Illinois Power
Company

Annual Report
1991

Our plans are paying dividends.

ILLINOIS
POWER

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Illinois Power Company PROFILE

[illegible] Year in Review

- **February 8** [illegible]
- **February 13** [illegible] for the year.
- **March 19** Illinois Power files a request with the ICC to increase annual electric revenues by [illegible] million or about [illegible] percent.
- **April 9** Board of Directors elects Larry D. Haab as Chief Executive Officer. Haab replaces Wendell J. Kelley as Chairman of the Board upon Kelley's retirement June 1.
- **April 26** Nuclear Regulatory Commission [illegible] at the Clinton Power Station [illegible] performance at the plant.
- **October 9** Board of Directors [illegible] stock dividend.
- **October 27** Clinton Power Station sets U.S. record for its reactor class with [illegible] consecutive days of operation.
- **December 31** IP stock closed at [illegible], an increase of [illegible] percent for the year.

Illinois Power Company is a public utility engaged principally in the generation, transmission, distribution, and sale of electric energy and the distribution, transportation and sale of natural gas solely in the State of Illinois. The Company's territory is approximately [illegible] square miles, or one-quarter of the state. The Company serves approximately [illegible] customers.

Territory and Facilities Legend

- Fossil Generating Station
- Nuclear Generating Station
- Gas Storage Field
- Interconnections with Other Utilities
- Electric Territory Served
- Gas Territory Served
- Gas & Electric Territory

Financial HIGHLIGHTS

Our strategic plan has begun paying dividends — the dividends of improved customer service, improved teamwork, and a common stock payout. We believe that by focusing our strategic plans clearly on customer service, a strong employee team and financial results, we can recover our financial health and increase common stock dividends at a rate greater than the industry average.

	(Millions except per share amounts and common stock prices)	*1991*	*1990*	*% Increase (Decrease)*
Financial Highlights	Operating revenues			
	Electric (including interchange)	$ 1,187	$ 1,158	2.5
	Gas	$ 288	$ 311	(7.4)
	Operating expenses and taxes	$ 1,183	$ 1,215	(2.6)
	Operating income	$ 292	$ 254	15.0
	Net income (loss)	$ 109	$ (78)	—
	Total assets	$ 5,272	$ 5,345	(1.4)
Common Stock Data	Average number of common shares outstanding (thousands)	75,644	75,613	—
	Earnings (loss) per common share	$ 1.04	$ (1.53)	—
	Return on average common equity	5.5%	(7.8)%	—
	Book value per common share	$ 19.25	$ 18.70	2.9
	Common stock prices and dividends			
	High	$ 24⅛	$ 19⅜	24.5
	Low	$ 15⅛	$ 12⅜	20.6
	Close	$ 23½	$ 16¼	44.6
	Dividends declared	$ .40	$ —	—
Volume Sales	Electric sales in kilowatt-hours (including interchange)	19,432	18,657	4.2
	Gas sales in therms (sold and transported)	823	824	(0.1)
Capitalization	Common stock equity	36%	35%	—
	Preferred stock	10%	11%	—
	Long-term debt	54%	54%	—
	Total	100%	100%	—

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Chief Executive Officer Larry D. Haab outside the Clinton Power Station

Two years ago, we began this report by acknowledging that, financially, 1989 was the worst year in our company's history. During 1990 we saw some improvement. In 1991, I am extremely pleased to report that we made significant progress — financially, and in many other ways — toward regaining the ground we lost two years ago.

Our principal achievement in 1991 was following through on our commitment to resume a common stock dividend. In October, the Board of Directors voted to pay a 20 cents per share quarterly common stock dividend. Our goal now is to grow the dividend at a rate better than the industry average. At the same time, we have in place a strategy aimed at accelerating our positive earnings momentum.

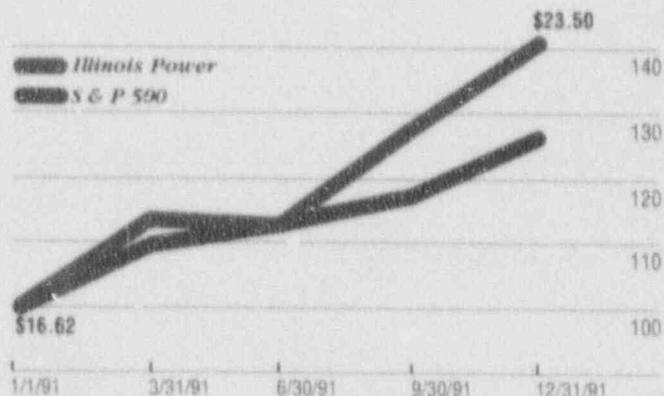
Financial Results Improve in 1991

Our earnings of $78 million, or $1.04 per share, ended two consecutive years of losses. In 1991, we did not have to write off plant costs as we did the previous two years. A second major contributor to our return to profitability was our focus on controlling operating and maintenance expenses. In 1991, these costs were approximately $25 million below 1990 levels, largely due to the refueling outage and additional efficiencies at the Clinton Power Station.

For the year, we had nominal sales growth. The recession, which became more severe in our service territory as the year progressed, triggered a 1.4 percent drop in industrial electric sales. However, this decline was more than offset by strong residential demand prompted by warmer than normal summer temperatures. Also, interchange revenues were $86 million, 16 percent above the total for 1990.

Overall gas sold and transported in 1991 remained even with 1990 levels. Slumping industrial gas deliveries — due to bypass and the recession — offset a

IP Stock Price vs. Standard & Poor's 500 Index



5 percent boost in residential sales.

Our aggressive financing activities continue to lower our interest expense and preferred dividends. Last year we were able to reduce long-term interest expense by $15 million and preferred dividends by almost $6 million.

Rate Order Closes Major Clinton Issue

In February 1992, the Illinois Commerce Commission approved an annual increase in electric revenues of $100 million, or 9.2 percent. In a positive step, the ICC concluded that Clinton Power Station's generating capacity is 100 percent "used and useful."

However, the Commission's order does not settle whether deferred Clinton post-construction costs should be included in rates. The Commission delayed the decision on these deferred costs until a rehearing process. We anticipate a decision from the ICC on this matter within six months.

Quality Service and a Winning Team Build Value

Even though our financial successes were impressive — as Wall Street indisputably affirmed — it is our successes in improving all aspects of customer service and our own total team effort that helped us turn the corner in 1991. These are the areas that will lead to increased stockholder value in the coming years, and these are the areas I'd like to highlight.

During the past two years, we have been working very hard to enhance our customer-focused culture at IP. We centralized our customer service operations and made our representatives available to customers 24 hours a day, 365 days a year via a toll-free number. We also established a Customer Assistance Advisory network to give individualized help to residential customers with special needs. The results of these initiatives are better response times, better customer service.

We have strengthened our efforts to foster a "winning team" attitude among our 4,500 employees. It is a deliberate change in our corporate culture. A winning team isn't complex: To make it work, we must create an environment in which employees at all levels are treated with respect, encouraged to contribute individually to the achievement of company goals, and fairly recognized and compensated for their work.

In 1991, we became one of the few utilities to include all its employees as participants in an incentive compensation plan. Although we didn't meet all of our goals, the results were impressive — we made significant improvements in nearly every aspect of our business.

Investing in Clean Air

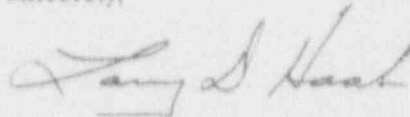
Illinois Power's compliance program for the first phase of the federal Clean Air Act is underway. In December, we began site preparation for the construction of clean air systems at two of our Baldwin units. We estimate the compliance cost of this initial phase at approximately $250 million to $350 million, which we expect to fund internally.

Committed to Service, Winning Team, and Stockholder Value

Our goals for 1992 and beyond remain unchanged. We want to enhance our financial strength, to build earnings that will support regular dividend increases, and to generate excellent total return for our investors. I believe we made a great start on these in 1991.

What has changed over the past few years — what drove our turnaround in 1991 — is our approach to achieving these strategic goals. Today, Illinois Power is truly a new and revitalized company. We enter 1992 more committed than ever to meeting our goals through continuing improvements to our customer service, our cost management, and our winning team programs. I am convinced that our continued successes in these areas will generate excellent stockholder value in the future.

Sincerely,



Larry D. Haab
Chairman, President and Chief Executive Officer
February 21, 1992

Commitments. In the 1990s, Illinois Power is committed to improving *Service* to its customers and developing a strong sense of *Teamwork* among its employees. The Company is convinced that focusing on these two areas will accomplish our key long-term financial objective: providing excellent *Value* for Illinois Power stockholders.

1.

Illinois Pow[illegible] Reinstates Stock Dividend

Illinois Power Bounces Back

'We've Done A Good Job'

By Christopher Carey

Larry Haab

Newspapers from *The Wall Street Journal* to *The Chicago Tribune* followed Illinois Power's turnaround.

Following an adverse ruling from the Illinois Commerce Commission (ICC) in the spring of 1989, IP's Board of Directors suspended the common stock dividend. The price of Illinois Power common stock had already collapsed. Illinois Power management pledged then to take the aggressive measures necessary to steadily rebuild stockholder value.

In 1991, those aggressive measures began to pay dividends: the price of Illinois Power shares climbed almost 45 percent — more than double the average for electric utilities — and the Board of Directors restored a 20 cents per share quarterly common stock dividend.

Cost Cutting Spurs Financial Success

The major theme underlying Illinois Power's financial turnaround in 1991 was not revenue growth, but reduced expenses and the absence of plant cost write-offs. Operating income for the year climbed to $291.8 million, nearly 15 percent better than 1990's. The solid performance boosted retained earnings at year's end to $75.8 million, from just over $1 million at the beginning of the year.

The Company's plan is to generate substantial earnings growth that will support growing the dividend at a rate higher than the industry average.

For the year, electric sales (excluding interchange) inched ahead 0.8 percent, largely on the strength of higher residential use due to warmer than normal summer weather. Overall sales growth was slowed by a revised contract with municipal customers. While industrial sales were off 1.4 percent due to the recession, commercial sales advanced 4.4 percent and residential sales were up more than 9 percent over last year's.

The negative impact of the economy on our industrial segment — especially among our rubber, automotive, and heavy machinery customers — was diminished by strong demand from grain processors. In fact, because business in IP's service territory is diversified, the

After meeting with investors, Treasurer Robert Schultz and Chief Financ[illegible] Altenbaumer [illegible] ab[illegible] the New [illegible] S[illegible]

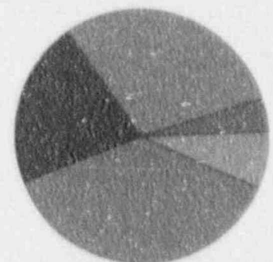
Company is looking forward to better than 2 percent annual growth in electric sales through 1996. The lion's share of that growth is expected to come from industrial customers, with the commercial and residential segments making smaller contributions.

The total of gas sold and transported in 1991 was 823 million therms, virtually unchanged from a year ago. Several of IP's large industrial customers elected to purchase their gas supplies directly from pipeline suppliers. Illinois Power's gas sales to industrial customers were also hurt by recessionary pressures in 1991. These negative impacts on our deliveries to industrial customers offset a 5.2 percent increase in residential sales.

Although IP is projecting level natural gas sales through the middle of the decade, the Company has begun reshaping the gas business to take better advantage of its expanded storage capabilities. The new Natural Gas Division has the potential to make significant improvements in earnings over the next two or three years.

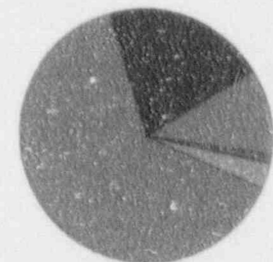
Aggressive cost management produced significant results in 1991. Companywide efforts to improve operations and reduce expenses resulted in operating and maintenance costs being approximately $25 million below 1990 and about $10 million below the amount budgeted for 1991. Strict cost controls and lower refueling expenses at Clinton produced the bulk of these reductions. IP's plans for the next several years call for limiting growth of operating and maintenance expenses to one-half of the rate of inflation.

1991 Sources of Electric Revenues *(in percent)*

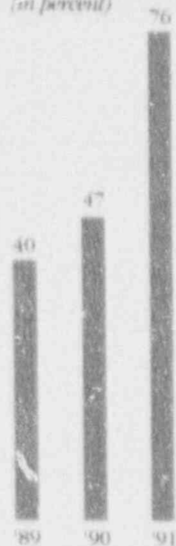


- Residential............37.7
- Commercial...........21.2
- Industrial..............29.9
- Interchange............7.2
- Other.....................4.0

1991 Sources of Gas Revenues *(in percent)*



- Residential............63.9
- Commercial...........21.0
- Industrial..............10.7
- Transportation..........3.2
- Other.....................1.2



Equivalent availability (a standard performance measure) climbed more than 60 percent at Clinton in 1991.

During 1991, Illinois Power retired $113.2 million of long-term debt, including $58 million under our revolving credit agreements, and retired $35.8 million of preferred stock. The Company also refinanced $84.7 million of high-cost tax exempt debt, taking advantage of declining interest rates. These actions produced annualized interest and preferred dividend savings of $21.2 million. In addition, the Company expects to further reduce annual interest and preferred dividend payments over the next three years.

Rate Order Concludes Clinton Fully "Used and Useful"

On February 11, 1992, the Illinois Commerce Commission issued an order on IP's March 1991 request for an increase in electric rates. The order provides a 9.2 percent revenue increase of $100 million and allows a 12.4 percent return on stockholders' equity.

The ICC's ruling also recognizes the Clinton Power Station as 100 percent "used and useful" based on tests upheld by the Illinois Supreme Court.

However, the ruling does not settle whether deferred Clinton post-construction costs should be included in rates. The ICC has determined that a rehearing is necessary to examine this critical issue. A ruling is expected within six months.

Power Stations Achieve High Marks

IP achieved excellent performance at all its power stations in 1991.

Despite a planned refueling outage that kept it out of service until March 9, the Clinton Power Station attained over 75 percent equivalent availability for the year. This level far exceeds its marks of 47 percent in 1990 and 40 percent in 1989.

The plant also set a U.S. record in 1991 for its class of reactor, operating 253 consecutive days.

At the Baldwin Power Station, the return to service of its Unit 3 contributed to a sharp rise in power generation.

Systemwide equivalent availability rose 13 percent for the year, from 70.8 percent in 1990 to 79.7 percent in 1991. The increase at IP's six major power generation stations reflects the Company's emphasis on continued maintenance and operations training.

At Clinton, the Nuclear Regulatory Commission closely monitors daily operations. In 1991, the number of minor operational problems — called Licensee Event Reports — that were reported to the NRC fell to eight, less than half

Licensee Event Reports at Clinton have dropped dramatically—more than 50 percent in each of the last two years.

of the industry average in the previous year. Clinton's Notices of Violation — also an NRC report on safety or operating issues — fell from 28 in 1989 and 15 in 1990 to eight in 1991. The number of notices is well below the industry average a year ago.

Demand Side Management/Co-Generation Strategy Set

Illinois Power's decision to accommodate incremental demand other than through building major new power plants is one that reflects the Company's determination to build stockholder value through improved customer service.

IP's demand/supply strategy in the 1990s has two components. The first is demand side management, or DSM — working with customers to promote more efficient energy use. Through DSM, IP expects to "manage down" its customers' annual electric demand. In 1992, IP will begin to develop several pilot programs that will encourage commercial and industrial customers to purchase high efficiency lighting and motors. These programs will help evaluate DSM's potential profitability and risk.

These pilot programs are just one part of IP's evaluation of DSM options. The Company is studying hundreds of potential efficiency options, many of them similar to those implemented by utilities in California and the Northeastern states.

The second part of IP's demand/supply strategy calls for developing co-generation partnerships with large industrial companies. Typically, co-generation is the simultaneous production of electricity and steam that can be used in industrial processes.

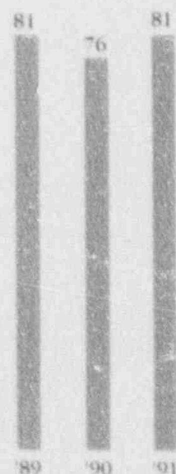
Illinois Power has considerable expertise in operating power generation systems, and that expertise can help expanding industrial companies make co-generation a viable alternative. By adopting a resource strategy for the 1990s that includes demand side management and co-generation, Illinois Power is planning to meet increasing energy demand without adding major new generating capacity.

Clean Air Act Compliance Underway

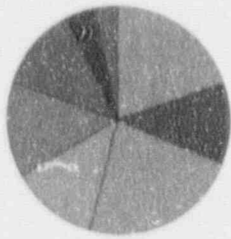
Illinois Power is on schedule for meeting Phase I compliance requirements for the 1990 Clean Air Act. In December, the Company began site preparation for scrubbers at two of its Baldwin units. Phase I compliance is scheduled for completion by early 1995 at a cost estimated

After a slight dip in 1990, fossil system equivalent availability recovered to its normal level in 1991.

