,000. Units sold were slightly below the record 770 units sold in 1994.

Our continued goal is to increase the sales of our dealers and to offer more assistance/ incentives to all of our dealers. We will also be pursuing the establishment of new dealers in areas where there are none.

FINANCE COMMITTEE (front row, left to right): Ed Gant, Chairman; Bob Delp, Vice Chairman; Del England and Norm Wetzel. (Back row, left to right): Mike Carls and Curtis Endsley. Not pictured: Bob Primmer.

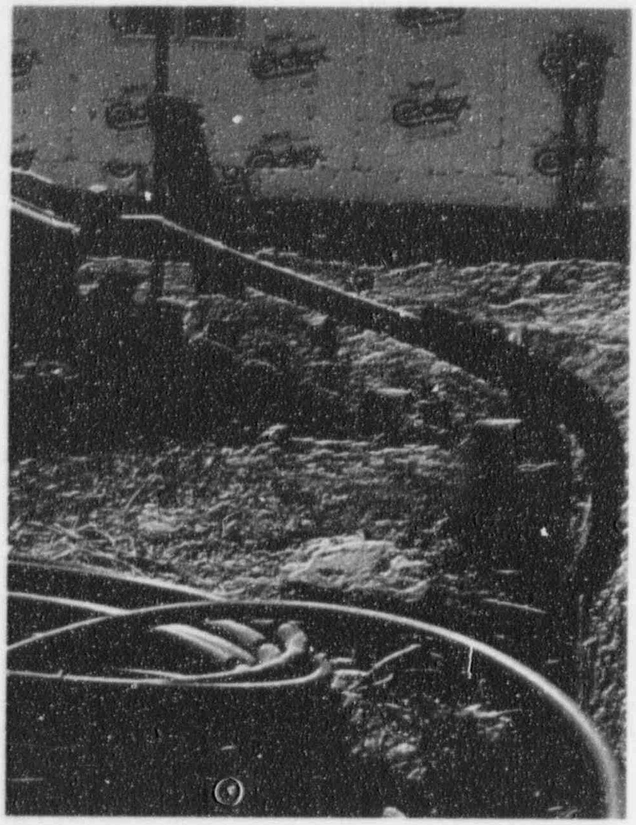
The network of authorized dealers continues to grow throughout Illinois, eastern Missouri and eastern Iowa. There are approximately 90 authorized dealers with over two-thirds of them being active WaterFurnace installers. Our continued goal is to increase the sales of our dealers and to offer more assistance/incentives to all of our dealers. We will also be pursuing the establishment of new dealers in areas where there are none.

Our training facility in Greenville continues to play an important role for our dealer network. There were several service/ installation schools provided during 1995 with over 40 technicians taking part. WaterFurnace Midwest has one of the lowest percentages of warranty claims and installation problems compared to any other WaterFurnace distribution area, which is a testimony to the training provided.

Local and regional home shows have proven to be an excellent source for leads. Another source has been the Field Days/ Open Houses which was utilized by ten Soyland distribution cooperatives in 1995. There were also three energy seminars featuring Doug Rye, a noted energy expert, during the year that were well attended.

Soyland distribution cooperatives had an increase in WaterFurnace sales over the previous year with 226 in 1994 and 233 in 1995.

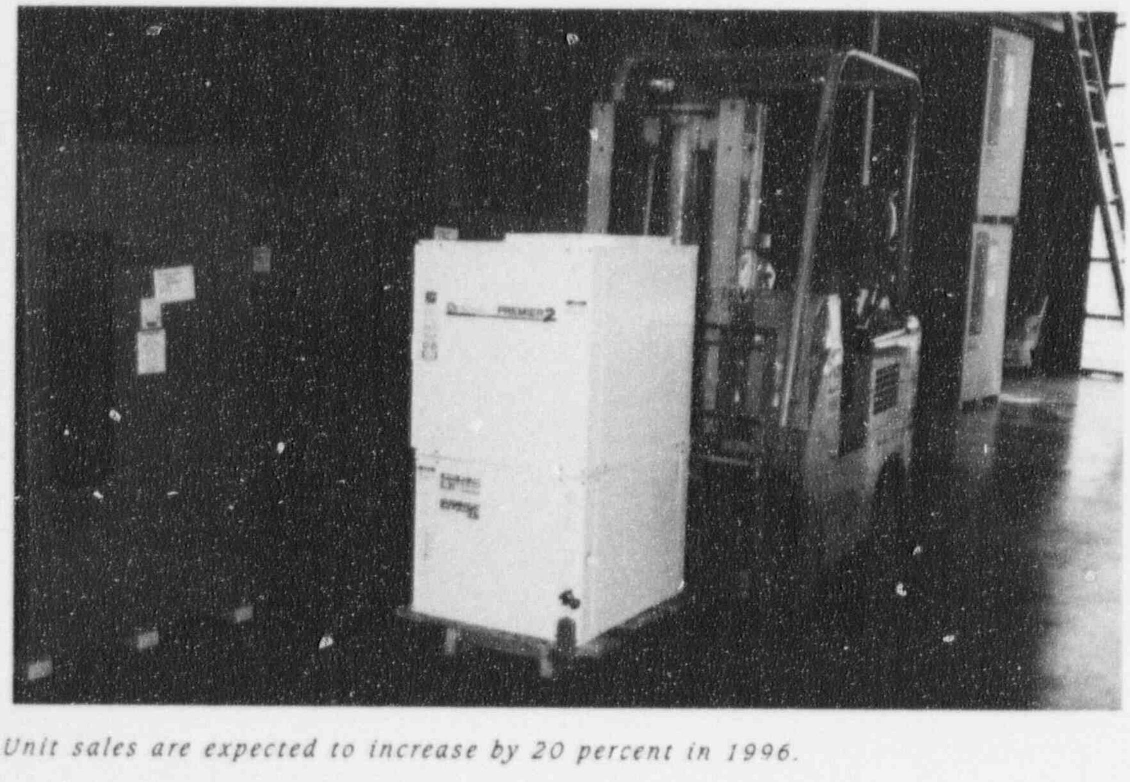
In 1996 we will enhance our marketing efforts to our authorized dealers and contractors and, coupled with the Soyland marketing plan, we will provide enhanced



WaterFurnace installations were strong once again in 1995, despite nature's interference.

marketing strategies. Sales incentives will also be implemented and the outlook for 1996 is that total units sold will increase about 20 percent.

Our authorized dealers will be assisted by our staff in establishing a detailed marketing plan for 1996 that will give direction and be a source for additional leads.



Unit sales are expected to increase by 20 percent in 1996.

Soyland

Member Cooperatives 1995 Operating Statistics

STATEMENT OF OPERATIONS: (In $1,000)	Adams	Clay	Clinton County	Coles-Moultrie
Operating Revenue	$10,028	$4,095	$8,906	$13,845
Purchased Power	$6,539	$2,711	$6,700	$9,527
Operating Expenses	1,871	841	1,327	2,600
Depreciation Expenses	587	307	357	684
Tax Expense	160	68	92	190
Interest	707	210	286	401
Total Cost—Electric Service	$9,864	$4,137	$8,762	$13,402
Operating Margins	$164	$(42)	$144	$443
Non-Operating Margins & Capital Credits	188	36	142	74
Total Patronage Capital or Margins	$352	$(6)	$286	$517
ASSETS & OTHER DEBITS				
Total Utility Plant	$22,942	$10,841	$12,656	$23,852
Accumulated Provision for Depreciation & Amortization	5,971	3,266	4,329	6,940
Net Utility Plant	$16,971	$7,575	$8,327	$16,912
Total Other Property & Investments	$1,544	$409	$1,971	$1,364
Current & Accrued Assets	1,980	828	1,070	3,007
Deferred Debits	601	15	122	-0-
Total Assets	$21,096	$8,827	$11,490	$21,283
LIABILITIES & OTHER CREDITS				
Margins & Equities	$6,926	$3,926	$4,603	$10,466
Long-Term Debt	12,863	4,041	5,142	7,141
Current & Accrued Liabilities	1,155	853	501	2,841
Deferred Credits	152	7	1,244	835
Total Liabilities	$21,096	$8,827	$11,490	$21,283
OTHER STATISTICS				
Miles of Line	2,099	929	974	1,799
Consumers Served	7,110	2,971	5,088	8,081
Consumers Per Mile	3.39	3.20	5.22	4.49
KWH Sold Per Consumer	12,694	10,779	19,061	16,952
Total MWH Sales	90,251	32,023	96,983	136,989
Annual Revenue Per Consumer	1,410	1,378	1,750	1,713
Plant Investment Per Consumer	3,227	3,649	2,487	2,952

Member Cooperatives 1995 Operating Statistics

Corn Belt	Eastern Illini	Edgar	Farmers	Illinois Rural	Illinois Valley	McDonough	M.J.M.
$25,222	$20,119	$7,262	$1,896	$13,166	$9,100	$6,645	$10,356
$15,499	$12,813	$4,583	$1,373	$8,249	$4,965	$5,009	$7,460
3,858	4,164	1,931	284	2,303	1,762	1,316	1,730
1,413	1,491	358	101	632	473	272	509
530	173	106	29	180	135	63	160
1,699	1,384	429	79	774	1,570	93	386
$22,999	$20,025	$7,407	$1,866	$12,138	$8,905	$6,753	$10,245
$2,223	$94	$(145)	$30	$1,028	$195	$(108)	$111
436	(449)	189	18	132	395	125	130
$2,659	$(355)	$44	$48	$1,160	$590	$17	$241
$54,308	$52,793	$16,012	$4,093	$27,173	$22,017	$9,868	$19,090
13,564	13,610	4,399	1,460	8,180	1,666	4,562	5,929
$40,744	$39,183	$11,613	$2,633	$18,993	$20,351	$5,306	$13,161
$2,106	$2,544	$1,446	$241	$1,566	$945	$445	$1,277
9,083	2,670	1,256	142	3,207	2,068	1,962	1,938
35	1,319	880	17	427	24	-0-	40
$51,968	$45,716	$15,195	$3,033	$24,193	$23,388	$7,713	$16,416
$19,067	$15,407	$6,310	$1,372	$8,292	$1,008	$5,564	$7,398
28,935	25,967	6,460	1,503	14,728	21,220	1,758	7,564
2,466	2,975	1,981	146	1,188	770	115	803
1,500	1,367	444	12	(15)	390	276	651
$51,968	$45,716	$15,195	$3,033	$24,193	$23,388	$7,713	$16,416
2,961	4,489	1,488	342	2,833	1,769	1,368	1,722
15,911	12,884	5,014	1,321	9,890	5,913	4,708	7,874
5.37	2.87	3.37	3.86	3.49	3.34	3.44	4.57
14,212	14,007	12,298	11,528	10,585	11,951	13,388	11,630
226,120	180,465	61,662	15,228	104,685	70,667	63,033	91,571
1,585	1,562	1,448	1,435	1,331	1,539	1,411	1,315
3,413	4,098	3,193	3,098	2,748	3,723	2,096	2,424

Member Cooperatives 1995 Operating Statistics

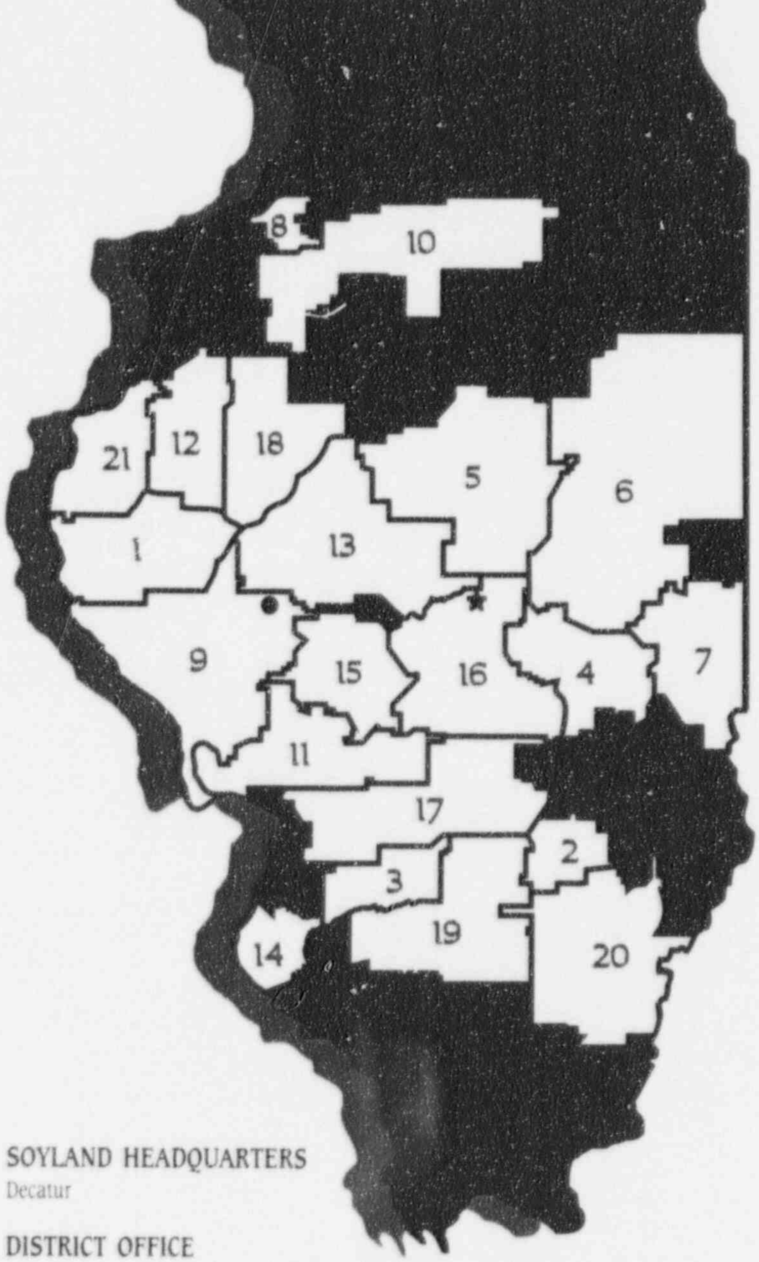
STATEMENT OF OPERATIONS: (In $1,000)	Menard	Monroe	Rural Electric	Shelby
Operating Revenue	$14,244	$7,779	$8,748	$16,785
Purchased Power	$9,636	$5,308	$5,959	$12,066
Operating Expenses	2,533	1,043	1,812	2,787
Depreciation Expenses	867	458	446	951
Tax Expense	164	89	113	695
Interest	592	528	303	457
Total Cost—Electric Service	$13,792	$7,426	$8,633	$16,956
Operating Margins	$452	$353	$115	$(171)
Non-Operating Margins & Capital Credits	105	65	46	311
Total Patronage Capital or Margins	$557	$418	$161	$140
ASSETS & OTHER DEBITS				
Total Utility Plant	$26,708	$17,407	$16,752	$26,872
Accumulated Provision for Depreciation & Amortization	6,793	4,685	5,599	10,500
Net Utility Plant	$19,915	$12,722	$11,153	$16,372
Total Other Property & Investments	$1,539	$540	$583	$2,221
Current & Accrued Assets	2,382	2,379	1,396	1,411
Deferred Debits	18	44	128	-0-
Total Assets	$23,854	$15,685	$13,260	$20,004
LIABILITIES & OTHER CREDITS				
Margins & Equities	$8,966	$4,429	$4,462	$11,834
Long-Term Debt	12,943	10,455	7,546	7,128
Current & Accrued Liabilities	1,376	706	1,066	898
Deferred Credits	569	95	186	144
Total Liabilities	$23,854	$15,685	$13,260	$20,004
OTHER STATISTICS				
Miles of Line	2,473	1,061	1,296	2,129
Consumers Served	8,990	5,188	5,158	8,833
Consumers Per Mile	3.64	4.89	3.98	4.15
KWH Sold Per Consumer	15,903	13,459	15,051	20,327
Total MWH Sales	142,970	69,826	77,632	179,546
Annual Revenue Per Consumer	1,584	1,499	1,696	1,900
Plant Investment Per Consumer	2,971	3,355	3,248	3,042