Fossil System Availability
(in percent)



1991 Disposition of Revenues
(in percent)



- Fuel & Power Purchased............19.8
- Gas Purchased........11.4
- Operations & Maintenance..........23.1
- Depreciation & Amortization..........12.6
- Taxes..................13.5
- Interest & Other......12.2
- Dividends..............4.1
- Retained Earnings....3.3

between $250 million and $350 million.

In July 1991, the Illinois state legislature passed a law permitting the Company to recover in rates its investment in pollution control equipment. The law allows the ICC to establish a ceiling up front on prudent expenditures. The state also provided a $35 million grant to offset a portion of the compliance costs.

Natural Gas Business Reshaped to Meet New Challenges

Although natural gas revenues made up one-fifth of IP's total revenues in 1991, the gas business did not make a proportionate contribution to earnings. The decision by commercial and industrial customers to bypass Illinois Power by accessing regional pipeline suppliers squeezed the division's profitability. To combat these pressures, Illinois Power has restructured its gas business for future growth.

In October 1993, IP will complete work on an expansion of its storage field in Hillsboro, along with the pipeline connecting it to Natural Gas Pipeline's supply. This system will allow IP to build its gas inventory during the summer when prices are typically lower and then sell the gas to its customers at competitive prices during the winter. This project is a major step toward lowering gas costs for the Company's customers.

IP is also constructing a state-of-the-art compressed natural gas filling station in the metro St. Louis area. The Belleville, Illinois site will measure the feasibility of offering natural gas as an alternative fuel for fleet vehicles in Central Illinois.

Illinois Power is bringing a state-of-the-art compressed natural gas filling station to the metro St. Louis area.

2.

Customer Service Representative Joseph McCaskill takes one of the more than one million calls handled by the 24-Hour Customer Center in 1991.

Our service mission statement is straightforward: "The customer must come first. We are committed to providing reliable, 24-hour, personalized service with caring employees dedicated to meeting or exceeding our customers' expectations."

In 1991, the challenge of meeting or exceeding customer expectations was made especially difficult by the recession. With this in mind, Illinois Power redoubled its efforts to provide excellent service.

The Company's 24-Hour Customer Center boosted its staff to handle the increased volume of incoming customer calls — more than 1.3 million in 1991. IP also implemented new training programs to ensure that Customer Center representatives provide callers with uniform and efficient service.

In 1992, the Company will further improve service response by bringing its Trouble Outage System on-line. This program uses a computer to analyze incoming calls, allowing IP to pinpoint affected areas and to allocate crews and other resources where they will produce optimal results.

In 1991, IP's Customer Assistance Advisor program expanded the services it provides. This program is designed to give personal attention to residential customers who have special needs or are facing a crisis. Last year, the staff worked individually with more than 1,300 Illinois Power customers.

Innovative Economic Development Helps Build the Market

Illinois Power's economic development team increased its efforts overseas in 1991 as the pace of new domestic business opportunities slowed due to the recession.

Economic Development is focusing on Europe and the Pacific Rim, where it has had representatives working for the past three years. The Company develops relationships with overseas industries whose business needs can be met by the Illinois compa[illegible]es IP serves. To date, IP has acted as liaison and advisor on more

than 50 overseas projects involving 25 IP customers. Export deals for Illinois companies will mean more business for customers, whose increased production will prompt more energy sales for IP.

Line Foreman Gordon Hicklin (left) and Journeyman Lineman Alan Pfeiffer rebuild a circuit in Decatur.

Addressing Community Needs Through Involvement

Illinois Power's presence in the communities it serves goes hand in hand with its commitment to increase stockholder value through quality customer service.

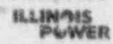
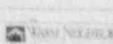
Through its Energy Assistance Foundation, the Warm Neighbors program helped pay heating bills for more than 1,200 needy families last year alone. In addition, more than 1,000 homes of the elderly, low-income, and disabled have been weatherized over the past 10 years. In 1991, 15,000 customers and employees made contributions and pledges totalling more than $335,000 to this program. IP contributed $100,000 in matching funds.

Approximately one-quarter of IP's residential customers are senior citizens, and the Company conducts several programs for them each year.

Last year, Illinois Power customers and employees helped more than 1,200 needy families through contributions to the Warm Neighbors program.

IP's educational and scholarship programs are designed to encourage academic excellence and help reduce dropout rates in the communities it serves. The Company takes a further interest in quality education by sponsoring CHOICES, a two-day presentation for middle and high school students demonstrating how education increases life's options.

Illinois Power employees volunteer as math tutors in Decatur middle schools. Students are tutored during their study hall periods and have shown significant improvement in their grades.

Illinois Power firmly believes that by taking a strong role in education, it will be able to look forward not only to a better educated work force, but also to improved leadership in its communities.

Dispatcher Claude Bedwell monitors electric distribution for IP's service territory– an area the size of Massachusetts, Connecticut, and Rhode Island combined.

Providing Leadership on Environmental Issues

Illinois Power has set a strategic goal "to be one of the top utilities in the country." To meet this goal, it is necessary to aggressively address environmental issues. IP believes that this is good business practice — as well as sound public policy — serving the best interests of its customers, its stockholders, and its employees.

In IP's corporate environmental principles statement, the Company's Board of Directors pledges: *Illinois Power will demonstrate our commitment to a better environment by forging partnerships with customers and encouraging employees to be stewards of our natural resources. We will strive to minimize the environmental impact of past, present or future operations, and will take a leadership role in environmental activities.*

IP's achievements in waste minimization are among the positive results of this commitment.

In November, Illinois Gov. Jim Edgar awarded IP the Governor's Pollution Prevention Award. IP's extensive recycling programs include plastic gas pipe, concrete and asphalt from construction sites, used utility poles, scrap metal, and paper. IP re-uses antifreeze, burns used oil as fuel to make electricity, and carefully restricts the use of industrial cleaning solvents.

Illinois Power is also taking steps to reduce the state's escalating landfill problem. Last year IP conducted two test-burns of 500 tons of used tires at the Baldwin facility, using one ton of shredded tires for every 50 tons of coal. If future large-scale tests are successful, IP may be able to burn up to 60 percent of the state's used tires.

IP is also helping Illinois agricultural companies dispose of their outdated, chemically treated seed corn by burning it at the Havana Power Station. The state Environmental Protection Agency has issued permits for IP to burn up to 100,000 bushels of the seed corn, which would produce enough electricity to power the homes of 3,300 families for a month. Both shredded tires and seed corn represent small, but no-cost fuel sources for Illinois Power.

As part of its pledge to minimize the adverse impact of past operations, IP is conducting clean-up projects at former coal-gas sites throughout its territory.

Earlier in the century, Illinois Power acquired a number of smaller utilities in the central and southern parts of the state. Some of these properties included coal-gas manufacturing sites used by small town gas companies some 60 to 70 years ago.

Although they do not pose an immediate threat to people or to ground water supplies, IP has taken the initiative on this issue by conducting tests at each of the sites to determine what additional actions, if any, might be required.

Promoting Good Government

Illinois Power maintains an active government relations program at both the state and federal levels. The Company also encourages employee participation in the political process, sponsoring frequent forums for state and federal elected officials to meet with IP employees. Membership in the Company's state and federal political action committees has doubled since 1989.

In 1991, Illinois Power's governmental affairs staff played a significant role with state legislators to balance the financial impact of 1990 Clean Air Act compliance between the interests of customers and stockholders. At the federal level, IP representatives are urging lawmakers to consider favorable tax treatment of utilities' capital investment in Clean Air Act compliance.

Executive Vice President Charles Wells (right) receives the *Pollution Prevention Award* from Illinois Governor Jim Edgar.

3.

Responding to storm damage is an important test of the spirit of teamwork.

Winning Team

The final component of IP's strategic plan to increase stockholder value is teamwork. Illinois Power believes that it cannot provide quality service without the full participation of the "winning team."

Winning team at Illinois Power is the spirit of employees who understand the Company's goals and work with their fellow employees to achieve them. IP developed five measures to track the success of its winning team efforts: *Job Satisfaction; Employee Communication; Quality, Productivity, and Customer Service; Employee Development and Recognition; and Teamwork*. Throughout 1991, IP surveyed employees and found that the results mirrored the Company's financial success. Employees are increasingly enthusiastic about all aspects of building a winning team.

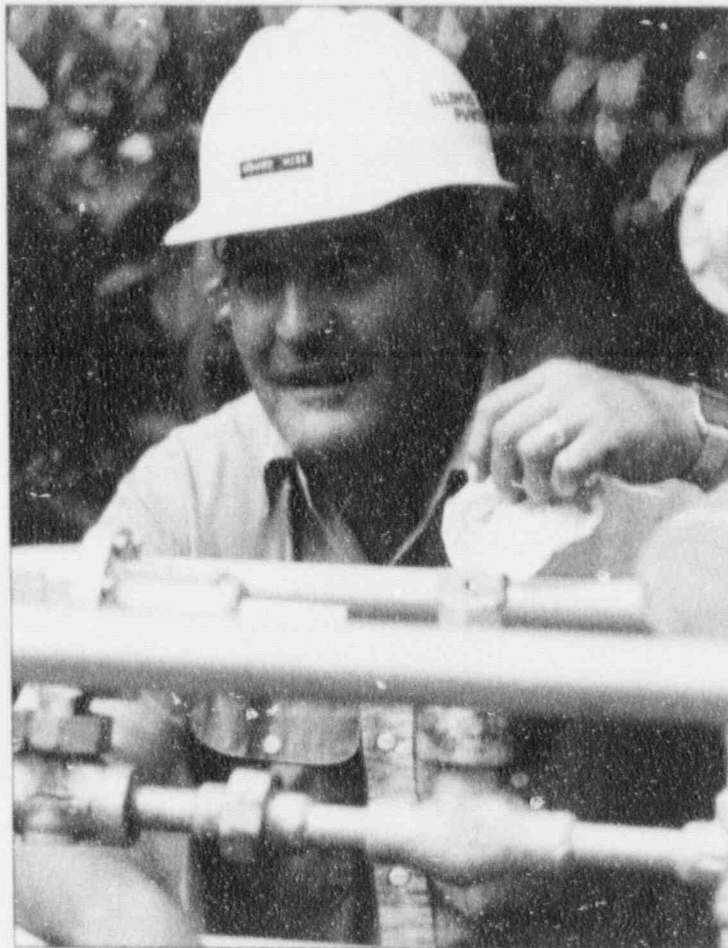
Illinois Power is in the fifth year of its successful Quality and Productivity initiative. This program emphasizes team building and customer service, and it has played a significant role in improving the way IP serves its customers, both internal and external.

Employee Teams Help Improve Profitability

In September, Illinois Power launched a wide-ranging 10-week program in which nearly 500 teams of employees volunteered to participate. The teams proposed more than 5,000 ways to improve customer service and profitability throughout the Company.

The program was a tremendous success. It produced hundreds of work-process improvement suggestions, and IP is projecting annual benefits of more than $15 million in 1993 and beyond from ideas generated by the employee teams.

The program contributed to IP's winning team goals by bringing together employees from various areas of the Company and improving communication between different departments and divisions.



Howard Wise, regulator repairman, surveys a repair for an industrial customer in Decatur.

Empowerment — Tapping the Full Potential of Employees

In 1991, groups of IP meter readers set their own work schedules and efficiency soared. At the Baldwin plant, employees were given control over safety budgets, and in one year produced a 50-percent drop in the frequency of injuries.

At Clinton, supervisors and their staffs were encouraged throughout the year to take greater control of their work. As a result, Clinton's overall performance was its best yet.

Each episode had one thing in common: it was a part of IP's ongoing efforts to promote employee empowerment and teamwork. Illinois Power is committed to an environment in which people have input into decisions affecting them and have authority to make decisions to achieve agreed upon objectives.

Illinois Power devotes significant resources to hiring and developing talented employees. By empowering this work force, IP is attempting to tap its full potential. The positive results of this effort are visible in IP's improved customer service and in its financial results.

Board of DIRECTORS

Left to right, seated: Donald E. Lasater, Marilou von Ferstel, Larry D. Haab, Boyd F. Schenk
Left to right, standing: Grover J. Hansen, Charles W. Wells, Walter M. Vannoy, Robert M. Powers, Ronald L. Thompson, Frank W. Considine, Donald S. Perkins, Richard R. Berry, Walter D. Scott, Vernon K. Zimmerman

Board Committees
(1) Finance Committee
(2) Audit Committee
(3) Compensation and Nominating Committee
(4) Corporate Strategy Committee
(5) Nuclear Operations Committee

Richard R. Berry, 60 [2,5]
Retired Executive Vice President and Director of Olin Corporation, Stamford, CT (diversified manufacturer concentrated in chemicals, metals and aerospace/defense products).
Elected 1988.

Frank W. Considine, 70 [4,5]
Retired Chairman and Chairman of the Executive Committee of American National Can Company, Chicago, IL (packaging manufacturer).
Elected 1988, retiring in 1992.

Larry D. Haab, 54 [1,4,5]
Chairman, President and Chief Executive Officer of the Company, Decatur, IL.
Elected 1986.

Grover J. Hansen, 68 [1,3]
Retired President and Chief Operating Officer of First Federal Savings and Loan Association of Chicago, Chicago, IL.
Elected 1981.

Donald E. Lasater, 66 [1,3]
Retired Chairman of the Board and Chief Executive Officer of Mercantile Bancorporation, Inc., St. Louis, MO (bank holding company).
Elected 1981.

Donald S. Perkins, 64 [3,4]
Retired Chairman of the Board and Chief Executive Officer of Jewel Companies, Inc., Chicago, IL (diversified retailer).
Elected 1988.

Robert M. Powers, 60 [3,4]
Retired President and Chief Executive Officer of A.E. Staley Manufacturing Company, Decatur, IL (grain and oil seed processor).
Elected 1984.

Boyd F. Schenk, 69 [3,4]
President of The Boyd Group, Inc., Chicago, IL (private investment and consulting company), and retired Vice Chairman of Whitman Corporation (diversified manufacturer, marketer of consumer and commercial products).
Elected 1977.

Walter D. Scott, 60 [1,2]
Professor of Management and Senior Austin Fellow, J.L. Kellogg Graduate School of Management, Northwestern University, Evanston, IL.
Elected 1990.

Ronald L. Thompson, 42 [1,2]
President, Chief Executive Officer, and a director of The GR Group, Inc. St. Louis, MO (manufacturer of special-purpose transportation equipment).
Elected 1991.

Walter M. Vannoy, 64 [2,5]
President of Vannoy Associates (a consulting company) Lynchburg, VA., and former Vice Chairman of McDermott International (diversified engineering energy equipment and services company).
Elected 1990.

Marilou von Ferstel, 54 [1,2]
Executive Vice President and General Manager of Ogilvy & Mather, Inc., Chicago, IL (public relations firm).
Elected 1990.

Charles W. Wells, 57 [4]
Executive Vice President of the Company, Decatur, IL.
Elected 1976.

Vernon K. Zimmerman, 63 [1,2]
Director of the Center for International Education Research and Accounting and Distinguished Service Professor of Accountancy, University of Illinois, Urbana, IL.
Elected 1973.

Principal OFFICERS

Larry D. Haab, 54
Chairman,
President and Chief
Executive Officer
Employed 1965.

Charles W. Wells, 57
Executive Vice President
Responsible for fossil generation, corporate and technical services and gas.
Employed 1956.

Larry F. Altenbaumer, 43
Vice President, Chief
Financial Officer and
Controller
Responsible for accounting, auditing, budgeting, financial matters, tax matters and corporate development.
Employed 1970.

Larry S. Brodsky, 43
Vice President
Responsible for engineering, electric system operations and natural gas.
Employed 1975.

Wilfred Connell, 54
Vice President
Responsible for fossil power generation and clean air compliance.
Employed 1983.

Larry L. Idleman, 53
Vice President
Responsible for corporate services.
Employed 1969.

Paul L. Lang, 51
Vice President
Responsible for customer service, operating divisions, marketing and economic development.
Employed 1986.

J. Stephen Perry, 53
Vice President
Responsible for nuclear power generation.
Employed 1984.

Robert A. Schultz, 51
Treasurer
Responsible for financial matters and risk managment.
Employed 1986.

Rodney A. Smith, 44
Vice President
Responsible for public affairs and government relations.
Employed 1988.

Leah Manning Stetzner, 43
General Counsel and
Corporate Secretary
Responsible for corporate secretary activities and legal matters.
Employed 1989.

Porter J. Womeldorff, 58
Vice President
Responsible for environmental affairs, system planning and planning activities.
Employed 1954.

Stockholder INFORMATION

Annual Meeting
The annual meeting of stockholders will be held at 10 a.m. on Thursday, April 9, 1992, at the Company's headquarters, 500 South 27th Street, Decatur, Illinois 62525.

Stock Exchange Listings
Illinois Power's common and preferred stocks are listed on the New York Stock Exchange and the Midwest Stock Exchange. The official New York Stock Exchange symbol is "IPC," but the Company's stocks are also listed in some newspapers under "IllPwr."