Member Cooperatives 1995 Operating Statistics

	South-western	Spoon River	Tri-County	Wayne-White	Western	Total	Average
	$25,748	$5,576	$24,793	$22,569	$4,519	$261,401	$12,448
	$17,754	$3,531	$17,632	$16,765	$2,820	$176,899	$8,424
	3,784	1,176	3,946	3,058	826	44,952	2,141
	1,363	369	1,314	1,148	316	14,416	686
	382	113	278	209	84	4,013	191
	1,565	339	1,541	872	343	14,558	693
	$24,848	$5,528	$24,711	$22,052	$4,389	$254,838	$12,135
	$900	$48	$82	$517	$130	$6,563	$313
	(46)	133	267	140	111	2,548	121
	$854	$181	$349	$657	$241	$9,111	$434
	$55,063	$14,187	$46,289	$40,034	$11,284	$530,241	$25,250
	14,759	4,133	11,425	12,664	3,264	147,698	7,034
	$40,304	$10,054	$34,864	$27,370	$8,020	$382,543	$18,216
	$1,870	$1,875	$2,918	$1,883	$710	$29,997	$1,428
	7,180	1,089	752	4,359	2,073	52,232	2,488
	722	-0-	150	31	29	4,602	219
	$50,076	$13,018	$38,684	$33,643	$10,832	$469,374	$22,351
	$16,473	$4,867	$10,880	$15,217	$3,816	$171,283	$8,156
	29,026	6,111	25,782	16,010	6,567	258,890	12,328
	2,238	638	1,654	1,151	449	25,970	1,237
	2,339	1,402	368	1,265	-0-	13,231	630
	$50,076	$13,018	$38,684	$33,643	$10,832	$469,374	$22,351
	3,140	1,189	2,807	3,229	1,177	41,274	1,965
	15,688	4,203	13,866	13,330	3,298	165,319	7,872
	5.00	3.53	4.94	4.13	2.80	-0-	4.01
	16,296	11,261	18,587	22,601	10,755	-0-	15,347
	255,648	47,329	257,723	301,271	35,471	2,537,093	120,814
	1,641	1,327	1,788	1,693	1,370	-0-	1,581
	3,510	3,375	3,338	3,003	3,421	-0-	3,207

Soyland Member Cooperatives And Board of Directors

1. ADAMS ELECTRICAL CO-OPERATIVE
P.O. Box 247, Camp Point 62320
Douglas Aeilts, Manager, Director; Robert D. Smith, Director
2. CLAY ELECTRIC CO-OPERATIVE, INC.
P.O. Box 517, Flora 62839
James E. Campbell, Manager, Director; H. Clifford Cammon, Director
3. CLINTON COUNTY ELECTRIC COOPERATIVE, INC.
P.O. Box 40, Breese 62230
James B. Riddle, Manager, Director; Kenneth G. Heinzmann, Director
4. COLES-MOULTRIE ELECTRIC COOPERATIVE
P.O. Box 709, Mattoon 61938-0709
David Collins, Director; Norman Wetzel, Director; David G. Findley, Manager
5. CORN BELT ELECTRIC COOPERATIVE INC.
P.O. Box 816, Bloomington 61702-0816
Jeffery D. Reeves, Manager, Director; Stephen Schertz, Director
6. EASTERN ILLINI ELECTRIC COOPERATIVE
P.O. Box 96, Paxton 60957
Wm. David Champion, Jr. Manager, Director; Gene P. Warmbir, Director
7. EDGAR ELECTRIC CO-OPERATIVE ASSOCIATION
P.O. Box 190, Paris 61944
Thomas J. Hentz, Manager, Director; Joe Welsh, Director
8. FARMERS MUTUAL ELECTRIC COMPANY
P.O. Box 43, Geneseo 61254-0043
Robert L. Delp, Manager, Director
9. ILLINOIS RURAL ELECTRIC CO.
2-12 South Main Street, P.O. Box 80, Winchester 62694
Robert "Ed" Gant, Manager, Director; William Griswold, Director
10. ILLINOIS VALLEY ELECTRIC COOPERATIVE, INC.
P.O. Box 70, Princeton 61356
T.L. "Kris" Christensen, Manager, Director; Joe Danielson, Director
11. M.J.M. ELECTRIC COOPERATIVE, INC.
P.O. Box 80, Carlinville 62626
Dennis A. Keiser, Manager, Director; Eldon E. Moore, Director
12. MCDONOUGH POWER COOPERATIVE
P.O. Box 352, Macomb 61455-0352
Dickson Dunsworth, Manager, Director; William Pollock, Director
13. MENARD ELECTRIC COOPERATIVE
P.O. Box 200, Petersburg 62675-0200
Dorland W. Smith, Manager, Director; Michael E. Carls, Director
14. MONROE COUNTY ELECTRIC CO-OPERATIVE, INC.
P.O. Box 128, Waterloo 62298
Joseph J. Fellin, Manager, Director; Donald L. Gleiber, Director
15. RURAL ELECTRIC CONVENIENCE COOPERATIVE CO.
P.O. Box 19, Auburn 62615
Del England, Manager, Director; David E. White, Director
16. SHELBY ELECTRIC COOPERATIVE
P.O. Box 560, Shelbyville 62565
James E. Coleman, Manager, Director; Robert H. Primmer, Director
17. SOUTHWESTERN ELECTRIC COOPERATIVE, INC.
P.O. Box 409, Greenville 62246
Alan G. Libbra, Director; Stuart Yagow, Director; Gary Wobler, Manager
18. SPOON RIVER ELECTRIC CO-OPERATIVE, INC.
P.O. Box 340, Canton 61520
W. Edward Cox, Manager, Director; David M. Bergland, Director



★ SOYLAND HEADQUARTERS
Decatur

● DISTRICT OFFICE
Jacksonville

19. TRI-COUNTY ELECTRIC COOPERATIVE, INC.
P.O. Box 309, Mt. Vernon 62864-0309
James E. Hinman, Manager, Director; Irvin Stanford, Director
20. WAYNE-WHITE COUNTIES ELECTRIC COOPERATIVE
P.O. Drawer E, Fairfield 62837
Dale Warren, Manager, Director; Curtis Endsley, Director
21. WESTERN ILLINOIS ELECTRICAL COOP.
P.O. Box 338, Carthage 62321
Paul M. Dion, Manager, Director; Haven D. Vaughn, Director

Deloitte & Touche LLP

Suite 645
First National Bank Building
Springfield, Illinois 62794-9428

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Soyland Power
Cooperative, Inc. and Subsidiary
Decatur, Illinois

We have audited the accompanying consolidated balance sheets of Soyland Power Cooperative, Inc. and subsidiary (the "Cooperative") as of December 31, 1995 and 1994, and the related consolidated statements of revenues and expenses, of members' equities (deficit) and of cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Cooperative as of December 31, 1995 and 1994, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements for the year ended December 31, 1995 have been prepared assuming the Cooperative will continue as a going concern. As discussed in Note 1A. to the consolidated financial statements, the Board of Directors and management of the Cooperative have determined the Cooperative cannot operate on a long-term basis pursuant to the Superseding Debt Restructuring Agreement (see Note 5) and that wholesale power rates being charged by the Cooperative to its members must be reduced to a competitive level, which raises substantial doubt about the ability of the Cooperative to continue as a going concern. Management's plan with regard to this matter is also discussed in Note 1A. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 29, 1996 on our consideration of Soyland Power Cooperative, Inc.'s internal control structure and a report dated February 29, 1996 on its compliance with laws and regulations.

Deloitte & Touche LLP

February 29, 1996

Consolidated Balance Sheets

	December 31, 1995	December 31, 1994
ASSETS (Note 5)		
ELECTRIC UTILITY PLANT, AT COST (Note 2):		
In service	$ 1,015,215,079	$ 1,013,874,229
Less accumulated depreciation	215,076,942	189,376,951
Total	800,138,137	824,497,278
Construction work in progress	5,609,639	2,969,254
Nuclear fuel, at cost (less accumulated amortization - 1995, $43,929,805; 1994, $38,683,194)	13,075,274	14,521,536
Plant site held for future use	7,271,619	7,262,285
Net electric utility plant	826,094,669	849,250,353
INVESTMENTS:		
Investment in associated organizations, at cost (Note 3)	10,044,185	8,746,446
Marketable securities - decommissioning trust (Note 4)	4,543,015	3,161,302
Note receivable (Note 8)	6,000,000	
Total	20,587,200	11,907,748
CURRENT ASSETS:		
Cash	195,918	173,251
Temporary investments	8,069,414	2,548,508
Accounts receivable, members	15,886,622	16,334,198
Other receivables	645,608	499,431
Inventories	8,666,379	9,417,819
Prepayments and other assets	289,791	312,680
Total	33,753,732	29,285,887
DEFERRED CHARGES:		
Deferred DOE assessment (Note 1)	967,995	1,067,650
Deferred interest (Note 5)	44,610,440	45,962,236
Total	45,578,435	47,029,886
TOTAL	$ 926,014,036	$ 937,473,874

See notes to consolidated financial statements.

Consolidated Balance Sheets

	December 31, 1995	December 31, 1994
MEMBERS' EQUITIES (DEFICIT) AND LIABILITIES		
MEMBERS' EQUITIES (DEFICIT):		
Membership fees	$ 1,675	$ 1,675
Patronage capital	2,779,263	2,779,263
Other equity	191,929	191,929
Unrealized holding gains (losses) on securities	358,760	(58,113)
Deficit	(91,678,420)	(86,371,584)
Total members' deficit	(88,346,793)	(83,456,830)
LONG-TERM DEBT (Note 5)	947,964,715	954,577,366
CURRENT LIABILITIES:		
Current installments of long-term debt (Note 5)	26,487,572	19,368,607
Line of credit (Note 5)		12,656,252
Accounts payable	13,749,220	17,011,641
Member prepayments	2,386,242	9,145,570
Accrued interest (Note 5)	11,164,561	1,178,557
Accrued expenses	7,207,488	3,381,806
Excess recoverable energy costs (Note 1)	677,735	
Total current liabilities	61,672,818	62,742,433
DECOMMISSIONING LIABILITY (Note 4)	4,435,086	3,219,414
DEFERRED REVENUE (Note 1)	288,210	391,491
COMMITMENTS AND CONTINGENCIES (Notes 8 and 9)		
TOTAL	$ 926,014,036	$ 937,473,874

See notes to consolidated financial statements.

Consolidated Statements of Revenues and Expenses

	Years ended December 31,	
	1995	1994
OPERATING REVENUES:		
Electric energy sales	$ 178,086,890	$ 177,084,239
Sales of ground source heat pumps, net	2,979,842	2,899,519
Distribution revenue	859,801	882,402
Rent of electric property	53,580	54,801
Total	181,980,113	180,920,961
OPERATING EXPENSES:		
Operations:		
Purchased capacity (Note 8)	47,862,668	45,417,282
Energy costs (Note 8)	45,914,485	45,663,407
Production - other	8,729,149	11,273,161
Transmission	2,287,114	2,210,927
Distribntion	302,722	316,493
Total	105,096,138	104,881,270
Cost of ground source heat pumps sold	2,130,682	2,053,440
Maintenance	4,741,081	2,821,426
Administrative and general (Note 6)	4,108,895	4,079,249
Depreciation and amortization (Note 5)	26,987,328	26,928,565
Property and other taxes (Note 7)	3,014,674	2,926,591
Decommissioning provision	1,215,672	916,517
Total	147,294,470	144,607,058
NET OPERATING MARGIN	34,685,643	36,313,903
OTHER REVENUE:		
Interest and other patronage capital income	3,313,781	2,339,446
Other		178,757
Total	3,313,781	2,518,203
NET MARGIN BEFORE INTEREST CHARGES	37,999,424	38,832,106
INTEREST CHARGES:		
Interest on long-term debt (Note 5)	43,164,995	42,034,783
Other	1,322,750	1,336,720
Allowance for borrowed funds used during construction	(428,824)	(275,171)
Interest allocated to nuclear fuel expense	(752,661)	(741,165)
Total	43,306,260	42,355,167
NET (DEFICIT)	$ (5,306,836)	$ (3,523,061)

See notes to consolidated financial statements.