Tax Information
Illinois Power estimates that 100 percent of the dividends paid to stockholders in 1991 are fully taxable as dividend income for Federal Income Tax purposes.
The Company mailed all registered common and preferred stockholders a Form 1099 in January 1992 showing divdends 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 with respect to tax consequences.
Stockholders may obtain, without charge, a copy of Form 10-K as filed by the Company with the Securities and Exchange Commission, by sending a request to the Corporate Secretary, Leah Manning Stetzner.
This report and the financial statements contained herein are submitted for the general information of the stockholders of the Company and as such and are not intended to solicit, or to be used in connection with, any sale or purchase of securities.

Reference is made to the Financial Statements, related Notes to Financial Statements, Selected Financial Data and Selected Statistics for information concerning financial condition and results of operations. The factors having significant impact upon financial condition and results of operations since January 1, 1989 are discussed below.

Results of Operations

Overview

Net income applicable to common stock was $78 million for 1991, compared to a net loss applicable to common stock of $115 million for 1990 and a net loss of $326 million for 1989. Earnings per common share were $1.04 for 1991 compared to a $1.53 loss per common share in 1990 and a $4.34 loss per common share in 1989. On October 9, 1991, the Board of Directors voted to resume payment of a common stock dividend at 20 cents per share per quarter, which was paid on November 1, 1991. This was the first common stock dividend paid since May 1989. In December 1991, the Board also declared a common stock dividend of 20 cents per share which was paid on February 1, 1992.

The increase in the Company's earnings for 1991 was primarily due to a write-off recorded in 1990, an increase in kilowatt-hour sales, the effect of the June 1990 rate increase, increased availability of generating units, lower maintenance expenses and lower interest on long-term debt. As discussed more fully in "Note 2 — Clinton Power Station" of the "Notes to Financial Statements," the Company recorded a loss of $137 million or $1.82 per share, net of income taxes and $346 million or $4.61 per share, net of income taxes in the fourth quarter of 1990 and in the first quarter of 1989, respectively, for disallowed Clinton Power Station (Clinton) plant-related costs as a result of the March 1989 Illinois Commerce Commission (ICC) rate order and the February 1991 Illinois Appellate Court decision.

Income from Operations
(millions of dollars)

As a result of the ICC's February 1992 rate order, which affirmed that Clinton is 100% used and useful and incorporated Clinton plant costs, including $233 million, net of income taxes, of post-construction cost deferrals, into rates, earnings are expected to improve. However, future earnings may be affected either positively or negatively by the ultimate outcome of various proceedings addressing Clinton-related rate decisions. These include any Illinois Supreme Court action regarding the appeals of the Company's 1989 and 1990 rate orders, the ICC rehearing on deferred Clinton post-construction costs and the probable appeal of the 1992 rate order.

The operating revenues of the Company are based on rates, authorized by the ICC and the Federal Energy Regulatory Commission (FERC), charged for the sale and delivery of electricity and natural gas. These rates are designed to recover the cost of service and to allow stockholders a fair rate of return. Future natural gas and electric sales, including interchange sales, will continue to be affected by weather conditions, competing fuel sources, interchange market conditions, plant availability, gas bypass, customer and Company conservation efforts and the overall economy of the Company's service territory.

• *Electric Operations* For the three-year period 1989 through 1991, electric revenues (including interchange) increased 12% and the gross margin on electric revenues increased as follows:

(Millions of dollars)	*1991*	*1990*	*1989*
Electric revenues	$1,101	$1,085	$ 988
Interchange revenues	86	73	81
Fuel cost & power purchased	(292)	(311)	(301)
Electric margin	$ 895	$ 847	$ 768

The components of annual changes in electric revenues are summarized as follows:

(Millions of dollars)	1991	1990	1989
Rate increases	$ 9	$ 75	$ 36
Volume and other	33	10	3
Fuel cost recoveries	(26)	12	(1)
Revenue increase	$ 16	$ 97	$ 38

Over the period 1992 through 1996 electric sales, excluding interchange, are expected to grow approximately 2.3% per year.

• *1991* The Company experienced a 1.5% increase in electric revenues primarily due to an increase in kilowatt-hour sales to ultimate consumers of 0.8%, reflecting a warmer summer season and the effect of the 1990 rate increase, partially offset by lower fuel cost recoveries under the Uniform Fuel Adjustment Clause. Volume increases were due to higher residential sales (9.4%) and commercial sales (4.4%), partially offset by decreased industrial sales (1.4%) and decreased sales to municipalities (45.3%). The decrease in sales to municipalities was a result of their decision to be served by other suppliers as permitted under the applicable contract. The 15.9% increase in interchange revenues was attributable to the higher availability of some of the Company's generating units.

• *1990* The Company experienced a 9.8% increase in electric revenues primarily due to the 7.7% rate increase in June 1990 and the 6.9% rate increase in April 1989 being reflected in rates for the entire year. Kilowatt-hour sales to ultimate consumers were relatively unchanged from 1989. The 9.1% decrease in interchange revenues was attributable to the lower availability of some of the Company's generating units.

• *1989* The Company experienced a 4.0% increase in electric revenues due to the April 1989 rate increase and increased sales to industrial customers. The industrial kilowatt-hour sales increase was partially offset by decreased residential sales due to more moderate summer weather in 1989. Interchange revenues decreased 26.0% due to lower availability of the Company's generating units.

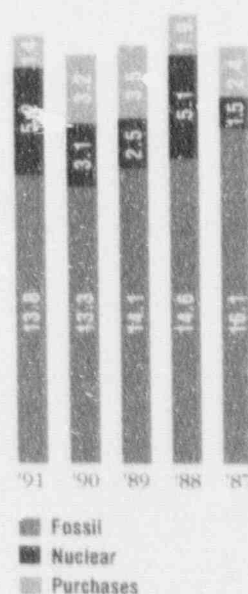
The cost of meeting the Company's system requirements was reflected in the cost of fuel for electric plants and power purchased. Changes in these costs are summarized as follows:

(Millions of dollars)	1991	1990	1989
Fuel for electric plants			
Volume and other	$ 31	$ (12)	$ (38)
Price	(8)	8	1
Fuel cost recoveries	(15)	11	(3)
	8	7	(40)
Power purchased	(27)	3	21
Total increase (decrease)	$ (19)	$ 10	$ (19)
Weighted average system generating fuel cost ($/MWH)	$ 14.00	$ 15.06	$ 15.10

Changes in the above costs were caused by system load requirements, availability of generating units to meet those requirements, fuel prices, purchased power prices and recovery of fuel costs through the fuel adjustment clause.

Changes in factors affecting the cost of fuel for electric generation are summarized as follows:

	1991	1990	1989
Increase (decrease) in generation	16.9%	(1.4%)	(15.8%)
Generation mix			
Coal and other	73%	81%	85%
Nuclear	27%	19%	15%
Plant equivalent availability			
Fossil	81%	76%	81%
Nuclear	76%	47%	40%



• *1991* The increase in fuel for electric plants reflected higher generation, partially offset by the effects of the Uniform Fuel Adjustment Clause and lower average fuel costs. Following a scheduled refueling outage, Clinton returned to service on March 9, 1991 and was in service substantially throughout the remainder of the year. The decrease in power purchased was attributable to the higher availability of some of the Company's generating units.

A Clinton refueling and maintenance outage is scheduled to begin in March 1992 and end in May 1992.

• *1990* The increase in fuel for electric plants reflected higher fuel costs, partially offset by lower generation

reflecting the lower equivalent availability of some of the Company's fossil generating units and Clinton. The low equivalent availability of Clinton was affected by scheduled and unscheduled outages, including a refueling and maintenance outage that began on October 14, 1990 and continued until March 9, 1991.

• *1989* The decrease in fuel for electric plants reflected reduced generation associated with scheduled and unscheduled plant outages including an extended refueling and maintenance outage at Clinton. The increase in power purchased was due to the lower availability of some of the Company's generating units.

• *Gas Operations* For the three-year period 1989 through 1991, gas revenues decreased 13.9% and the gross margin on gas revenues changed as follows:

(Millions of dollars)	*1991*	*1990*	*1989*
Gas revenues	$ 279	$ 301	$ 314
Gas cost	(168)	(182)	(203)
Transportation revenues	9	10	11
Gas revenue credit	—	(13)	5
Gas margin	$ 120	$ 116	$ 127
(Millions of therms)			
Therms sold	570	555	642
Therms transported	253	269	265
Total consumption	823	824	907

Even though there have been no revisions to the Company's retail base gas rates, overall gas revenues have been negatively affected by special contracts with large industrial customers. In addition, gas bypass (i.e., connection by the natural gas customer directly to a pipeline, "bypassing" the Company's transportation service) continues to be actively considered and utilized by several of the Company's large customers. The Company is aggressively competing with the bypass options available to these customers in an attempt to minimize the potential loss in earnings. The major factors affecting therm sales for the three-year period were economic conditions, weather, improved efficiencies, special contracts, gas bypass and gas transportation arrangements. In May 1990, the Company recorded a credit for natural gas revenues collected pursuant to an ICC order but not reported as income from January 1987 through April 1990, as a result of an ICC decision following its analysis of a change in the corporate federal income tax rate. The 1990 impact of this credit was an increase of $13.2 million in revenues.

Changes in the cost of gas purchased for resale are summarized as follows:

(Millions of dollars)	*1991*	*1990*	*1989*
Gas purchased for resale			
Cost (excluding take-or-pay)	$ (10)	$ 13	$ (7)
Take-or-pay costs	(19)	(3)	30
Volume	1	(18)	(14)
Gas cost recoveries	14	(13)	(17)
Total decrease	$ (14)	$ (21)	$ (8)
Average cost per therm delivered			
Including take-or-pay	25.9¢	32.5¢	30.4¢
Excluding take-or-pay	26.0¢	27.7¢	26.0¢

Purchased Gas Cost
(millions of dollars)

During 1991, approximately 37% of the total natural gas purchased was purchased on the spot market. Spot market purchases are expected to remain at this level as long as market prices maintain their current level. Over the period 1992 through 1996, total gas sales, including therms transported, are expected to remain relatively constant. The 1991 decrease in the cost of gas purchased is due to lower amortization of previously deferred take-or-pay costs, lower cost of purchased gas, partially offset by the effects of the Uniform Gas Adjustment Clause. Factors affecting the 1990 decrease in the cost of gas purchased were decreased sales to customers and the effects of the Uniform Gas Adjustment Clause, partially offset by an increase in the cost of purchased gas. The decrease in 1989 cost of gas purchased was attributable to the effects of the Uniform Gas Adjustment Clause, decreased sales to customers and decreased cost of purchased gas, partially offset by amortization of deferred 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)	1991	1990	1989
Other operating expenses	$ 8	$ 11	$ 9
Maintenance	(33)	32	4
Deferred Clinton costs	(4)	35	95

For 1991, the combined decrease of other operating and maintenance expenses reflects a more normal operating year than 1990 and 1989, primarily due to lower

maintenance expenses in the service areas and at both Clinton and the fossil power plants. The increase in 1990 other operating and maintenance expenses was due to the Clinton refueling and maintenance outage, the 1990 ice storm and increased fossil power plant expenses, including the expenses for the Baldwin Unit 3 outage, partially offset by the impact of the early retirement program implemented in 1989. The increase in 1989 in other operating and maintenance expenses was primarily due to the Clinton refueling and maintenance outage. In 1989, the Company also incurred an early retirement expense of approximately $12 million. In conjunction with Clinton being declared in service for accounting purposes on April 24, 1987, the Company recorded $115 million and $29 million as a reduction to expenses in 1988 and 1989, respectively, to reflect the portion of Clinton depreciation and real estate taxes deferred for future recovery in accordance with an ICC order. After issuance of the March 1989 ICC rate order, such deferrals ceased and amortization of the previously deferred post-construction costs over a 37.5 year period commenced. Amortization of $11 million, $15 million and $8 million were recorded in 1991, 1990 and 1989, respectively.

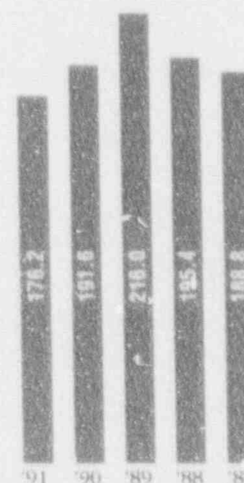
For a detailed analysis of income tax components, see "Note 6 — Income Taxes" of the "Notes to Financial Statements."

• *Other Income and Deductions* Total allowance for funds used during construction (AFUDC), a non-cash item of income, remained relatively unchanged from 1989 to 1991. The AFUDC effective before-tax rate was 8.25% in 1991 and 10% in 1990 and 1989.

In accordance with an ICC order, a total of $201 million of Clinton deferred financing costs was recorded for the period April 24, 1987 through March 31, 1989. Such financing costs were calculated on Clinton deferred costs and plant costs not included in retail rate base. The amount recorded in 1989 was $14 million. After the March 1989 ICC rate order was issued, deferral of Clinton financing costs ceased and amortization of previously deferred post-construction costs over a 37.5 year period commenced.

The primary reason for the 1991 change in Miscellaneous-net was the recording of $4 million for the Company's share of the cost of settling the Hauman litigation pursuant to a settlement agreement filed with the Court on December 2, 1991. The 1991 change also reflected less interest income on short-term investments. In 1989 and 1990, the reduction in Miscellaneous-net was primarily due to the reduction in the allocation of tax benefits to the stockholders as a result of the March 1989 ICC rate order that placed the Clinton plant in rate base. The 1990 change also reflected less interest income on short-term investments, partially offset by the expenses related to the determination of the Soyland Power Cooperative, Inc. (Soyland) ownership percentage in Clinton. The 1989 change also reflected additional interest income on short-term investments that was partially offset by the determination of the Soyland ownership percentage in Clinton.

• *Interest Charges* Interest charges decreased $20 million in both 1991 and 1990. The 1991 decrease was due



primarily to the early retirement of certain debt and the refinancing of other existing higher cost debt. The 1990 decrease was due primarily to the early retirement of debt. During the three-year period, the Company retired $326 million of long-term debt (excluding revolving loan agreement retirements) with a weighted average interest rate of 10.9%.

• *Inflation* Inflation, as measured by the Consumer Price Index, was 4.2%, 5.4% and 4.8% in 1991, 1990 and 1989, respectively. The primary effect of inflation on the Company is that historical plant costs rather than current plant costs are recovered in the Company's rates.

Liquidity and Capital Resources

Regulatory Matters

• *1992 Rate Order* On February 11, 1992, the ICC issued an order in the Company's 1991 electric rate case approving an increase in electric rates of $100 million or 9.2%. The Company had requested an electric rate increase of $182.5 million or 16.7%.

The order concluded that Clinton is fully "used and useful" in providing utility service to the Company's ratepayers. The order also included in rate base a total of $233 million, net of income taxes, of deferred Clinton post-construction costs, confirming the position taken by the ICC in the Company's two prior electric rate orders. The ICC order did not include in rate base $102 million of deferred equity return incurred during the period January 1988 through March 1989. This amount had not been previously included in rate base in accordance with a prior ICC order. The order referred to a December 1991 Illinois Supreme Court decision in a Commonwealth Edison (CE) proceeding that reviews, among other things, proper regulatory treatment of CE's deferred post-construction costs. As a result, the ICC has recommended that the proper regulatory treatment for all Clinton post-construction cost deferrals be addressed in a rehearing proceeding. This rehearing process should be concluded in approximately six months. An adverse ruling by the ICC in the rehearing proceeding could result in additional write-offs. See discussions of 1990 Rate Order and 1989 Rate Order below. The Company expects to request rehearing and reconsideration of the order. Other parties are expected to file applications for rehearing, requesting, among other things, that the ICC disallow additional amounts of the deferred Clinton post-construction costs.

• *1990 Rate Order* On June 6, 1990, the ICC issued an order in the Company's 1989 electric rate case approving an annualized increase in electric rates of approximately $75 million, or 7.7%. The order, as amended on July 13, 1990, found that Clinton was 60.7% "used and useful" for rate-making purposes, as compared to 27.2% in the ICC's March 1989 order, but did not allow the Company to earn a common equity return on the 39.3% of Clinton determined to be not "used and useful."

On July 16, 1990, the Company appealed the June 1990 rate order to the Illinois Appellate Court, Third District. Other parties also appealed. On June 14, 1991, the Appellate Court, among other things, reversed and remanded the ICC's "used and useful" determination on the same grounds as it did in its opinion on the appeal of the March 1989 rate order, as described below.

Several parties, but not the ICC, have filed petitions for leave to appeal with the Illinois Supreme Court, challenging the Appellate Court's determination of the "used and useful" issue and two related issues. The Company did not seek Supreme Court review and is opposing these petitions. The Supreme Court has not yet agreed to hear these petitions.

• *1989 Rate Order* The March 30, 1989 rate order from the ICC granted a one-time increase of $60.5 million, or 6.9%, that became effective April 4, 1989. The ICC order included various disallowances of Clinton-related costs, due to alleged "unreasonable" expenditures, as well as the disallowance of the equity return component of Clinton post-construction cost deferrals from January 1, 1988 through March 31, 1989. This order also found approximately $2.3 billion (72.8%) of the reasonable Clinton costs to be not "used and useful" and denied a common equity return thereon.