Consolidated Statements of Members' Equities (Deficit)

Years ended December 31, 1995 and 1994

	Membership fees	Patronage capital	Other equity	Unrealized holding Gains(Losses) on securities	Deficit	Total members' (deficit)
Balances, January 1, 1994	$ 1,675	$2,779,263	$ 191,929		$(82,848,523)	$(79,875,656)
Cumulative effect of adopting SFAS No. 115 (Note 1)				$ 35,501		35,501
Change in net unrealized holding (losses)				(93,614)		(93,614)
Net (deficit)					(3,523,061)	(3,523,061)
Balances, December 31, 1994	1,675	2,779,263	191,929	(58,113)	(86,371,584)	(83,456,830)
Change in net unrealized holding gains				416,873		416,873
Net (deficit)					(5,306,836)	(5,306,836)
Balances, December 31, 1995	$ 1,675	$2,779,263	$ 191,929	$ 358,760	$(91,678,420)	$(88,346,793)

See notes to consolidated financial statements.

Consolidated Statements Cash Flows

	Years ended December 31 1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net deficit	$ (5,306,836)	$ (3,523,061)
Adjustments to reconcile net deficit to net cash flows from operating activities:		
Depreciation and amortization of electric utility plant	25,635,532	25,576,770
Amortization of deferred interest	1,351,796	1,351,795
Amortization of nuclear fuel and deferred DOE assessment	5,346,266	6,414,216
Decommissioning provision	1,215,672	916,517
Patronage capital allocations not received in cash	(111,108)	(157,367)
Allowance for funds used during construction	(428,824)	(275,171)
Interest allocated to nuclear fuel expense	(752,661)	(741,165)
Gain on sales of securities		(454)
Loss on sales of securities		116,267
Change in assets and liabilities:		
Accounts and other receivables	301,399	369,607
Inventories	751,440	75,776
Prepayments and other assets	22,889	(86,027)
Investments in associated organizations	(40,331)	552,727
Recoverable energy costs	677,735	3,085,746
Accounts payable and accrued liabilities	11,932,218	(465,161)
Deferred revenue	(103,281)	(108,509)
NET CASH FLOWS FROM OPERATING ACTIVITIES	40,491,906	33,102,506
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to electric utility plant, net	(3,722,002)	(3,397,670)
Additions to investments in associated organizations	(271,300)	(24,500)
Purchases of securities - decommissioning trust, net	(964,840)	(1,032,330)
Purchases of nuclear fuel	(5,080,926)	(1,424,169)
Additions to note receivable	(6,000,000)	
NET CASH FLOWS FROM INVESTING ACTIVITIES	(16,039,068)	(5,878,669)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from capital addition loans	15,300,000	
Payments on line of credit borrowing, net	(12,656,252)	(5,843,748)
Principal payments on long-term debt	(14,793,685)	(21,129,810)
Increase (decrease) in member prepayments	(6,759,328)	1,473,327
NET CASH FLOWS FROM FINANCING ACTIVITIES	(18,909,265)	(25,500,231)
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,543,573	1,723,606
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,721,759	998,153
CASH AND CASH EQUIVALENTS, END OF YEAR	$8,265,332	$ 2,721,759

Supplemental disclosure:

The Cooperative made interest payments totalling $33,178,991 and $42,735,423 in 1995 and 1994, respectively.
The Cooperative's subsidiary made income tax payments of $188,741 and $38,000 in 1995 and 1994, respectively.

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31,1995 and 1994

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A. *Organization* - The consolidated financial statements reflect the accounts of Soyland Power Cooperative, Inc. and its wholly-owned subsidiary, Applied Energy Systems of Illinois, Inc., ("the Cooperative"). The subsidiary was created in 1987 for the purpose of selling ground source heat pumps to rural consumers. All significant intercompany transactions have been eliminated in consolidation.

The Cooperative is a nonprofit organization engaged primarily in the generation and transmission of wholesale electric service to its twenty-one members located in central and southern Illinois. The Cooperative has entered into wholesale power agreements with each of its members which require the members to buy and receive from the Cooperative all of their power and energy requirements and require the Cooperative to sell and deliver power and energy in satisfaction of such requirements. The wholesale power agreements with the members extend to various dates from years 2015 to 2017.

The Cooperative's rates are established by the Board of Directors and are subject to approval by the Rural Utilities Service ("RUS"). Wholesale power rates charged to members are determined based on cash requirements, including debt service requirements. The Cooperative is not subject to the regulatory authority of the Illinois Commerce Commission.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at December 31, 1995 and 1994 and the reported amounts of revenues and expenses during the years then ended. Actual results could differ from those estimates.

Basis of Presentation - The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Board of Directors and management believe the effect of deregulation and retail wheeling in the utility industry will significantly increase competition between the Cooperative and its competitors. The Board of Directors and management of the Cooperative have determined the Cooperative cannot operate on a long-term basis pursuant to the Superseding Debt Restructuring Agreement (see Note 5) and that wholesale power rates being charged by the Cooperative to its members must be reduced to a competitive level. The Cooperative is considering various alternatives in order to achieve competitive rates. These alternatives include the sale of all or a portion of the Cooperative's assets, renegotiation of power supply contracts, reorganization pursuant to Chapter 11 of the U. S . Bankruptcy Code, restructuring of debt and buy-out of existing debt. The Board of Directors and management believe that without a competitive rate charged to its members the Cooperative will be unable to compete for a new load or maintain its existing load and, therefore, will have difficulty in generating sufficient cash flow to meet debt service requirements and sustain operations. This difficulty, if not relieved by one or a combination of the aforementioned alternatives being considered, raises substantial doubt about the Cooperative's ability to continue as a going concern.

All of the above alternatives are currently being considered by the Board of Directors and management as possible solutions. Implementation of any of the alternatives will have an impact on the Cooperative's financial statements.

Management of the Cooperative has asserted that the Cooperative has sufficient cash flows for the 1996 fiscal year to meet operating expenses and debt service requirements. Management has also asserted that the current wholesale power rates required under the terms of the Superseding Debt Restructuring Agreement will remain in effect pending the outcome of alternatives being considered.

The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Cooperative be unable to continue as a going concern.

B. *Basis of Accounting* - The accounting records of the Cooperative are maintained in accordance with the Uniform System of Accounts prescribed by RUS.