In February 1991, the Appellate Court reversed the portion of the ICC order which had found 72.8% of Clinton not "used and useful," and remanded this portion of the order to the ICC to determine whether and/or what portion of Clinton is "used and useful" based on established pre-1986 standards. The Court also reversed the portion of the order which had denied the Company recovery of an equity return on deferred Clinton post-construction costs after January 1, 1988 (approximately $102 million). However, the Court did not overturn the order with respect to the ICC's determination that a portion of the cost of Clinton was "unreasonable cost" and should not be included in rate base.

Following the March 1989 rate order, the Company recorded a loss in the first quarter of 1989 of $346 million, net of income taxes, or $4.61 per share. Further, as a result of the February 1991 Appellate Court decision, the Company recorded an additional loss in the fourth quarter of 1990 of $137 million, net of income taxes, or $1.82 per share. The losses recorded in both 1990 and 1989 reflect the disallowance of Clinton "unreasonable costs" from rate base.

The Company, the ICC and certain other parties have appealed various aspects of the February 1991 Appellate Court decision to the Illinois Supreme Court. The Company has appealed the Appellate Court's affirmance

of the ICC's "unreasonable cost" disallowance. The ICC has appealed the Appellate Court's "used and useful" decision but not the determination with respect to the Company's recovery of an equity return on deferred Clinton post-construction costs. Other parties have appealed both the "used and useful" and the deferred Clinton post-construction equity return issues, as well as other issues previously raised in their initial appeals. The Illinois Supreme Court has not yet agreed to hear these petitions.

On December 16, 1991, the Illinois Supreme Court issued its decision regarding appeals from a March 1991 order of the ICC in the CE rate proceeding. In that decision, the Illinois Supreme Court held, among other things, that the Illinois Appellate Court had erred in ruling in the February 1991 decision on the appeal of the ICC's March 1989 rate order for Illinois Power that the reserve margin and economic benefits test could not be applied by the ICC in determining the extent to which a generating station under construction prior to January 1, 1986 was "used and useful."

Issues have been raised in the appeals of the Appellate Court's February 8, 1991 and June 14, 1991 decisions which may be affected by one or more aspects of the Illinois Supreme Court's CE decision. These issues include the Appellate Court's "used and useful" determination and the Company's ability to recover deferred Clinton post-construction costs. The ICC, in its 1992 rate order, stated that Clinton is 100% "used and useful" and as such, the entire reasonable cost of Clinton can be included in rate base. The ICC order did not include in rate base $102 million of deferred equity return. The order refers to the December 1991 Illinois Supreme Court decision in the CE proceeding that reviews, among other things, proper regulatory treatment of CE's deferred post-construction costs. As a result, the ICC has recommended that the proper regulatory treatment for all Clinton post-construction cost deferrals be addressed in a rehearing proceeding. Management is unable to predict the ultimate outcome of these proceedings at this time.

• *1987 Uniform Fuel Adjustment Clause Reconciliation* On February 5, 1992, the ICC issued an order in the Company's annual Uniform Fuel Adjustment Clause reconciliation proceeding initiated by the ICC in a docket pertaining to the twelve months ended December 31, 1987. Such proceedings are required by law to be conducted annually by the ICC to reconcile revenues collected by utilities from their customers through operation of the Uniform Fuel Adjustment Clause portion of the utility's rate structure with actual costs of fuel prudently purchased.

The February 1992 order states that carrying costs in the amount of $29.3 million incurred by the Company's nuclear fuel affiliate, Illinois Power Fuel Company, between August 1985 and April 1987 and added to the balance of nuclear fuel inventory during the same period in accordance with a previous ICC order were imprudent and that the balance of recoverable nuclear fuel cost should be reduced by that amount. The Company believes the conclusion in the ICC order lacks legal and factual foundation. The Company intends to request the ICC to grant rehearing in this docket and to substantially modify its order on rehearing in order to eliminate the disallowance. If the ICC order is not substantially modified, the Company will appeal the ICC order to the courts. However, if the February 5 order is not modified and is ultimately affirmed on appeal, the Company would be required to record a loss of approximately $28 million, net of income taxes.

• *Natural Gas Take-or-Pay Charges* In accordance with FERC Order 500, issued in August 1987, the Company's pipeline suppliers were allowed to bill the Company for their take-or-pay costs. The Company settled its take-or-pay obligations in 1991; however, the Company will likely incur some additional take-or-pay costs. These amounts are not expected to be significant. Based on an ICC order, future take-or-pay costs will continue to be billed to the Company's customers. For a detailed discussion of natural gas take-or-pay matters see "Note 3 — Commitments and Contingencies" of the "Notes to Financial Statements."

• *Mega-NOPR* On July 1, 1991 FERC issued a notice of proposed rulemaking (NOPR) commonly referred to as Mega-NOPR. The principal subject of Mega-NOPR is to provide comparable service between traditionally interstate pipeline companies and other service providers. This is a continuation of FERC's efforts to provide competition in the natural gas industry. To accomplish the goals of this NOPR, pipelines would be required to "unbundle" services that they provide today so that purchasers of natural gas can select services as needed. It is not possible to predict the ultimate outcome of this NOPR, but it would increase the complexity of providing firm gas service to the Company's customers.

Dividends

The Board of Directors voted at its October and December 1991 meetings to declare quarterly common stock dividends of 20 cents per share which is equivalent to an annualized rate of 80 cents. Payments of the dividends were made on November 1, 1991 and February 1, 1992. The October dividend was the first common stock dividend paid by the Company since May 1989. The Company intends to continue to rebuild the common equity component of its capital structure by retaining some portion of its current earnings.

As a result of the February 1992 ICC rate order incorporating Clinton into rates the Company's earnings

will be favorably impacted, however, future earnings may be impacted—either positively or negatively—by any Illinois Supreme Court decision regarding the Company's 1989 and 1990 rate orders and the rehearing and probable appeal of the 1992 rate order.

Capital Resources and Requirements

Securities and Exchange Commission (SEC) regulations define "liquidity" as "the ability of an enterprise to generate adequate amounts of cash to meet the enterprise's need for cash". The Company needs cash for operating expenses, the payment of interest and dividends, retirement of debt and certain preferred stocks and for its construction program. To meet these needs, the Company has used internally generated funds and external financings such as the sale of common and preferred stock, debt instruments, and installment loans. The timing and amount of external financings depend primarily upon economic and financial market conditions, the Company's cash needs and capitalization ratio objectives. To a significant degree, the availability and cost of external financing depends upon the financial health of the company seeking those funds.

Short-term debt is used to meet temporary cash needs for operations or to meet capital requirements until the timing is considered appropriate to issue longer-term securities.

Cash flow from operations during the current year provided sufficient working capital to meet ongoing operating and construction requirements, to allow for the resumption of a common stock dividend and to service existing preferred stock dividends and debt requirements. Additionally, the Company expects that current rates (after the 1992 rate order) will enable it to meet future operating requirements and continue to service its existing debt, preferred stock and common stock dividends and sinking fund requirements.

The Company's debt securities were upgraded by Standard & Poor's and Fitch after the receipt of the 1992 rate order. In addition, Duff & Phelps and Moody's upgraded the Company's debt securities during the second quarter of 1991. The current ratings of the Company's securities by three principal securities rating agencies are as follows:

	Duff & Phelps	Moody's	Standard & Poor's
First mortgage bonds	BBB	Baa2	BBB+
Preferred stock	BB+	baa3	BBB-
Commercial paper	N/R*	P-2	A-2

*not rated

These ratings are an indicator of the Company's financial integrity and may affect the willingness of investors to invest in the Company's securities. Under current market conditions these ratings are unlikely to impair the Company's ability to obtain additional permanent financing at a reasonable cost. However, these ratings could affect the Company's ability and/or cost to obtain additional permanent financing during adverse market periods. The Company has adequate short and intermediate-term bank borrowing capacity.

The Company's future financial integrity depends on the ultimate outcome of the petitions that seek review by the Illinois Supreme Court of the February 1991 and June 1991 Appellate Court decisions relating to the March 1989 and June 1990 rate orders, respectively, and the outcome of the rehearing proceeding and any appeals from the February 1992 rate order, as discussed previously.

In December 1991, the Company's Board of Directors authorized a program to retire and/or refinance up to $400 million of high-cost debt before December 31, 1993. These repurchases can be made through open market purchases, privately negotiated transactions or redemptions, among other things. In December 1989, the Company filed a $300 million shelf registration of debt securities with the SEC for the purpose of refinancing high cost and maturing debt. At December 31, 1991, the Company had issued $100 million of medium-term notes covered by this registration and used the proceeds to refund a portion of its bank debt and higher cost debt. During 1991, the Company retired $84 million of high cost pollution control bonds and issued $84 million of lower cost pollution control bonds. The Company also retired the entire issue of the 10.5% first mortgage bonds due 2004. Further, the Company purchased $5.8 million of its 8.94% preferred stock and redeemed the entire issue of its 11.75% mandatorily redeemable preferred stock during 1991. For the years 1991, 1990 and 1989 the Company's reduction in debt and preferred stock outstanding, including normal maturities and elective redemptions, was as follows:

(Millions of dollars)	*1991*	*1990*	*1989*
Bonds	$ 55	$ 21	$ 105
Revolving loan agreements	58	77	—
Preferred stock	36	26	—
Total	$ 149	$ 124	$ 105

In addition, in February 1992 the Company redeemed $10 million of mandatorily redeemable 8.52% serial preferred stock.

At December 31, 1991, based upon the most restrictive earnings test contained in the Company's Mortgage and Deed of Trust, the Company could issue approximately $509 million of additional first mortgage bonds for other than refunding purposes. The amount of available unsecured borrowing capacity totaled $179 million at December 31, 1991. At December 31, 1991, the unused

portion of the Company's total bank lines of credit was $121 million.

In October 1990, the Board of Directors authorized amendments to the Company's two Incentive Savings Plans (the "Plans") to provide for the implementation of employee stock ownership plan arrangements. Under this arrangement, the Company, pursuant to authorization granted by the ICC in January 1991, loaned $35 million to the Trustee of the Plans, who used the loan proceeds to purchase approximately two million shares of the Company's common stock on the open market. The Company financed the loan with funds borrowed under its bank credit agreements.

Construction expenditures for the years 1989 through 1991 were approximately $369 million, including approximately $9 million of AFUDC.

The Company estimates that $1.773 billion will be required for construction and capital requirements during the 1992-1996 period as follows:

(Millions of dollars)	*1992*	*Five-Year Period 1992-1996*
Construction requirements		
Electric generating facilities	$ 72	$ 246
Electric generating facilities—clean air compliance	38	310
Electric transmission and distribution facilities	58	271
General plant	48	150
Gas facilities	56	170
Total construction requirements	272	1,147
Nuclear fuel	14	125
Debt retirement	14	413
Preferred stock retirement	10	88
Total	$ 310	$ 1,773

The above estimates include potential costs which may be required to comply with the Clean Air Act as discussed below in "Environmental Matters." The Company expects to meet its construction and capital requirements through internal cash generation.

The amounts shown in the table above for debt retirements do not include all sinking fund requirements. The Company has generally met these requirements by pledging property additions. For additional information see "Note 8 — Debt Retirement Provisions" and "Note 9 — Mandatorily Redeemable Preferred Stock" of the "Notes to Financial Statements."

See "Note 3 — Commitments and Contingencies" of the "Notes to Financial Statements" for information related to coal, gas purchase and nuclear fuel commitments.

Environmental Matters

• *Clean Air Act* The Illinois state legislature passed a bill in July 1991 which became law in August 1991 that (i) mandates installation of scrubbers at two of the three units at Baldwin Power Station to enable the Company to continue to burn Illinois coal at those units, (ii) provides for a $35 million grant from the state for the construction of scrubbers, (iii) establishes a procedure for regulatory review of the estimated cost of the scrubbers at the outset of construction and (iv) requires the ICC to allow construction work in progress for the scrubbers in electric rates if requested by the Company.

The Company's current estimates for total capital expenditures, including those for the installation of scrubbers on the two Baldwin units, which are necessary to achieve the emission reductions set forth in the acid rain section of the Clean Air Act, would be between $250 million and $350 million through the year 1995. The estimated expenditures shown above exclude Soyland's participation but include the $35 million state grant. Soyland shares in the capacity of the Company's fossil-fueled generating plants through a Power Coordination Agreement and will share in the total capital expenditures. Soyland has the option of providing funding during construction or paying "owning" costs after the facilities are in service. The estimated expenditures shown above include costs for switching from high-sulfur to low-sulfur coal or fuel blending and the installation of low-nitrogen-oxide burners at some generating units and continuous emission monitoring systems on most of the Company's generating units. Additional capital expenditures are anticipated prior to the year 2000 to comply with the second phase of the Clean Air Act. The installation of two scrubbers at Baldwin will result in additional annual other operating and maintenance expenses of approximately $20 million beginning in 1995.

The estimates noted above will be periodically updated as regulations are finalized, estimates are refined and contracts are awarded. At this time it is not possible to predict how much of these costs, if any, may not be recovered from ratepayers. In addition, the Company is currently uncertain of the number of emission allowances that it expects to receive from the Environmental Protection Agency under the provisions of the Clean Air Act.

• *Gas Manufacturing Sites* The Company, through its predecessor companies, is identified on a State of Illinois list as a responsible party for potential environmental impairment at 25 former manufactured gas plant sites. The Company is investigating each site to determine: the type and amount of wastes; whether the wastes constitute environmental risks; and whether the Company has any responsibility for remedial action. Because of the unknown and unique characteristics of each site (such as amount and type of wastes present, physical characteristics of the site and the environmental risk), the impacts on remediation cost of evolving technologies and uncertain regulatory requirements, the Company is not able to determine its ultimate liability for the investigation and remediation of the 25 sites. The

Company, however, has estimated that the liability is at a minimum $26 million. Therefore, in accordance with generally accepted accounting principles, the Company recorded a liability of $26 million as of December 31, 1991. The Company is unable to determine at this time how much of these costs, if any, will be eligible for recovery from insurance carriers.

The Company also recorded as of December 31, 1991 a regulatory asset in the amount of $26 million, reflecting management's expectation that it will be allowed to recover such costs from its customers in future regulatory proceedings. The Company has not yet specifically requested rate recovery of these costs; however, the Company is a participant in a generic hearing being conducted by the ICC on this subject. This generic proceeding was initiated to consider whether Illinois utilities should be allowed to recover from their customers the costs related to the remediation and restoration of the sites and what recovery mechanism should be used if the ICC determines that the costs are recoverable. In January 1992, the Hearing Examiner assigned to the case issued a proposed order. Among other things, the Hearing Examiner cited the ICC's conclusions for two other Illinois utilities that these costs are current and legitimate business expenses which should be recovered from the companies' customers. Further, the proposed order allows for the deferral of these costs.

Based upon the expected regulatory treatment for these costs, as referred to above, management does not expect that the settlement of these obligations will have a material adverse effect on the Company's financial condition or results of operations.

Tax and Accounting Matters

Many aspects of the Tax Reform Act of 1986 (Act) have affected the Company during the period 1989 through 1991. These include the corporate income tax rate reductions, repeal of the investment tax credit, a new depreciation system for tax purposes, and a corporate alternative minimum tax. The Alternative Minimum Tax (AMT) provisions of the Act resulted in an AMT net operating loss carryback in 1989, and the Company received refunds of approximately $23 million in 1990 for a portion of the AMT previously paid in 1987 and 1988. The Company was also subject to the AMT provisions of the Internal Revenue Code for 1990 and 1991. As a result, the 1990 and 1991 federal income tax liabilities were approximately $16 million and $28 million greater than they would have been under prior law. In accordance with Internal Revenue Code requirements, depreciation-related deferred tax balances will continue to be normalized at the weighted average tax rates at which they were provided.

The Internal Revenue Service is currently auditing the years 1986 through 1988. As of December 31, 1991 no substantial adjustments have been proposed. The major issues being addressed relate to Clinton. At this time, management is unable to determine the ultimate outcome of this audit; however, management does not expect the results will have a material adverse effect on the Company's financial position or results of operations.

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (FAS 109) in February 1992. This standard adopts a "liability method" of tax allocation relating to transactions that affect book and tax income in different reporting periods. The Company must adopt this standard in January 1993. Although adopting this standard may result in a significant increase in assets and liabilities, the Company does not expect it to have a material effect on earnings.

In December 1990, FASB issued Statement of Financial Accounting Standards No. 106 (FAS 106), "Employers' Accounting for Postretirement Benefits Other Than Pensions," which requires the recognition of postretirement benefits, including health and welfare benefits, on an accrual basis. The Company provides health care and life insurance benefits to certain retired employees who attain specified ages and years of service. In 1991 and prior years, the cost of such benefits was recognized as claims were paid. The Company adopted FAS 106 as of January 1, 1992 and its estimate of 1992 net periodic postretirement benefit cost for its current and retired employees is $11 million compared to $4 million that is currently recognized under "pay as you go" accounting. This amount includes amortization over twenty years of the previously unrecognized accumulated postretirement obligation, which was $66 million as of January 1, 1992. Adoption of FAS 106 will not have a material adverse effect on earnings because the February 1992 ICC rate order allowed the Company to recover these costs through its electric rates.

Responsibility for INFORMATION

The financial statements and all information in this annual report are the responsibility of management. The financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis. The financial statements 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 financial statements. In the opinion of management, the financial statements fairly reflect the Company's financial position, results of operations and cash flows.

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

The financial statements have been audited by the Company's independent accountants, Price Waterhouse, 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 financial statements. In addition to the use of independent accountants, the Company maintains a professional staff of internal auditors who conduct financial, procedural and special audits. To assure their independence, both Price Waterhouse and the internal auditors have direct access to the Audit Committee of the Board of Directors.

The Audit Committee is composed of not less than three members of the Board of Directors who are not active or retired employees of the Company. The Audit Committee meets with Price Waterhouse 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 to discuss the results of their annual audit, the Company's internal accounting controls and financial reporting matters. The Audit Committee meets with the internal auditors to review the proposed audit plan and assess the internal audit work performed, including tests of internal accounting controls.

Larry D. Haab Chairman, President and Chief Executive Officer	Larry F. Altenbaumer Vice President, Chief Financial Officer and Controller

Report of INDEPENDENT ACCOUNTANTS
Price Waterhouse

To the Board of Directors of Illinois Power Company

In our opinion, the financial statements of Illinois Power Company appearing on pages 28 through 46 of this report present fairly, in all material respects, the financial position of Illinois Power Company at December 31, 1991 and 1990, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1991 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.

As described more fully in Note 2, there are significant uncertainties with respect to various matters related to the Clinton Power Station including the determination of the extent, method, and timing of recovery of its related costs, and obtaining rates which provide adequate cash flows to allow the Company to maintain financial integrity. Management is unable to determine the ultimate outcome of these uncertainties. Accordingly, no provision for any liability or additional loss that may result upon resolution of these matters has been made in the accompanying financial statements.

Price Waterhouse
St. Louis, Missouri
February 12, 1992

Statements of INCOME

For the Years Ended December 31,	*1991*	*1990*	*1989*
			(Thousands of dollars except per share amounts)
Operating Revenues*			
Electric	$ 1,101,223	$ 1,084,620	$ 987,985
Electric interchange	85,517	73,790	81,148
Gas	288,165	311,070	324,645
Total	1,474,905	1,469,480	1,393,778
Operating Expenses and Taxes			
Fuel for electric plants	266,597	259,346	252,712
Power purchased	24,751	51,794	47,872
Gas purchased for resale	167,829	182,070	203,197
Other operating expenses	253,357	244,875	233,784
Maintenance	87,235	120,699	88,988
Depreciation	176,775	172,827	176,383
Amortization of abandoned plant	—	3,824	6,379
Amortization of excess unprotected deferred taxes	(5,618)	(5,582)	(4,254)
General taxes	125,659	126,789	123,856
Deferred Clinton costs	11,181	14,619	(20,584)
Income taxes	75,348	43,731	39,400
Total	1,183,114	1,214,992	1,147,733
Operating income	291,791	254,488	246,045
Other Income and Deductions			
Allowance for equity funds used during construction	1,488	1,663	1,689
Disallowed Clinton plant costs	—	(160,377)	(451,244)
Income tax effects of disallowed costs	—	24,759	105,482
Miscellaneous—net	(4,479)	323	14,752
Total	(2,991)	(133,632)	(329,321)
Income (loss) before interest charges	288,800	120,856	(83,276)
Interest Charges			
Interest on long-term debt	176,179	191,559	216,029
Other interest charges	4,754	9,274	4,566
Allowance for borrowed funds—			
Construction	(1,377)	(1,493)	(1,503)
Deferred Clinton financing costs	—	—	(13,936)
Total	179,556	199,340	205,156
Net income (loss)	109,244	(78,484)	(288,432)
Preferred dividend requirements	30,866	36,839	37,365
Net income (loss) applicable to common stock	$ 78,378	$ (115,323)	$ (325,797)
Weighted average number of common shares outstanding during the period	75,643,937	75,612,759	75,052,141
Earnings (loss) per common share	$ 1.04	$ (1.53)	$ (4.34)
Cash dividends declared per common share	$ .40	$ —	$ .66

**Includes revenue-related taxes added to customer billings in each of the years 1991, 1990 and 1989 in the amount of $61,268,000, $59,628,000 and $59,333,000, respectively.*

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

Balance SHEETS

December 31,	*1991*	*1990*
	(Thousands of dollars)	
ASSETS		
Utility Plant, at original cost		
Electric (includes construction work in progress of $88,221 and $70,886, respectively)	$ 5,390,064	$ 5,285,798
Gas (includes construction work in progress of $13,799 and $6,780, respectively)	503,275	478,625
	5,893,339	5,764,423
Less-Accumulated depreciation	1,684,393	1,533,285
	4,208,946	4,231,138
Nuclear fuel in process	—	5,609
Nuclear fuel under capital lease	162,270	175,188
	4,371,216	4,411,935
Investments and Other Assets	8,661	25,209
Nuclear Decommissioning Trust Fund	7,923	4,161
Current Assets		
Cash and cash equivalents	11,001	19,5[illegible]
Accounts receivable (less allowance for doubtful accounts of $6,500)		
Service	96,322	101,958
Other	27,958	13,709
Accrued unbilled revenue	87,233	103,879
Notes receivable	2,300	11,978
Materials and supplies, at average cost		
Fossil fuel	33,731	25,492
Gas in underground storage	17,451	16,122
Operating materials	84,658	76,887
Prepaid and refundable income taxes	18,846	18,712
Prepayments and other	10,943	10,552
	390,443	398,858
Deferred Charges		
Deferred Clinton costs	389,267	400,449
Deferred purchased gas costs	85	48,065
Unamortized debt expense	65,319	47,357
Other	38,897	9,459
	493,559	505,330
	$ 5,271,802	$ 5,345,493

CAPITAL AND LIABILITIES	1991	1990
Capitalization		
Common stock—		
No par value, 100,000,000 shares authorized; 75,643,937 shares outstanding, stated at	$ 1,424,607	$ 1,424,607
Less—Deferred compensation—ESOP	32,65[illegible]	—
Other paid-in capital	106	1,254
Retained earnings	75,801	1,179
Less—Capital stock expense	11,709	12,146
Total common stock equity	[illegible],456,151	1,414,894
Preferred and preference stock	303,087	308,890
Mandatorily redeemable preferred stock	110,000	140,000
Long-term debt	2,153,091	2,198,880
Total capitalization	4,022,329	4,062,664
Accumulated Provision for Nuclear Decommissioning Trust Fund	7,923	4,161
Current Liabilities		
Accounts payable	108,318	120,863
Notes payable	1,000	3,000
Long-term debt and lease obligations maturing within one year	58,629	81,598
Dividends declared	22,696	35,137
Taxes accrued	48,149	41,107
Interest accrued	63,340	66,642
Accrued purchased gas costs	—	23,507
Other	49,543	52,720
	351,675	424,574
Deferred Credits		
Accumulated deferred income taxes	612,250	567,009
Accumulated deferred investment tax credits	242,477	242,551
Accrued purchased gas costs	—	26,270
Other	35,148	18,264
	889,875	854,094
Commitments and Contingencies (Notes 2 and 3)	$ 5,271,802	$ 5,345,493

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

Statements of CASH FLOWS

For the Years Ended December 31,	1991	1990	1989
			(Thousands of dollars)
Cash Flows from Operating Activities			
Net income (loss)	$ 109,244	$ (78,484)	$(288,432)
Items not requiring (providing) cash—			
Disallowed Clinton plant costs, net of income taxes	—	135,618	345,762
Depreciation and amortization	174,922	178,666	182,311
Allowance for funds used during construction	(2,865)	(3,156)	(3,192)
Deferred taxes on income, net	45,288	30,786	75,959
Deferred investment tax credit	(73)	(14,121)	(8,787)
Deferred Clinton costs	11,181	14,619	(20,584)
Deferred Clinton financing costs	—	—	(13,936)
Amortization of deferred gas costs—take-or-pay	8,281	26,867	29,562
Changes in assets and liabilities—			
Accounts receivable	(8,613)	(2,827)	6,595
Accrued unbilied revenue	16,646	(13,564)	(16,585)
Notes receivable	9,678	(11,978)	—
Materials and supplies	(21,130)	(12,904)	4,416
Accounts payable	(36,052)	4,920	33,582
Interest accrued	(3,302)	(1,055)	(9,164)
Taxes accrued and other, net	9,862	(777)	(45,404)
Net cash provided by operating activities	313,067	252,610	272,103
Cash Flows from Investing Activities			
Construction expenditures	(141,212)	(130,647)	(96,781)
Allowance for funds used during construction	2,865	3,156	3,192
Other investing activities	14,397	(13,843)	921
Net cash used in investing activities	(123,950)	(141,334)	(92,668)
Cash Flows from Financing Activities			
Dividends on preferred and common stock	(46,874)	(37,253)	(135,021)
Redemptions —			
Short-term debt	(120,672)	(37,600)	(16,765)
Long-term debt	(348,205)	(213,650)	(228,350)
Preferred stock	(35,792)	(26,278)	—
Issuances —			
Short-term debt	118,672	38,000	—
Long-term debt	291,530	116,200	223,500
Common stock	—	1,377	33,448
Loan to trustee—ESOP	(35,000)	—	—
Premium paid on redemption of long-term debt	(19,124)	—	(1,500)
Other financing activities	(2,220)	1,244	(1,349)
Net cash used in financing activities	(197,685)	(157,960)	(126,037)
Net Change in Cash and Cash Equivalents	(8,568)	(46,684)	53,398
Cash and Cash Equivalents at Beginning of Year	19,569	66,253	12,855
Cash and Cash Equivalents at End of Year	$ 11,001	$ 19,569	$ 66,253

Statements of RETAINED EARNINGS

For the Years Ended December 31,	1991	1990	1989
			(Thousands of dollars)
Balance at Beginning of Year	$ 1,179	$ 143,046	$ 517,910
Net Income (loss)	109,244	(78,484)	(288,432)
	110,423	64,562	229,478
Less—			
Dividends—			
Preferred stock	4,513	63,383	37,340
Common stock	30,109	—	49,092
	34,622	63,383	86,432
Balance at End of Year	$ 75,801	$ 1,179	$ 143,046

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

Statements of PREFERRED AND PREFERENCE STOCK

(Thousands of dollars)

December 31,			*1991*	*1990*
Serial Preferred Stock, cumulative, $50 par value *(1)(2)*—Authorized 5,000,000 shares; 4,128,320 and 4,244,150 shares outstanding, respectively				
Series	**Shares**	**Redemption prices**		
4.08%	300,000	$51.50	$ 15,000	$ 15,000
4.26%	150,000	51.50	7,500	7,500
4.70%	200,000	51.50	10,000	10,000
4.42%	150,000	51.50	7,500	7,500
4.20%	180,000	52.00	9,000	9,000
8.24%	600,000	51.90	30,000	30,000
7.56%	700,000	51.685	35,000	35,000
8.94%*(3)*	848,320	51.60	42,416	48,208
8.00%	1,000,000	53.29 prior to August 1, 1992 52.29 thereafter	50,000	50,000
Premium on preferred stock			1,156	1,167
Total Preferred Stock, $50 par value			207,572	213,375
Serial Preferred Stock, cumulative, without par value—Authorized 5,000,000 shares; 3,510,300 and 4,110,300 shares outstanding, respectively (including 1,600,000 and 2,200,000 shares, respectively of redeemable preferred stock)*(2)*				
Series	**Shares**	**Redemption prices**		
A*(4)*	1,000,000	$51.50 prior to February 1, 1993 50.00 thereafter	50,000	50,000
B*(5)*	910,300	51.50 prior to May 1, 1995 50.00 thereafter	45,515	45,515
Total Preferred Stock, without par value			95,515	95,515
Preference Stock, cumulative, without par value—Authorized 5,000,000 shares; none outstanding			—	—
Total Preferred and Preference Stock			$ 303,087	$ 308,890
Mandatorily Redeemable Serial Preferred Stock, cumulative*(2)*—				
Series	**Shares**	**Par Value**		
11.75%*(6)*	—	none	$ —	$ 30,000
8.52%*(7)*	1,000,000	none	50,000	50,000
8.00%*(8)*	600,000	none	60,000	60,000
Total Mandatorily Redeemable Preferred Stock			$ 110,000	$ 140,000

(1) Redeemable at the option of the Company in whole or in part at any time upon not less than thirty days and not more than sixty days notice by publication.

(2) In December 1991, the Board of Directors declared the first quarter 1992 preferred stock dividends. The rates for the Adjustable Rate Series A and B were declared at $0.75 and $0.875, respectively. In December 1990, the Board of Directors declared four quarterly preferred stock dividends. The rates for the Adjustable Rate Series A and B were declared at the maximum rate of $1.50 and $1.8125 per share, respectively for each of the last three quarters. Actual amounts paid were lower, based on market interest rates on the normal declaration dates.

(3) In April and May 1991, 115,830 shares were purchased at a price of $48⅞ per share on the open market.

(4) Adjustable Rate Series A issued on March 3, 1983. Quarterly dividend rates are determined based on market interest rates of certain U.S. Treasury securities. Rates for dividends declared in 1991 and 1990 were $0.75, $0.75, $0.75 and $0.75 in the first, second, third and fourth quarters, respectively. The dividend rate for any dividend period will not be less than 6% per annum nor greater than 12% per annum applied to the liquidation preference value of $50 per share.

(5) Adjustable Rate Series B issued on May 15, 1985. Quarterly dividend rates are determined based on market interest rates of certain U.S. Treasury securities. Rates for dividends declared in 1991 were $0.9688, $0.9125, $0.9000 and $0.9313 in the first, second, third and fourth quarters, respectively. Rates for dividends declared in 1990 were $0.875, $0.9375, $0.9313 and $0.9688 in the first, second, third and fourth quarters, respectively. The dividend rate for any dividend period will not be less than 7% per annum nor greater than 14½% per annum applied to the liquidation preference value of $50 per share.

(6) Subject to mandatory redemption in an amount sufficient to retire on each November 1, 200,000 shares at $50 per share plus accrued dividends. On February 15, 1991, 600,000 shares were redeemed for $51.96 per share.

(7) Subject to mandatory redemption in an amount sufficient to retire on each February 1, beginning in 1992, 200,000 shares at $50 per share plus accrued dividends. Also, beginning February 1, 1992, the Company may redeem up to 200,000 additional shares each year at $50 per share. On February 18, 1992, 200,000 shares were redeemed for $50 per share.

(8) Subject to mandatory redemption in an amount sufficient to retire on each February 1, beginning in 1993, 120,000 shares at $100 per share plus accrued dividends. Also, beginning February 1, 1993, the Company may redeem up to 120,000 additional shares each year at $100 per share.

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

Statements of LONG-TERM DEBT

December 31,	*1991*	*1990*
	(Thousands of dollars)	
First mortgage bonds—		
4¾% series due 1993	$ 35,000	$ 35,000
5.85% series due 1996	40,000	40,000
6⅜% series due 1998	25,000	25,000
10% series due 1998	75,000	75,000
6¾% series due 1998	45,000	45,000
8.35% series due 1999	35,000	35,000
9% series due 2000	35,000	35,000
7.60% series due 2001	35,000	35,000
7⅝% series due 2003	60,000	60,000
6.60% series due 2004 (Pollution Control Series A)	7,575	7,750
9⅜% series due 2004	65,000	70,000
10¼% series due 2004 *(1)*	—	50,000
8⅜% series due 2006	100,000	100,000
6% series due 2007 (Pollution Control Series B)	18,700	18,700
8¼% series due 2007	100,000	100,000
8¾% series due 2008	100,000	100,000
10⅝% series due 2013 (Pollution Control Series C)	11..,770	125,000
11⅜% series due 2014 (Pollution Control Series D)	35,615	75,000
10¾% series due 2015 (Pollution Control Series E)	84,150	116,245
10⅜% series due 2016	118,000	118,000
9⅜% series due 2016	66,500	66,500
9⅝% series due 2016	125,000	125,000
7⅜% series due 2016 (Pollution Control Series F, G and H)	150,000	150,000
8.30% series due 2017 (Pollution Control Series I)	33,755	33,755
7⅜% series due 2021 (Pollution Control Series A) *(2)*	84,710	—
Total first mortgage bonds	1,585,775	1,640,950
Revolving loan agreements *(3)*	182,000	240,000
10.75% loan agreement due 1992	8,930	8,930
8¾% debt securities due 1994	100,000	100,000
Medium-term notes, series A *(4)*	100,000	43,500
Variable rate long-term debt due 2017 *(5)*	75,000	75,000
	2,051,705	2,108,380
Unamortized premium and discount on debt	(9,046)	(8,543)
	2,042,659	2,099,837
Obligation under capital leases	169,061	180,641
	2,211,720	2,280,478
Long-term debt and lease obligations maturing within one year	(58,629)	(81,598)
Total long-term debt	$ 2,153,091	$ 2,198,880

(1) Long-term debt was retired on May 30, 1991.

(2) On July 10, 1991, the Company refinanced a portion of three series of high-cost pollution control debt. This refinancing totaled $84.7 million and new pollution control bonds due 2021 in the same amount were issued at an annual rate of 7⅜%.