C. *Electric Utility Plant* - Depreciation of electric utility plant in service is provided over the estimated useful lives of the respective assets on the straight-line basis at rates as follows:

Production plant:	
Nuclear	2.5%
Steam	3.1% - 4.0%
Gas turbine and diesel	2.0%
Transmission plant	2.75%
Distribution plant	3.0%
General plant	2.5% - 20%

Based upon guidelines provided by the Nuclear Regulatory Commission ("NRC"), which establish a minimum funding level, and in conjunction with Illinois Power (principal owner and operator of the Clinton nuclear generating facility - see Note 2), the Cooperative estimates that its portion of the costs to decommission the Clinton facility, which will not begin until the year 2027, will be approximately $57,200,000 (in 1995 dollars). A site-specific study to estimate the cost of dismantling, removing and disposing of the Clinton generating facility is nearing completion. This study is expected to result in projected decommissioning costs higher than the NRC-specified funding level. The future decommissioning costs are being recovered over the life of the facility using the sinking fund method.

In 1996, the Financial Accounting Standards Board ("FASB") issued an exposure draft on accounting for liabilities related to closure and removal of long-lived assets. This exposure draft would change the way the Cooperative accounts for nuclear decommissioning costs and fossil plant dismantling. The exposure draft calls for recording as a liability the present value of estimated future cash flows to decommission nuclear power plants and dismantle fossil plants.

Maintenance and repair of property and replacements and renewals of items determined to be less than units of property are charged to expense. Replacement and renewals of items considered to be units of property are charged to the property accounts. At the time properties are disposed of, the original cost, plus cost of removal less salvage of such property, is charged to accumulated depreciation.

D. *Allowance for Borrowed Funds Used During Construction* - The allowance for borrowed funds used during the period of construction represents the estimated interest cost of borrowed funds used for construction purposes. The composite rate used to calculate the allowance approximated 6.7% and 5.2% for 1995 and 1994, respectively.

E. *Nuclear Fuel* - The cost of nuclear fuel, including capitalized interest and overhead, is being amortized to fuel expense on the basis of the number of units of thermal energy produced in relation to the total thermal units expected to be produced over the life of the fuel.

Nuclear fuel expense includes a provision for estimated spent nuclear fuel disposal cost which is being collected currently from members and remitted to the U. S. Department of Energy ("DOE"), which is responsible for the disposal of the spent nuclear fuel.

The Energy Policy Act of 1992 established a fund to pay for the decontamination and decommissioning of three nuclear enrichment facilities operated by DOE. A portion of the fund is to be collected from electric utilities that have purchased enrichment services from DOE. Each utility is being assessed an annual fee for a period of 15 years beginning in 1994. The Cooperative recorded a regulatory asset and a liability representing an estimate of its total required contribution to this fund, as determined by DOE, related to the nuclear fuel used in the Clinton nuclear generating facility (See Notes 2 and 5). The regulatory asset is being amortized to nuclear fuel expense and collected in rates charged to members.

F. *Marketable Securities - Decommissioning Trust* - In May 1993, the FASB issued Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115"). This statement requires that debt and equity securities be classified into one of three categories: held-to-maturity, available-for-sale, or trading. The Cooperative adopted SFAS No. 115 effective January 1, 1994. In accordance with the provisions of this statement, prior years' financial statements have not been restated. At January 1, 1994, the adoption of SFAS No. 115 resulted in a $35,501 net unrealized holding gain being recorded in members' equities.

All marketable debt and equity securities have been classified as available-for-sale based on the Cooperative's intent and ability to sell the securities in response to changes in interest rates, investment risk and the availability of and yield on alternative investments. In accordance with SFAS No. 115, these securities are carried at fair value, with the net unrealized holding gains and losses excluded from earnings and reported as a net amount in a separate component of members' equities, until realized. The average cost method is used to compute realized gains or losses on the sale of securities.

G. *Temporary Investments* - Temporary investments consist of an interest bearing sweep account and are stated at cost which approximates market. The Cooperative considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Cooperative's banking arrangements require the maintenance of a $100,000 compensating balance.

H. *Inventories* - Inventories consist of fuel (including SO2 allowances) and materials and supplies and are stated at moving average cost.

I. *Member Prepayments* - Member prepayments represent cash advances from members. The Cooperative uses these advances to pay down line-of-credit borrowings. The Cooperative pays interest on member advances at a rate lower than that on the line-of-credit. Such interest payments on member advances totalled approximately $769,000 and $688,000 for the years ended December 31, 1995 and 1994, respectively.

J. *Power Supply Payments* - Payments made under power supply agreements (see Note 8) are classified as purchased capacity, energy costs and transmission expense in the consolidated statements of revenues and expenses.

K. *Deferred Revenue* - Deferred revenue consists of discounted advanced interest payments received on the Cooperative's National Rural Utilities Cooperative Finance Corporation ("CFC") capital term certificates. Such payment was made by CFC to the Cooperative pursuant to the terms of the Superseding Debt Restructuring Agreement (see Notes 3 and 5). The amount of this deferred revenue will be amortized over the period during which it would have been earned (1995 through 1999).

L. *Presentation* - Certain amounts reported for 1994 have been reclassified to conform to the 1995 presentation.

2. ELECTRIC UTILITY PLANT IN SERVICE

The major classes of electric utility plant in service at December 31, 1995 and 1994, are as follows:

	1995	1994
Nuclear plant and related facilities	$ 970,955,231	$ 969,929,730
Steam and other production plant	13,285,388	13,273,770
Transmission plant	17,334,718	17,231,036
Distribution plant	7,697,290	7,668,123
General plant	5,942,452	5,771,570
Total	$ 1,015,215,079	$ 1,013,874,229

The Cooperative has a 13.21% interest in the 950 megawatt Clinton nuclear generating facility ("Clinton") located in Clinton, Illinois which was completed and placed in seıvice in 1987. The Cooperative's share of operating expenses associated with this facility is included with the appropriate operating expenses in the consolidated statements of revenues and expenses.

3. INVESTMENTS IN ASSOCIATED ORGANIZATIONS

Investments in associated organizations consisted of the following at December 31:

	1995	1994
CFC:		
Membership fees	$ 2,000	$ 2,000
Patronage capital	3,630,459	3,479,020
Capital term certificates	5,047,654	5,047,654
Loan capital term certificates	1,050,000	
Total	9,730,113	8,528,674
Other associated organizations	2,272	2,272
Total	9,732,385	8,530,946
Investments in economic development organizations	311,800	215,500
TOTAL	$ 10,044,185	$ 8,746,446

Loan capital term certificates mature in the year 2022 and do not bear interest.

Capital term certificates at December 31, 1995 bear interest at 5% and mature at various dates from years 2070 to 2080. Interest on CFC capital term certificates for the period from 1995 through 1999 has been prepaid, at a discount, by CFC and recorded as deferred revenue (see Note 1).