(3) The Company cancelled a $375 million revolving loan agreement on September 5, 1991. This agreement was replaced by a new $300 million revolving loan agreement on September 5, 1991. The new agreement was formed in two parts: a $200 million agreement for five years and a $100 million agreement for 364 days. As of December 31, 1991, the Company had $182 million outstanding related to the $200 million revolving agreement. The interest rates at December 31, 1991 ranged from 5.063% to 6.500%.

(4) In 1989 and 1991, the Company entered into a series of fixed rate medium-term notes. At December 31, 1991, the maturity dates on these notes ranged from 1996-1998 and the interest rates ranged from 9.00% to 9.31%.

(5) Interest rates adjusted weekly and ranged from 3.65% to 6.40% at December 31, 1991.

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

Note 1

Summary of Significant Accounting Policies

• *Regulation* The Company is subject to regulations of the Illinois Commerce Commission (ICC) and the Federal Energy Regulatory Commission (FERC) and accordingly, prepares its financial statements based upon 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 concern mainly the time at which various items enter into the determination of net income in order to follow the principle of matching costs and revenues. The Company's principal accounting policies are described below.

• *Principles Applied in Consolidation* The Financial Statements include the accounts of IPF (Illinois Power Finance) Company N.V., a wholly owned subsidiary. All intercompany transactions have been eliminated. In September 1990, IPF was dissolved and the net assets were transferred to Illinois Power Company.

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

• *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 1991, 1990 and 1989, the rate used for all construction projects was 8.25%, 10.0% and 10.0% (pretax), 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 expenses.

• **Depreciation** For financial statement purposes, the Company depreciates the various classes of depreciable property over their estimated useful lives by applying composite rates on a straight-line basis. In 1991, 1990 and 1989 provisions for depreciation were 2.786% of the average depreciable cost for the Clinton Power Station (Clinton). Provisions for depreciation for all other electric plant were 3.5%, 3.4% and 3.4% in 1991, 1990 and 1989, respectively. Beginning in 1992, the composite rate granted in the 1992 rate order for other electric plant will be 2.3%. Provisions for depreciation of gas utility plant, as a percentage of the average depreciable cost, were equivalent to 4.0% in 1991, 1990 and 1989.

• *Amortization of Nuclear Fuel* The Company leases nuclear fuel from Illinois Power Fuel Company under a capital lease. Amortization of nuclear fuel (including related financing costs) is determined on a unit of production basis. A provision for spent fuel disposal costs is charged to fuel expense based on kilowatt-hours generated.

• *Deferred Clinton Costs* According to an ICC order, in April 1987 the Company began deferring certain Clinton post-construction operating and financing costs until rates to reflect such costs were effective (April 1989). After issuance of the March 30, 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 commenced. The 1992 rate order included in rate base a total of $233 million (net of income taxes) of these deferred costs. Although cash was 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.

During the deferral period, a deferred financing cost was computed on Clinton plant not in rate base and the deferred costs. The deferred financing cost for ratemaking purposes was capitalized at a rate that is similar to AFUDC. Pursuant to generally accepted accounting principles, for financial statement purposes during the period January 1, 1988 through March 31, 1989, the Clinton deferred financing costs were calculated using a 2.75% net of income tax rate reflecting the debt component of the Company's financing costs.

• *Unamortized Deferred Abandonment Cost* The ICC order of August 7, 1985, authorized the Company to amortize and recover through rates $31.9 million of its investment in Clinton Unit 2 over the five-year period which ended in

August 1990. The Company was not allowed a return on the unamortized investment balance.

- *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 issue if no new debt is issued.

- *Revenue and Energy Cost* The Company 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. 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 adjustment 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 are subject to review and approval by the ICC. See "Note 2 — Clinton Power Station" for discussion of the 1987 Uniform Fuel Adjustment Clause Reconciliation. See "Note 3 — Commitments and Contingencies" for discussion of natural gas take-or-pay charges.

- *Income Taxes* The Company normalizes the income tax effects of transactions causing timing differences between inclusion in the financial statements and taxable income. The Company computes deferred income taxes based on the statutory income tax rates in effect during the period that the timing differences originate. Deferred income taxes are amortized to income as the underlying timing differences reverse.

Principal sources of timing differences giving rise to deferred taxes are as follows:

- Use of the most liberalized depreciable lives and methods allowed by the Internal Revenue Code.
- Disallowed Clinton costs not recognized for tax purposes as a current deduction.
- Capitalization of certain construction overheads, dismantling, and other costs for book purposes that are claimed as current deductions for income tax purposes.
- Revenues and energy costs recognized in different periods for financial statement purposes than for income tax purposes.
- Alternative minimum tax payable in the current year that can be used to offset future tax liabilities.
- Utilization of net operating losses available to reduce current tax liabilities.

For income tax return purposes, net depreciable utility plant does not include the AFUDC that is capitalized for financial statement purposes. However, interest on construction is capitalized for tax purposes in accordance with applicable tax law.

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

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

- *Preferred Dividend Requirements* Preferred dividend requirements reflected in the income statement are recorded on the accrual basis and relate to the period for which the dividends are applicable.

- *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 flow increased by $35,749,000, $23,942,000 and $25,867,000 during 1991, 1990 and 1989, respectively. Income taxes and interest paid are as follows:

	Years Ended December 31,		
(Thousands of Dollars)	1991	1990	1989
Income taxes	$ 25,669*	$ 20,321*	$ 35*
Interest	$192,246	$202,126	$223,805

**Excludes refunds of prior years' income taxes in each of the years 1991, 1990 and 1989 in the amount of $124,000, $35,240,000 and $36,779,000, respectively.*

- *Financial Statement Reclassification* Certain reclassifications have been made to prior years' financial statements to conform to the 1991 presentation. Operating revenues and power purchased expenses for the prior periods have been adjusted to show the reclassification of electric interchange revenues to operating revenues. In prior period reports, interchange revenues were recorded as a credit to power purchased.

Note 2

Clinton Power Station

The Company owns 86.79% of the Clinton nuclear power station, which was placed in service in 1987 and represents approximately 19% of the Company's installed generation capacity. During 1991, Clinton provided 27% of the Company's total electric generation and the lowest fuel cost per megawatt-hour generation compared to all other Company-owned power stations. The investment in Clinton and its related deferred costs represented approximately 64% of the Company's total assets at December 31, 1991, and Clinton related costs represented 37% of the Company's total 1991 other

operating, maintenance and depreciation expenses. Clinton's equivalent availability was 76%, 47% and 40% for the years 1991, 1990 and 1989, respectively. Clinton's equivalent availability was lower in 1990 and 1989 due, in part, to extended refueling and maintenance outages in those years.

Ownership of an operating nuclear generating unit exposes the Company to significant risks including increased and changing regulatory, safety and environmental requirements. The Company expects to be allowed to continue to operate Clinton; however, if any unforeseen or unexpected developments would prevent the Company from doing so, the Company could be materially adversely affected.

Rate and Regulatory Matters

• *1992 Rate Order* On February 11, 1992, the ICC issued an order in the Company's 1991 electric rate case approving an increase in electric rates of $100 million or 9.2%. The Company had requested an electric rate increase of $182.5 million or 16.7%.

The order concluded that Clinton is fully "used and useful" in providing utility service to the Company's ratepayers. The order also included in rate base a total of $233 million, net of income taxes, of deferred Clinton post-construction costs, confirming the position taken by the ICC in the Company's two prior electric rate orders. The ICC order did not include in rate base $102 million of deferred equity return incurred during the period January 1988 through March 1989. This amount had not previously been included in rate base in accordance with a prior ICC order. The order referred to a December 1991 Illinois Supreme Court decision in a Commonwealth Edison (CE) proceeding that reviews, among other things, proper regulatory treatment of CE's deferred post-construction costs. As a result, the ICC has recommended that the proper regulatory treatment for all Clinton post-construction cost deferrals be addressed in a rehearing proceeding. This rehearing process should be concluded in approximately six months. An adverse ruling by the ICC in the rehearing proceeding could result in additional write-offs. See discussions of 1990 Rate Order and 1989 Rate Order below. The Company expects to request rehearing and reconsideration of the order. Other parties are expected to file applications for rehearing, requesting, among other things, that the ICC disallow additional amounts of deferred Clinton post-construction costs.

• *1990 Rate Order* On June 6, 1990, the ICC issued an order in the Company's 1989 electric rate case approving an annualized increase in electric rates of approximately $75 million, or 7.7%. The order, as amended on July 13, 1990, found that Clinton was 60.7% "used and useful" for rate-making purposes, as compared to 27.2% in the ICC's March 1989 order, but did not allow the Company to earn a common equity return on the 39.3% of Clinton determined to be not "used and useful."

On July 16, 1990, the Company appealed the June 1990 rate order to the Illinois Appellate Court, Third District. Other parties also appealed. On June 14, 1991, the Appellate Court, among other things, reversed and remanded the ICC's "used and useful" determination on the same grounds as it did in its opinion on the appeal of the March 1989 rate order, as described below.

Several parties, but not the ICC, have filed petitions for leave to appeal with the Illinois Supreme Court, challenging the Appellate Court's determination of the "used and useful" issue and two related issues. The Company did not seek Supreme Court review and is opposing these petitions. The Supreme Court has not yet agreed to hear these petitions.

• *1989 Rate Order* The March 30, 1989 rate order from the ICC granted a one-time increase of $60.5 million, or 6.9%, that became effective April 4, 1989. The ICC order included various disallowances of Clinton-related costs, due to alleged "unreasonable" expenditures, as well as the disallowance of the equity return component of Clinton post-construction cost deferrals from January 1, 1988 through March 31, 1989. This order also found approximately $2.3 billion (72.8%) of the reasonable Clinton costs to be not "used and useful" and denied a common equity return thereon.

In February 1991, the Appellate Court reversed the portion of the ICC order which had found 72.8% of Clinton not "used and useful," and remanded this portion of the order to the ICC to determine whether and/or what portion of Clinton is "used and useful" based on established pre-1986 standards. The Court also reversed the portion of the order which had denied the Company recovery of an equity return on deferred Clinton post-construction costs after January 1, 1988 (approximately $102 million). However, the Court did not overturn the order with respect to the ICC's determination that a portion of the cost of Clinton was "unreasonable cost" and should not be included in rate base.

Following the March 1989 rate order, the Company recorded a loss in the first quarter of 1989 of $346 million, net of income taxes, or $4.61 per share. Further, as a result of the February 1991 Appellate Court decision, the Company recorded an additional loss in the fourth quarter of 1990 of $137 million, net of income taxes, or $1.82 per share. The losses recorded in both 1990 and 1989 reflect the disallowance of Clinton "unreasonable costs" from rate base.

The Company, the ICC and certain other parties have appealed various aspects of the February 1991 Appellate Court decision to the Illinois Supreme Court. The Company has appealed the Appellate Court's affirmance of the ICC's "unreasonable cost" disallowance. The ICC has appealed the Appellate Court's "used and useful" decision but not the determination with respect to the Com-

pany's recovery of an equity return on deferred Clinton post-construction costs. Other parties have appealed both the "used and useful" and the deferred Clinton post-construction equity return issues, as well as other issues previously raised in their initial appeals. The Illinois Supreme Court has not yet agreed to hear these petitions.

On December 16, 1991, the Illinois Supreme Court issued its decision regarding appeals from a March 1991 order of the ICC in the CE rate proceeding. In that decision, the Illinois Supreme Court held, among other things, that the Illinois Appellate Court had erred in ruling in the February 1991 decision on the appeal of the ICC's March 1989 rate order for Illinois Power that the reserve margin and economic benefits test could not be applied by the ICC in determining the extent to which a generating station under construction prior to January 1, 1986 was "used and useful."

Issues have been raised in the appeals of the Appellate Court's February 8, 1991 and June 14, 1991 decisions which may be affected by one or more aspects of the Illinois Supreme Court's CE decision. These issues include the Appellate Court's "used and useful" determination and the Company's ability to recover deferred Clinton post-construction costs. The ICC, in its 1992 rate order, stated that Clinton is 100% "used and useful" and as such, the entire reasonable cost of Clinton can be included in rate base. The ICC order did not include in rate base $102 million of deferred equity return. The order refers to the December 1991 Illinois Supreme Court decision in the CE proceeding that reviews, among other things, proper regulatory treatment of CE's deferred post-construction costs. As a result, the ICC has recommended that the proper regulatory treatment for all Clinton post-construction cost deferrals be addressed in a rehearing proceeding. Management is unable to predict the ultimate outcome of these proceedings at this time.

The increased rates authorized by the March 1989 rate order are being billed and collected subject to refund pending the outcome of the appeal. The total amount of revenues billed and collected subject to refund for 1991, 1990 and 1989 are approximately $53 million, $55 million and $36 million, respectively. Based on the February 1991 Appellate Court decision, the Company would not be required to refund these revenues.

• *1987 Uniform Fuel Adjustment Clause Reconciliation* On February 5, 1992, the ICC issued an order in the Company's annual Uniform Fuel Adjustment Clause reconciliation proceeding initiated by the ICC in a docket pertaining to the twelve months ended December 31, 1987. Such proceedings are required by law to be conducted annually by the ICC to reconcile revenues collected by utilities from their customers through operation of the Uniform Fuel Adjustment Clause portion of the utility's rate structure with actual costs of fuel prudently purchased.

The February 1992 order states that carrying costs in the amount of $29.3 million incurred by the Company's nuclear fuel affiliate, Illinois Power Fuel Company, between August 1985 and April 1987 and added to the balance of nuclear fuel inventory during the same period in accordance with a previous ICC order were imprudent and that the balance of recoverable nuclear fuel cost should be reduced by that amount. The Company believes the conclusion in the ICC order lacks legal and factual foundation. The Company intends to request the ICC to grant rehearing in this docket and to substantially modify its order on rehearing in order to eliminate the disallowance. If the ICC order is not substantially modified, the Company will appeal the ICC order to the courts. However, if the February 5 order is not modified and is ultimately affirmed on appeal, the Company would be required to record a loss of approximately $28 million, net of income taxes.

Accounting Matters

The Company currently prepares its financial statements in accordance with FAS 71 and, therefore, accounts for the effects of the rate-making process. Accordingly, the Company records various regulatory assets and liabilities, such as deferred Clinton costs and over/under recoveries of fuel costs. In order for a company to report under FAS 71, the company's rates must be designed to recover its costs of providing service, and the company must be able to collect those rates from customers. Management believes that the Company 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 the Company's overall compliance with the criteria of FAS 71.

The Company believes that Clinton is needed to meet current demand and that it has managed the construction of Clinton prudently and efficiently. Therefore, the Company believes it should be allowed to recover the cost of that power station and nuclear fuel costs, through its rates.

Management is unable to predict the ultimate outcome of the uncertainties discussed in this note which could have a material adverse effect on the Company's earnings and/or financial position. Accordingly, no provision for any liability or additional loss that may result upon resolution of these matters has been made in the accompanying financial statements.

Note 3

Commitments and Contingencies

• *Commitments* The 1992 estimated capital expenditures are $286 million, which includes $168 million for electric facilities (including $38 million for clean air

compliance), $56 million for gas facilities, $14 million for nuclear fuel and $48 million for general plant. The five-year construction program for 1992 through 1996 is estimated to be $1.272 billion.

In addition, the Company has substantial commitments for the purchase of coal under long-term contracts. Coal contract commitments for 1992 through 1996 are estimated to be $720 million (excluding contract escalation provisions). Total coal purchases for 1991, 1990 and 1989 were $184 million, $182 million and $180 million, respectively. The Company also has existing contracts with five pipeline suppliers to provide natural gas supply in addition to spot market purchases. Total natural gas purchased for 1991, 1990 and 1989 was $163 million, $167 million and $173 million, respectively. Contracted natural gas supply costs for 1992 through 1996 are estimated to be $534 million. In addition to coal and natural gas, the Company's share of nuclear fuel commitments for Clinton are approximately $37 million for uranium concentrates through 1997, $13 million for conversion through 2001, $56 million for enrichment through 1999 and $54 million for fabrication through 2004. All of these costs are recoverable under the Company's electric fuel and purchased gas adjustment clauses.

• *Insurance* The Company has insurance for loss involving the operation of Clinton. The insurance for physical damage is structured through a level of primary coverage provided by nuclear insurance pools and excess coverage from a combination of nuclear insurance pools and an industry-owned mutual insurance company. The primary coverage provides limits of $500 million and the excess coverage currently provides limits of $2.015 billion, for a total available coverage of $2.515 billion. NRC regulations require that, in the event of an accident, whenever the estimated costs of reactor stabilization and site decontamination exceed $100 million, the insurance proceeds must be dedicated, and used first, to return the reactor to, and maintain it in, a safe and stable condition and, second, to decontaminate the reactor and reactor station site in accordance with a plan approved by the NRC. The insurers then would indemnify the Company for property damage up to $2.215 billion less any amounts used for stabilization and decontamination. The remaining $300 million would cover decommissioning costs in excess of funds already collected for decommissioning, as discussed later in this note. In the event the insurance limits are not exhausted, the excess coverage may also be applied to a portion of the value of the undamaged property. The Company has "extra expense" insurance coverage through the industry-owned mutual insurance company in case of an extended accidental shutdown of Clinton. This insurance does not cover "extra expense" costs until Clinton has been out of service for 21 weeks. Thereafter, the insurance covers 100% of the estimate of the plant's weekly "extra expense" costs stated in the policy declarations (Weekly Costs) for up to 52 weeks, 67% of the Weekly Costs for up to the next 52 weeks, and 33% of the Weekly Costs for up to the next 52 weeks.