4. MARKETABLE SECURITIES - DECOMMISSIONING TRUST

Marketable debt and equity securities have been classified as available-for-sale in 1995 according to management's intent. The amortized cost and estimated fair values as of December 31, 1995 are as follows:

	AMORTIZED COST	UNREALIZED GROSS GAINS	UNREALIZED GROSS LOSSES	ESTIMATED FAIR VALUE
U.S. Treasury debt securities	$ 531,506	$ 7,947	$ 27,843	$ 511,610
Corporate debt securities	50,787		479	50,308
Convertible equity securities	102,026	12,701		114,727
Equity securities	2,761,690	387,128	20,694	3,128,124
Total	$ 3,446,009	$ 407,776	$ 49,016	3,804,769
Cash and non-debt/equity securities, at cost				738,246
TOTAL				$ 4,543,015

The amortized cost and estimated fair values as of December 31, 1994 are as follows:

	AMORTIZED COST	UNREALIZED GROSS GAINS	UNREALIZED GROSS LOSSES	ESTIMATED FAIR VALUE
U.S. Treasury debt securities	$ 1,703,582	$ 921	$ 31,902	$ 1,672,601
Corporate debt securities	164,746		8,447	156,299
Debt securities issued by foreign governments	18,300	600		18,900
Convertible debt securities	176,545	5,306	7,876	173,975
Convertible equity securities	96,412	629	5,841	91,200
Equity securities	796,583	25,088	36,591	785,080
Total	$ 2,956,168	$ 32,544	$ 90,657	2,898,055
Cash and non-debt/equity securities, at cost				263,247
TOTAL				$ 3,161,302

The amortized cost and estimated fair value of debt securities at December 31, 1995 and 1994 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	1995 Amortized Cost	1995 Estimated Fair Value	1994 Amortized Cost	1994 Estimated Fair Value
Due in one year or less	$ 278,912	$ 250,590	$ 1,121,101	$ 1,121,567
Due after one year through five years	303,381	311,328	784,877	745,620
Due after five years through ten years			157,195	154,588

5. DEBT AND DEBT RESTRUCTURING

Long-term debt at December 31, 1995 and 1994, consists of the following:

	1995	1994
Superseding Restructured Debt-imputed interest at 4.2%, due in quarterly installments through 2018	$ 893,095,255	$ 906,836,968
CFC - variable rate (6.2% at December 31, 1995) mortgage notes payable, due in various quarterly installments through 2006	49,387,640	49,387,640
RUS - 2% and 5% notes payable, due in quarterly installments through 2018	15,753,424	16,732,500
CFC - variable rate (6.2% at December 31, 1995) capital addition loan notes payable, due in quarterly installments through 2022	14,947,853	
U. S. Department of Energy - Decommissioning and Decontamination Fund, due in equal annual installments through 2008	971,890	988,865
Federal Financing Bank - 7.674% note payable, due in quarterly installments through 2017	296,225	
Total long-term debt	974,452,287	973,945,973
Less current installments	26,487,572	19,368,607
Long-term debt, excluding current installments	$ 947,964,715	$ 954,577,366

On December 15, 1993 the Cooperative entered into a Superseding Debt Restructuring Agreement ("the Agreement") with the United States of America (acting through the Administrator of RUS and CFC) effective as of January 1, 1993. The Agreement related to approximately $944,756,000 of recorded, outstanding debt (including related accrued interest and certain interest credits) on various loans and previously restructured debt guaranteed by RUS. The loans and previously restructured debt were originally obtained to finance construction costs relating to the Clinton nuclear generating facility. Under the agreement, the debt was restructured into two notes payable to RUS: Note A for $730,596,406 and Note B for $363,982,707. Note A bears interest at 7.5% and is due in quarterly installments through 2018.

Note B bears interest at 7.5% and requires the Cooperative to make annual Energy Sales Payments and Power Cost Savings Payments (for principal and interest) through 2029. The amount of the Energy Sales Payment is based on a load growth formula (as determined by the Agreement) which will result in a payment if, and only if, future load growth is achieved. The amount of the Power Cost Savings Payment is based on a cost savings formula (as determined by the Agreement) and will result in payments if, and only if, power cost savings occur. To the extent that interest on Note B for any calendar year is not required to be paid, such unpaid interest is added to the unpaid principal balance of Note B. The amount of Note B not repaid by April 30, 2029 will be forgiven. Management of the Cooperative projects stable growth and stable power costs in future years and therefore anticipates that payments under Note B will be minimal. At December 31, 1995 and 1994, the Cooperative has accrued and charged to interest expense approximately $1,360,000 and $700,000, respectively, for Energy Sales Payments due April 30, 1996 and 1995, respectively. There have been no Power Cost Savings Payments made, nor are there any due.

The Cooperative has accounted for the restructuring in its financial statements in accordance with the provisions of Statement of Financial Accounting Standards No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructuring* ("SFAS 15"), as a modification of terms. Under a modification of terms, the carrying value of the debt at the time of restructuring is not changed unless it exceeds the future cash payments, excluding amounts contingently payable, specified by the new terms. Future minimum cash payments required under the terms of the Agreement totalled $1,586,205,000, excluding amounts contingently payable. Because of the contingent nature of the Cooperative's obligation to make principal and interest payments on Note B, only the required principal and interest payments on Note A were used at the date of the restructuring to impute the interest rate (4.2%) on the restructured debt.

In accordance with SFAS 15, unpaid interest on Note B is added to the unpaid principal balance of Note B and not recorded in the accompanying financial statements. The amounts due on Note A and Note B, including amounts contingently payable, according to the terms of the debt restructuring plan discussed above, total $1,136,642,750 (Note A, $708,584,808, and Note B, $428,057,942, including unpaid interest) at December 31, 1995.

As part of a previous debt restructuring, dated March 29, 1989, the Cooperative recorded $107,366,810 of prior period unpaid interest on that restructured debt. The Cooperative included $53,294,999 of this amount in electric plant (re'ating to the period the plant was under construction) and $54,071,811 as deferred interest. The deferred interest will be amortized collected through rates over the life of the related debt restructured by the Agreement.

Annual maturities of long-term debt for each of the five years subsequent to December 31, 1995, are as follows: 1996, $26,487,572; 1997, $30,237,294; 1998, $26,655,808; 1999, $26,194,968; 2000, $34,691,319.

The Cooperative had $15,000,000 of unadvanced funds available at December 31, 1995 from long-term loans approved by CFC for capital additions and a $30,000,000 operating line of credit approved by CFC, of which $12,656,252 had been drawn down at December 31, 1994. The interest rate on the CFC line of credit fluctuates monthly based on CFC's Intermediate-term Interest Rate (6.5% at December 31, 1994).

All assets of the Cooperative are pledged to secure the long-term debt to RUS and CFC.

The Cooperative has not completed the management audit required by the "Management Consultant" provision of Section 5.01(q) of the Agreement and has not received a written waiver of the requirement from RUS. The Cooperative has received written notice from RUS that RUS will not take action under the enforcement provisions contained in Section 2.10 of the Agreement through February 28, 1996. Management expects to complete the management audit and believes no enforcement action will occur.

6. PENSION PLANS

The Cooperative participates in a multi-employer defined benefit pension plan and a 401(K) defined contribution plan which covers substantially all employees. The Cooperative makes annual contributions to the plans equal to the amount accrued for pension expense. Total pension expense for both plans amounted to $156,166 and $197,801 for the years ended December 31, 1995 and 1994, respectively.