A major loss covered under the current property damage or "extra expense" insurance coverages involving Clinton or other stations insured by the industry-owned mutual insurance company could result in additional premium assessments to the Company of up to approximately $8.3 million. In addition, while the Company has no reason to anticipate a serious nuclear incident at Clinton, if such an incident should occur, the claims for property damage, "extra expense" costs, and/or other costs and expenses could materially exceed the limits of insurance coverage available.

All nuclear power station operators are subject to the Price-Anderson Act. In accordance with that Act, public liability for a nuclear incident is currently limited to $7.807 billion. Coverage of the first $200 million is provided by private insurance. Excess coverage is provided by retrospective premium assessments against each licensed nuclear reactor in the United States. The Company's liability for such an assessment would be up to $63 million per incident payable in annual installments of not more than $10 million. Additionally, if the sum of all public liability claims and legal costs arising from a nuclear incident exceed the amount of primary and excess coverage in force, each licensee can be assessed an additional 5 percent ($3.15 million) of the maximum retrospective assessment.

A Master Worker Policy covers claims by workers who claim 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 applying to the commercial nuclear industry as a whole. As claims are paid under the policy, there is a provision for automatic reinstatement of policy limits up to an additional $200 million. There is also a provision for assessment of additional premiums if claims exceed funds available in the insurance company's reserve accounts to pay claims. The Company's maximum share of additional premiums in future years for this contingency is approximately $3.2 million.

• *Decommissioning and Nuclear Fuel Disposal Costs* The Company is responsible for its ownership share of the costs of decommissioning Clinton and for spent nuclear fuel disposal costs. A February 1991 ICC order states that it will look to the Company to ensure that Soyland has contributed its fair share toward complete decommissioning costs and that if the Company becomes liable for any decommissioning costs attributable to Soyland, such costs will be the responsibility of the Company's stockholders and not its ratepayers. There is currently pending before the ICC, however, a revised form of the February 1991 order (which has been agreed upon by the ICC and the Company but which is subject to final action by the ICC after other parties have had an opportunity to comment) in which the ICC would express concern that the Company take all reasonable

action to ensure that Soyland contributes its ownership share of the current estimate of decommissioning costs and that if the Company became liable for any decommissioning expense attributable to Soyland the Commission will then decide whether that expense should be the responsibility of the Company's stockholders or its ratepayers. Final action on the proposed revised order is scheduled to be taken by the ICC no later than March 30, 1992. External trust funds, authorized by the ICC, were established for accumulating the funds for future dismantlement and decommissioning costs of Clinton (estimated to be $150 million in 1991 dollars). The Company began recovering decommissioning expense in its rates in April 1989. In February 1992, the ICC approved an increase in rates which permits full recovery of annual decommissioning funding requirements based on 1990 cost levels and approved a rider to permit future recovery should the annual requirements change. The Company contributed $3.8 million and $2.7 million to the external trust fund for decommissioning in 1991 and 1990, respectively, and will contribute $3.8 million annually in 1992 and thereafter in accordance with the February 1992 ICC order, subject to annual adjustments based on operation of the rider. The external trust consists of two trust funds, one to receive contributions that qualify for current federal and state income tax deductions and the other to receive contributions that do not qualify for a current income tax deduction.

Under the nuclear Waste Policy Act of 1982, the U.S. Department of Energy (DOE) is responsible for the permanent storage and disposal of spent nuclear fuel. DOE currently charges one mill per net kilowatt-hour generated and sold for future disposal of spent fuel. The Company is recovering this amount through its rates.

• *Natural Gas Take-or-Pay Charges* In accordance with FERC Order 500, issued in August 1987, the Company's pipeline suppliers were allowed to bill the Company for their take-or-pay costs. Pursuant to Order 500, the Company's pipeline suppliers set the Company's total take-or-pay obligations at approximately $87 million.

In November 1988, the ICC issued an order that allowed the Company to recover fully take-or-pay costs allocated to it under rate schedules approved by the FERC. In accordance with the ICC order, the Company began billing its customers for such costs on February 1, 1989. Under provisions of filed tariffs, certain industrial customers are excluded from being billed take-or-pay charges. On December 5, 1989, the Illinois Appellate Court reversed the ICC order and remanded this matter to the ICC for further proceedings. The Illinois Supreme Court granted petitions filed by the Company, the ICC and certain other utilities for leave to appeal the Appellate Court decision. In June 1991 the Illinois Supreme Court reversed the Appellate Court decision and upheld the ICC's November 22, 1988 order allowing the Company to fully recover these costs. One of the parties who had appealed the ICC order to the Appellate Court has filed a petition for review with the United States Supreme Court, which is pending before that Court.

At the federal level, the District of Columbia Court of Appeals has declared illegal the "purchase deficiency" method used by most pipelines for allocating take-or-pay costs to local distribution companies (such as the Company). The U.S. Supreme Court has denied further review. In response to these actions, FERC issued Order No. 528 which stayed further collections under the "purchase deficiency" method and permitted pipelines to file new recovery mechanisms.

Pursuant to Order No. 528, the Company's pipeline suppliers filed new take-or-pay cost recovery mechanisms. Under the new allocation methodology of Order No. 528, the Company's pipeline suppliers reduced the total take-or-pay obligation to approximately $58 million. The Company paid approximately $26 million, $24 million and $8 million in 1990, 1989 and 1988, respectively, related to its take-or-pay obligations; thus, eliminating the liability for such costs as of December 31, 1991. However, after further negotiations with the pipelines, the Company believes that its total liability may be reduced to approximately $44 million. As a result, the Company is currently receiving refunds from some pipelines for payments on previously billed liabilities and these refunds are being passed on to the Company's customers. The Company will likely incur some additional take-or-pay costs. These amounts are not expected to be significant.

Environmental Matters

• *Clean Air Act* The Illinois state legislature passed a bill in July 1991 which became law in August 1991 that (i) mandates installation of scrubbers at two of the three units at Baldwin Power Station to enable the Company to continue to burn Illinois coal at those units, (ii) provides for a $35 million grant from the state for the construction of scrubbers, (iii) establishes a procedure for regulatory review of the estimated cost of the scrubbers at the outset of construction and (iv) requires the ICC to allow construction work in progress for the scrubbers in electric rates if requested by the Company.

The Company's current estimates for total capital expenditures, including those for the installation of scrubbers on the two Baldwin units, which are necessary to achieve the emission reductions set forth in the acid rain section of the Clean Air Act, would be between $250 million and $350 million through the year 1995. The estimated expenditures shown above exclude Soyland's participation but include the $35 million state grant. Soyland shares in the capacity of the Company's fossil-fueled generating plants through a Power Coordination Agreement and will share in the total capital expendi-

tures. Soyland has the option of providing funding during construction or paying "owning" costs after the facilities are in service. The estimated expenditures shown above include costs for switching from high-sulfur to low-sulfur coal or fuel blending and the installation of low-nitrogen-oxide burners at some generating units and continuous emission monitoring systems on most of the Company's generating units. Additional capital expenditures are anticipated prior to the year 2000 to comply with the second phase of the Clean Air Act. The installation of two scrubbers at Baldwin will result in additional annual other operating and maintenance expenses of approximately $20 million beginning in 1995.

The estimates noted above will be periodically updated as regulations are finalized, estimates are refined and contracts are awarded. At this time it is not possible to predict how much of these costs, if any, may not be recovered from ratepayers. In addition, the Company is currently uncertain of the number of emission allowances that it expects to receive from the Environmental Protection Agency under the provisions of the Clean Air Act.

■ *Gas Manufacturing Sites* The Company, through its predecessor companies, is identified on a State of Illinois list as a responsible party for potential environmental impairment at 25 former manufactured gas plant sites. The Company is investigating each site to determine: the type and amount of wastes; whether the wastes constitute environmental risks; and whether the Company has any responsibility for remedial action. Because of the unknown and unique characteristics of each site (such as amount and type of wastes present, physical characteristics of the site and the environmental risk), the impacts on remediation cost of evolving technologies and uncertain regulatory requirements, the Company is not able to determine its ultimate liability for the investigation and remediation of the 25 sites. The Company, however, has estimated that the liability is at a minimum $26 million. Therefore, in accordance with generally accepted accounting principles, the Company recorded a liability of $26 million as of December 31, 1991. The Company is unable to determine at this time how much of these costs, if any, will be eligible for recovery from insurance carriers.

The Company also recorded as of December 31, 1991 a regulatory asset in the amount of $26 million, reflecting management's expectation that it will be allowed to recover such costs from its customers in future regulatory proceedings. The Company has not yet specifically requested rate recovery of these costs; however, the Company is a participant in a generic hearing being conducted by the ICC on this subject. This generic proceeding was initiated to consider whether Illinois utilities should be allowed to recover from their customers the costs related to the remediation and restoration of the sites and what recovery mechanism should be used if the ICC determines that the costs are recoverable. In January 1992, the Hearing Examiner assigned to the case issued a proposed order. Among other things, the Hearing Examiner cited the ICC's conclusions for two other Illinois utilities that these costs are current and legitimate business expenses which should be recovered from the companies' customers. Further, the proposed order allows for the deferral of these costs.

Based upon the expected regulatory treatment for these costs, as referred to above, management does not expect that the settlement of these obligations will have a material adverse effect on the Company's financial condition or results of operations.

■ *Electric and Magnetic Fields* The possibility that exposure to electric and magnetic fields emanating from power lines, household appliances and other electric sources may result in adverse health effects has been a subject of increased public, governmental and media attention. A considerable amount of scientific research has been conducted on this topic without definitive results. Research is continuing to resolve scientific uncertainties. It is too soon to tell what, if any, impact these actions may have on the Company's financial condition.

Legal Proceedings and Related Matters

■ *Hauman Suit* A settlement agreement was filed on December 2, 1991 with the United States District Court for the Central District of Illinois in a class action securities fraud lawsuit filed in May 1989 by two purchasers of the Company's common stock purporting to act as representatives of a class of such purchasers against the Company, the Company's independent accountants and one current and three former officers of the Company. The settlement agreement proposes to establish an $11 million fund to pay plaintiffs' legal expenses and to compensate class members who bought the Company's common stock between March 31, 1987 and April 20, 1988 and still owned such stock on the latter date. A hearing on final court approval of the settlement is scheduled for April 1992.

Insurance will cover $7 million of the settlement; the remaining $4 million will be paid by the Company but will not be passed through to ratepayers. Performance of the Company's obligations under the settlement agreement will not have a material adverse effect on the Company's financial condition or results of operations.

The Powell, Soyland and Weiland suits as discussed in previous annual reports have all been resolved and did not have a material adverse effect on the Company's financial condition or results of operations.

■ *Other* The Company sells electric energy and natural gas to residential, commercial and industrial customers throughout Illinois. At December 31, 1991, 49%, 25%, and 26% of accounts receivable were from residential, commercial, and industrial customers, respectively. The Company performs ongoing credit evaluations of its customers and generally does not require collateral or deposits. The Company maintains reserves for potential credit losses and such losses have been within management's expectations.

The Company is 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. Management believes that the final disposition of these proceedings will not have a material adverse effect on the financial position or results of operations of the Company.

Note 4

Lines of Credit and Short-Term Loans

The Company has total lines of credit represented by bank commitments amounting to $303 million, of which $121 million was unused at December 31, 1991. These bank commitments support the amount of commercial paper outstanding at any time and are available to support other Company activities. Additional information on lines of credit is shown in the following table:

Lines of Credit	At December 31, 1991				
	Total	Used	Available	Weighted Average Borrowings	Rate
	(Millions of Dollars)				
5 year revolving loan agreement*	$200	$182	$ 18	$125	5.8%
364 day revolving loan agreement**	100	—	100	—	—
Commercial banks for short-term borrowings***	3	—	3	—	—
Total	$303	$182	$121		

*Effective through September 5, 1996. The Company pays a facility fee of 1/4% per annum, regardless of usage. The interest rate on borrowings under these agreements is, at the Company'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.

**Effective through September 3, 1992. The Company pays a facility fee of 3/16% regardless of usage. The interest rate on borrowings under these agreements is at the Company's option, based upon the lending banks' reference rate, their Certificate of Deposit rate, the borrowing rate of key banks in the interbank market or competitive bid.

***Bank borrowings under such commitments have a maximum 360-day maturity from the time of issuance and at the Company's option, carry an interest rate equivalent to the prime rate in effect at the time of issuance, adjusted to the prime rate in effect on the first day of each calendar quarter thereafter or at a lower rate agreed to by the banks.

The Company has letters of credit in the total amount of $7,069,550 from the Industrial Bank of Japan which support self insurance provisions for workers' compensation and general liability insurance. The Company pays a fee of 0.4651% per annum on the unused amount of credit. Interest rates on unreimbursed drawings under the letters of credit are at the Federal Funds rate as defined by the bank plus 1.5% per annum until paid in full.

In addition, the Company has letters of credit in the total amount of $80,547,948 from the Mitsubishi Bank that support $75 million Pollution Control Variable Rate Debt. The Company pays a fee of 0.3% per annum on the unused amount of the credit. Interest rates on unreimbursed drawings under the letters of credit are at the Federal Funds rate as defined by the bank plus 0.5% per annum for up to 30 days, at the bank's prime rate for 31 days through one year and at the bank's prime rate plus 1% per annum for over one year.

Effective August 1, 1991 the Company cancelled a $100 million revolving loan agreement that was to expire June 4, 1992. No borrowings were made under this agreement during 1991. The Company paid a fee of 3/16% per annum on the unused line of credit. In addition, the Company cancelled a $375 million revolving loan agreement on September 5, 1991. The weighted average borrowings during the year were $236 million, bearing interest at a weighted average interest rate of 7.3%. The Company paid a fee of 1/16% on the unused portion and 1/8% on the entire facility amount. These cancelled agreements were replaced by a new $300 million revolving loan agreement on September 5, 1991.

For the years 1991, 1990 and 1989, the Company had short-term borrowings consisting of bank loans and commercial paper outstanding at various times as follows:

	1991	1990	1989
	(Millions of Dollars, except rates)		
Balance at December 31			
Bank loans	$ —	$ 3	$ 3
Commercial paper	1	—	—
Interest rate at December 31	5.1%	8.8%	9.1%
Maximum amount outstanding at any month end	$ 75	$ 38	$ 11
Average daily borrowings outstanding during the year	$ 37	$ 12	$ 6
Weighted average interest rate during the year	6.0%	8.8%	9.5%

The Company calculated the weighted average interest rates by dividing the interest expense during the period

for such borrowings by the average short-term borrowings indicated above.

Note 5

Facilities Agreements

The Company and Soyland Power Cooperative, Inc. (Soyland) share ownership of Clinton with the Company owning 86.79% and Soyland owning 13.21%. Soyland has an investment of $450 million in the direct costs of placing Clinton in commercial operation. The Company's ownership percentage of 86.79% is reflected in utility plant (at original cost) and in accumulated depreciation on the balance sheet. Each owner is responsible for its share of nuclear fuel, decommissioning, ongoing construction, financing and operating and maintenance costs. The Company's share of Clinton operating expenses is included in the corresponding operating expenses on its income statement.

The Company's net investment in Clinton, including AFUDC, land and related facilities at December 31, 1991, was approximately $3.2 billion, net of recorded disallowed plant costs. The Company's accumulated depreciation for Clinton was $420 million at December 31, 1991. Agreements between the Company and Soyland provide that the Company has control over construction and operation of the generating station, that the parties share electricity generated in proportion to their ownership interests, and that the Company will have certain obligations to provide replacement power to Soyland at certain times if the Company ceases to operate or reduces output from Clinton.

Under the provisions of a Power Coordination Agreement between Soyland and the Company dated October 5, 1984, as amended, the Company provides Soyland with 10.7% (372 megawatts) of electrical capacity from its fossil-fueled generating plants through 1992, 8% in 1993 and 1994 and 12% in 1995 until the agreement expires or is terminated. This is in addition to the capacity Soyland receives as an owner of Clinton. The Company is compensated with capacity charges and for energy costs and variable operating expenses. The Company transmits energy for Soyland through the Company's transmission and subtransmission systems. Under provisions of the Power Coordination Agreement, Soyland will share in the total capital expenditures, including those for the installation of scrubbers on the two Baldwin units, which are necessary to achieve the emission reductions set forth in the acid rain section of the Clean Air Act. Soyland has the option of providing funding during construction of these scrubbers or paying their proportionate share of the overall ownership costs and expenses through the Power Coordination Agreement after the facilities are in service. At any time after December 31, 2004, either the Company or Soyland can terminate the Power Coordination Agreement, 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 twelve months after the date of receipt of such notice.