7. INCOME TAX STATUS

The Cooperative is a nonprofit corporation organized under the Statutes of the State of Illinois and is exempt from Federal and state income taxes under applicable tax regulations. Applied Energy Systems of Illinois, Inc. is subject to corporate income taxes. Income tax expense recorded by Applied Energy Systems of Illinois, Inc. for the years ended December 31, 1995 and 1994 totalled approximately $79,000 and $114,000, respectively.

8. COMMITMENTS

The Cooperative anticipates that the Clinton nuclear generating facility will furnish approximately 30% of its energy requirements. The current and additional long-term energy requirements will be furnished through power supply agreements with Illinois Power Company ("IP") and Central Illinois Public Service Company ("CIPS") as discussed below.

The Cooperative's share of nuclear fuel commitments for Clinton is approximately $3.4 million for uranium concentrates through 1998, $.9 million for conversion through 2002, $6.2 million for enrichment through 1999 and $28.2 million for fabrication through 2017.

The Cooperative has contracted to purchase 435 MW of capacity annually from IP's fossil fueled generating plants through 2011. The Cooperative has committed to provide emission allowances related to its power supply agreement with IP. It is anticipated that all of these costs will be recoverable through rates charged to members.

The Cooperative has also contracted to purchase 102 MW of capacity annually from CIPS' fossil fueled units through 1999.

In addition, the Cooperative has purchased transmission capacity from IP through 2011 and from CIPS through 2014. The contract payments to IP and CIPS are determined on an "as if owned" basis and include capacity charges (consisting of production, operation and maintenance costs) and energy charges. The approximate fixed capacity charges and energy cost data under these contracts for the years ended December 31, 1995 and 1994 are as follows:

	IP			CIPS		
Year	Contracted Purchase Capacity	Total Fixed Capacity Charges	Energy Costs	Contracted Purchase Capacity	Total Fixed Capacity Charges	Energy Costs
1995	435	$ 29,400,000	$18,700,000	102	$ 18,500,000	$ 7,000,000
1994	288	18,700,000	24,700,000	206	26,700,000	6,600,000

At December 31, 1995, the Cooperative had a 6.6% demand note receivable from IP for $6,000,000 for working capital advances related to the fossil-fueled plants under the power supply agreement described above.

9. CONTINGENCIES

Under the Price-Anderson Act, as amended in 1988, all nuclear power station operators are subject to public liability for a nuclear incident (currently limited to $8.9 billion per incident). Coverage of the first $200 million is provided by private insurance with the balance provided by retrospective premium assessments against each licensed nuclear unit in the United States. As a joint owner of the Clinton nuclear facility, the Cooperative is a party to the insurance policies which are maintained by Illinois Power Company (86.79% owner and operator of Clinton) and is charged for its proportionate share of such insurance costs. In the event of an incident at any nuclear plant in the United States in excess of $200 million, the Cooperative could be assessed a maximum of $10,500,000 per incident, with a maximum assessment of $1,300,000 per incident per year.

IP maintains insurance on behalf of IP and the Cooperative for certain losses related to the operation of Clinton. The insurance coverage limit for physical damage to the plant is $1.6 billion effective December 15, 1994. This insurance includes a primary layer of $500 million provided by nuclear insurance pools and an excess layer of $ 1. 1 billion provided by an industry-owned mutual insurance company. In the event of an accident with an estimated cost of reactor stabilization and site decontamination exceeding $100 million, NRC regulations require that insurance proceeds be dedicated and used first to return the reactor to, and maintain it in, a safe and stable condition. After providing for stabilization and decontamination, the insurers would then cover property damage up to a total payout of $1.38 billion. Second, the NRC requires decontamination of the reactor station site in accordance with the plan approved by the NRC. The insurers would provide up to $220 million to cover decommissioning costs in excess of funds already collected for decommissioning. In the event insurance limits are not exhausted, the excess will cover a portion of the value of the undamaged property. In addition, while the Cooperative has no reason to anticipate a serious nuclear accident at Clinton, if such an incident should occur, the claims for property damage and other costs would materially exceed the limit of current or available insurance coverage.

Multiple major losses, covered under the current property damage and business interruptions insurance coverage, involving Clinton would result in retrospective premium assessments of up to approximately $13 million. IP would allocate this assessment between IP and the Cooperative based on their respective ownership interest in Clinton.

The Cooperative is a defendant in various claims and lawsuits arising in the ordinary course of business. Based on discussions with legal counsel, management believes that the final settlement of these actions will not have a material adverse effect on the Cooperative's financial position or results of operations.

During 1990, the U.S. Congress passed the Clean Air Act of 1990 (the "Clean Air Act") which, among other things, promulgated certain emission standards within the electric utility industry. The Clean Air Act requires reductions in sulfur dioxide and nitrogen oxide emissions from power plants and has two phases for compliance. Phase I, which took effect January 1, 1995, is not expected to have a significant impact on Cooperative operations related to Cooperative-owned plant. The impact of Phase II, which is effective January 1, 2000, has not been determined by Cooperative management. The impact of the Clean Air Act on purchased power could be significant. The Cooperative expects that any additional cost incurred will be recovered through rates charged to members.

10. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value amounts have been determined by the Cooperative, using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value.

Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Cooperative could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated value amounts.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Assets

- *Marketable securities - decommissioning trust* - Trust investments are carried at fair value based on quoted market prices for each specific investment instrument.

- *Investments* - The December 31, 1995 and 1994 investment balances comprise the following:

	1995	1994
CFC capital term certificates (1):		
Revenue certificates	$ 2,252,049	$ 2,252,049
Loan certificates	3,845,605	2,795,605
	6,097,654	5,047,654
Patronage capital certificates (1):		
Refinancing patronage	1,046,531	1,006,200
Other patronage	2,583,928	2,472,820
	3,630,459	3,479,020
Memberships and miscellaneous patronage (2)	4,272	4,272
Other associated organizations (3)	311,800	215,500
Total	$ 10,044,185	$ 8,746,446

Fair value for investments is estimated as follows:

1. The Cooperative considers CFC capital term certificates to be a condition of borrowing and patronage capital to be directly related to borrowing. As described below, Cooperative management believes the fair value of the related debt is not determinable and thus the fair value of the CFC capital term certificates is not determinable.

2. The carrying amount of these items is a reasonable estimate of fair value.

3. Management was not able to estimate the fair value of these investments which represent the Cooperative's investment in economic development companies.

- *Cash and Temporary Investments* - The carrying amounts of these items are a reasonable estimate of their fair value due to the short-term nature of the instruments.

Liabilities

- *Long-Term Debt* - Due to all long-term debt being either with or guaranteed by the United States Government and due to the unique nature of the debt instrument resulting from the debt restructuring, management believes the fair value of the Cooperative's debt is not determinable.

	1995		1994	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:				
Marketable securities - decommissioning trust	$ 4,543,015	$ 4,543,015	$ 3,161,302	$ 3,161,302
Investments	10,044,185	(see above)	8,746,446	(see above)
Cash and temporary investments	8,265,332	8,265,332	2,721,759	2,721,759
Liabilities - Long-term debt	947,964,715	(see above)	954,577,366	(see above)

Fair value estimates presented herein are based on pertinent information available to management as of December 31, 1995 and 1994. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

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