Note 6

Income Taxes

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

	Years Ended December 31,		
(Thousands of Dollars)	*1991*	*1990*	*1989*
Current taxes—			
Included in Operating Expenses and Taxes	$ 29,370	$ 21,308	$ (43,577)
Included in Other Income and Deductions — Miscellaneous—net	(585)	8,367	6,499
Total current taxes	28,785	29,675	(37,078)
Deferred taxes—			
Book-tax depreciation differences—net	65,756	72,742	91,086
Disallowed Clinton plant costs	10,723	(7,465)	(80,977)
Certain overhead, dismantling and other costs capitalized—net	(3,291)	5,803	1,300
Deferred Clinton costs	(1,782)	(3,094)	7,236
Alternative minimum tax	(39,196)	(22,516)	36,401
Book-tax revenue and expense recognition differences	10,828	(6,045)	(4,005)
Clinton Unit 2 abandonment	—	(1,470)	(2,629)
Take-or-pay charges	(21,983)	(4,482)	20,529
Net operating loss carryforward	24,233	(23,103)	(81,360)
Total deferred taxes	45,288	10,370	(12,419)
Deferred investment tax credit—net	(73)	(14,121)	(8,787)
Deferred investment tax credit—Disallowed Clinton plant costs	—	(4,343)	(17,104)
Total investment tax credit	(73)	(18,464)	(25,891)
	$ 74,000	$ 21,581	$ (75,388)

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

	Years Ended December 31,		
(Thousands of Dollars)	*1991*	*1990*	*1989*
Income tax expense at the federal statutory tax rate	$ 62,303	$ (19,347)	$ (123,699)
Increases (decreases) in taxes resulting from—			
State taxes, net of federal effect	10,591	4,974	(4,930)
Allowance for funds used during construction, disallowed Clinton plant costs	—	39,502	74,693
Allowance for funds used during construction	(506)	(565)	(574)
Deferred Clinton financing costs	—	—	(4,739)
Investment tax credit, disallowed Clinton plant costs	—	(4,343)	(17,104)
Investment tax credit	(9,593)	(8,167)	(7,700)
Depreciation not normalized	11,423	10,030	10,322
Deferred Clinton costs	2,237	2,255	(604)
Other—net	(2,455)	(2,758)	(1,053)
Total income taxes	$ 74,000	$ 21,581	$ (75,388)

Combined federal and state effective income tax rates were 40.4%, (37.9%) and 20.7% for the years 1991, 1990 and 1989, respectively. Investment tax credit carryforwards, unrecorded at December 31, 1991, were approximately $26 million. These credits are available to offset future income tax liabilities. Of these credits, approximately $16 million expire in 2002 and approximately $10 million expire in 2003. At December 31, 1991, the Company had approximately $198 million of federal income tax net operating loss carryforwards available to offset future taxable income. Approximately $154 million of these carryforwards expire in 2005 and $44 million expire in 2006. The Company also has an alternative minimum tax credit carryforward at December 31, 1991 of approximately $68 million which may be carried forward indefinitely. This credit is available to offset future regular income tax liabilities in excess of the tentative minimum tax.

Statement of Financial Accounting Standards No. 109 (FAS 109), "Accounting for Income Taxes," issued in February 1992 adopts a liability method of tax allocation relating to transactions that affect book and tax income in different reporting periods. The Company must adopt this standard in January 1993.

Note 7

Capital Leases

Illinois Power Fuel Company (Fuel Company), which is 50% owned by the Company, was formed in January 1981 for the purpose of leasing nuclear fuel to the Company 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 1991, 1990 and 1989 were $54 million, $33 million and $29 million, respectively, including $9 million, $7 million and $8 million, respectively, of financing costs. The Company 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. At December 31, 1991 and 1990 the Company had notes receivable from the Fuel Company in the amount of $2,300,000 and $11,978,000, respectively. The Company has an obligation for spent nuclear fuel disposal costs of leased nuclear fuel. Nuclear fuel lease payments are included with fuel for electric plants on the Company's Statements of Income. Lease payments for other property under capital leases are included with other operating expenses on the Company's Statements of Income.

At December 31, 1991 and 1990, current obligations under capital lease for nuclear fuel are $39,761,000 and $45,037,000, respectively. At December 31, 1991 and 1990, current obligations for other property under capital leases were $4,763,000 and $1,386,000, respectively.

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

	(Thousands of Dollars)
1992	$ 53,391
1993	41,116
1994	39,072
1995	22,715
1996	17,727
Thereafter	24,023
	198,044
Less: Interest	28,983
Total	$169,061

Note 8

Debt Retirement Provisions

Certain supplemental indentures to the Mortgage and Deed of Trust require that the Company make annual deposits, as a sinking and property fund, in amounts not to exceed $6,100,000 in 1992, $5,750,000 in 1993, $7,000,000 in 1994, $9,250,000 in 1995 and $10,100,000 in 1996. These amounts are subject to reduction and historically have generally been met by pledging property additions, as permitted by the Mortgage and Deed of Trust.

During the five years after December 31, 1991, the amounts of debt maturing annually are as follows:

(Thousands of Dollars)

	Maturities	Cash Sinking Fund Requirements	Total
1992	$ 8,930	$ 5,175	$ 14,105
1993	35,000	5,200	40,200
1994	100,000	5,200	105,200
1995	—	5,225	5,225
1996	243,500	5,225	248,725
Total	$387,430	$26,025	$413,455

These amounts exclude capital lease requirements. See "Note 7 — Capital Leases."

The Company's First Mortgage Bonds are secured by a first mortgage lien on substantially all of the fixed property, franchises and rights of the Company with certain minor exceptions expressly provided in the Mortgage and Deed of Trust. The remaining balance of net bondable additions at December 31, 1991, was approximately $1,300,000,000.

Note 9

Mandatorily Redeemable Preferred Stock

In 1990, the Company redeemed $20 million of 11.75% mandatorily redeemable serial preferred stock. In February 1991, the Company redeemed the remaining $30 million of 11.75% mandatorily redeemable serial

preferred stock. In February 1992, the Company redeemed $10 million of 8.52% mandatorily redeemable serial preferred stock. During the five years after December 31, 1991, the amounts of mandatorily redeemable preferred stock outstanding at such date (including the February 1992 redemption) required to be redeemed at stated value are as follows:

	(Thousands of Dollars)
1992	$ 10,000
1993	22,000
1994	22,000
1995	22,000
1996	22,000
Thereafter	12,000
Total	$110,000

Note 10

Common Stock and Retained Earnings

The Company has an Incentive Savings Plan (Plan) for salaried employees. The Company's matching contribution is used to purchase common stock. Under this Plan, 27,545 shares of common stock were designated for issuance at December 31, 1991.

The Company has an Incentive Savings Plan for Employees Covered Under a Collective Bargaining Agreement. At December 31, 1991, 69,167 shares of stock were designated for issuance. Effective January 1, 1991, the Company's matching contribution was extended to include the employees covered under a Collective Bargaining Agreement.

In October 1990, the Board of Directors authorized amendments to the Company's two Incentive Savings Plans to provide for the implementation of an Employee Stock Ownership Plan (ESOP) arrangement. This arrangement includes an incentive compensation feature which is tied to employee achievement of specified performance goals. Under this arrangement, the Company, pursuant to authorization granted by the ICC, in January 1991, loaned $35 million to the Trustee of the Plans, who used the loan proceeds to purchase 2,049,975 shares of the Company's common stock on the open market. 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 the Company, together with dividends on the shares acquired with the loan proceeds. The Company financed the loan with funds borrowed under its bank credit agreements.

As of December 31, 1991, 29,198 shares have been allocated to salaried employees and 30,336 shares allocated to employees covered under the Collective Bargaining Agreement, through the matching contribution feature of the ESOP arrangement. Under the incentive compensation feature, 44,179 shares have been allocated to employees. During 1991, the Company contributed $2.2 million to the ESOP, and using the shares allocated method, recognized $4.1 million of expense. Interest incurred on the ESOP debt was approximately $2.9 million in 1991 and dividends used for debt service were approximately $820,000.

In February 1989, the Company terminated the Tax Reduction Act Stock Ownership Plan (TRASOP). Under this plan, Company contributions of common stock were based on a percentage of payroll costs. Due to the 1986 Tax Reform Act repeal of tax benefits for Company contributions, 1987 was the last year the Company contributed stock to the plan. At termination, all assets of the plan were either distributed to the participants or transferred to the participant's account in the Company's Incentive Savings Plans at the election of the participants. The 72,250 unissued shares of common stock remaining in the plan at termination were transferred to the Company's Incentive Savings Plan for salaried employees.

The Company has an Automatic Reinvestment and Stock Purchase Plan and an Employees Stock Ownership Plan for which at December 31, 1991, 3,270,236 and 29,115 shares, respectively, of common stock were designated for issuance.

In September 1990, the Company assumed the responsibility for administering both the stock purchase plan for employees and the automatic reinvestment and stock purchase plan. These two plans were also amended to allow purchases of shares on the open market as well as purchases of new issue shares directly from the Company.

Changes in common stock during 1991, 1990 and 1989 were as follows:

	1991		1990		1989	
	Shares	Amount*	Shares	Amount*	Shares	Amount*
Balance beginning of year	75,643,937	$ 1,424,607	75,558,263	$ 1,423,230	73,463,988	$ 1,389,782
Automatic Reinvestment and Stock Purchase Plan	—	—	56,607	913	1,917,973	30,456
ESOP	—	—	11,157	182	34,238	555
TRASOP	—	—	—	—	63,[illegible]47	1,262
Incentive Savings Plans	—	—	17,910	282	78,[illegible]	1,175
Balance end of year	75,643,937	$ 1,424,607	75,643,937	$ 1,424,607	75,558,26[illegible]	$ 1,423,230

* *Thousands of dollars*

The provisions of Supplemental Indentures to the Company's Mortgage and Deed of Trust contain certain restrictions with respect to the declaration and payment of dividends. The Company was not limited by any of these restrictions at December 31, 1991. Under the Restated Articles of Incorporation, common stock dividends are subject to the preferential rights of the holders of Preferred and Preference Stock.

Note 11

Pension and Other Benefit Costs

The Company has defined benefit pension plans covering all officers and employees. Benefits are based on years of service and the employee's earnings. The Company'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 has been capitalized, for 1991, 1990 and 1989 included the following components:

	Years Ended December 31,		
(Thousands of dollars)	*1991*	*1990*	*1989*
Service cost on benefits earned during the year	$ 8,122	$ 8,028	$ 9,021
Interest cost on projected benefit obligation	17,228	15,540	14,076
Return on plan assets	(37,559)	15,664	(41,410)
Net amortization and deferral	11,534	(41,368)	16,680
Total pension cost (benefit)	$ (675)	$ (2,136)	$ (1,633)

The 1989 pension cost does not include approximately $12 million for the enhanced retirement program as more fully discussed later in this note.

The estimated funded status of the plans at December 31, 1991 and December 31, 1990, using measurement dates of September 30, 1991 and September 30, 1990, discount rates of 8½% and 9%, respectively, and a 6% rate of increase of future compensation levels were as follows:

	ars Ended December 31,	
(Thousands of dollars)	*1991*	*1990*
Actuarial present value of Vested benefit obligation	$ 185,244	$ 162,312
Accumulated benefit obligation	$ 186,498	$ 167,651
Projected benefit obligation	$(222,882)	$(192,272)
Plan assets at fair value	254,144	229,291
Excess of assets over projected benefit obligation	31,262	37,019
Unamortized net gain	(11,050)	(3,884)
Unrecognized net asset at transition	(51,495)	(55,723)
Prior service costs	21,451	13,081
Accrued pension cost included in Accounts Payable	$ (9,832)	$ (9,507)

The plan 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, 1991 and January 1, 1990, were $169,009,000 and $153,244,000, respectively (including vested benefits of $167,965,000 and $146,254,000, respectively).

The pension cost for 1991, 1990 and 1989 was calculated using measurement dates of December 31, 1990, December 31, 1989 and January 1, 1989, respectively, a discount rate of 9% for 1991 and 8½% for 1990 and 1989, rate of increase of future compensation levels of 6%, and a return on assets of 9½% for 1991 and 9% for 1990 and 1989. The unrecognized net asset at transition and prior service costs are amortized on a straight-line basis over the average remaining service period of employees who are expected to receive benefits under the plan. The Company did not make any cash contributions during 1991, 1990 and 1989 for the pension plan due to its overfunded status.

In 1989, the Company offered an enhanced retirement program as a special incentive for early retirement to all employees who met certain eligibility requirements. In accordance with the requirements of Statement of Financial Accounting Standards No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," the Company recorded $12 million of additional pension cost in 1989, representing the estimated present value of the cost of the program.

In addition, the Company provides certain health care and life insurance benefits for substantially all active and retired employees. These benefits are provided through an insurance company and premiums are based on actual claims experience. The Company recognizes the cost of these benefits as premiums are paid. Costs for 1991, 1990 and 1989, net of contributions by both active and retired employees, were $17,724,000, $15,077,000 and $12,613,000, respectively. The 1991 cost of providing these benefits for 1,352 retirees and 4,250 active employees is $3,361,000 and $14,363,000, respectively.

In December 1990, FASB issued Statement of Financial Accounting Standards No. 106 (FAS 106), "Employers' Accounting for Postretirement Benefits Other Than Pensions," which requires the recognition of postretirement benefits, including health and welfare benefits, on an accrual basis. The Company provides health care and life insurance benefits to certain retired employees who attain specified ages and years of service. In 1991 and prior years, the cost of such benefits was recognized as claims were paid. The Company adopted FAS 106 as of January 1, 1992 and its estimate of 1992 net periodic postretirement benefit cost for its current and retired employees is $11 million. This amount includes amortization over twenty years of the previously unrecognized accumulated postretirement obligation, which was $66 million as of January 1, 1992. Adoption of FAS 106 will not have a material adverse effect on earnings because the February 1992 ICC rate order allowed the Company to recover these costs through its electric rates.

Note 12
Segments of Business

The Company is a public utility engaged in the generation, transmission, distribution and sale of electric energy, and the distribution, transportation and sale of natural gas.

(Thousands of dollars)

	1991			*1990*			*1989*		
	Electric	**Gas**	**Total Company**	**Electric**	**Gas**	**Total Company**	**Electric**	**Gas**	**Total Company**
Operation information—									
Operating revenues	$ 1,186,740	$ 288,165	$ 1,474,905	$ 1,158,410	$ 311,070	$ 1,469,480	$ 1,069,133	$ 324,645	$ 1,393,778
Operating expenses, excluding provision for income taxes and deferred Clinton costs	838,146	258,439	1,096,585	889,290	267,352	1,156,642	838,688	290,229	1,128,917
Deferred Clinton costs	11,181	—	11,181	14,619	—	14,619	(20,584)	—	(20,584)
Pre-tax operating income	337,413	29,726	367,139	254,501	43,718	298,219	251,029	34,416	285,445
Allowance for funds used during construction (AFUDC)	2,569	296	2,865	2,867	289	3,156	2,952	240	3,192
Deferred Clinton financing costs	—	—	—	—	—	—	13,936	—	13,936
Disallowed Clinton plant costs	—	—	—	(135,618)	—	(135,618)	(345,762)	—	(345,762)
Pre-tax operating income, including AFUDC, deferred Clinton financing costs and disallowed Clinton plant costs	$ 339,982	$ 30,022	370,004	$ 121,750	$ 44,007	165,757	$ (77,845)	$ 34,656	(43,189)
Other (income) and deductions			5,827			(2,931)			(5,445)
Interest charges			180,933			200,833			220,595
Provision for income taxes			74,000			46,339			30,093
Net income (loss)			$ 109,244			$ (78,484)			$ (288,432)
Other information—									
Depreciation	$ 157,294	$ 19,481	$ 176,775	$ 154,704	$ 18,123	$ 172,827	$ 159,224	$ 17,159	$ 176,383
Capital expenditures	$ 116,284	$ 24,928	$ 141,212	$ 105,958	$ 24,689	$ 130,647	$ 76,174	$ 20,607	$ 96,781
Investment information—									
Identifiable assets*	$ 4,577,218	$ 328,942	$ 4,906,160	$ 4,613,477	$ 369,189	$ 4,982,666	$ 4,837,372	$ 379,025	$ 5,216,397
Nonutility plant and other investments			8,454			18,509			9,688
Assets utilized for overall Company operations			357,188			344,318			382,882
Total assets			$ 5,271,802			$ 5,345,493			$ 5,608,967

**Utility plant, nuclear fuel and acquisition adjustment (less accumulated depreciation and amortization), materials and supplies, unamortized deferred abandonment cost, deferred Clinton costs, prepaid and deferred energy costs.*

Note 13

Quarterly Financial Information and Common Stock Data (Unaudited)

(Thousands of dollars except per common share amounts)

	First Quarter 1991	Second Quarter 1991	Third Quarter 1991	Fourth Quarter 1991
Operating revenues	$377,897	$327,989	$402,991	$366,028
Operating income	56,246	64,050	107,387	64,108
Net income	8,883	19,226	63,923	17,212
Net income applicable to common stock	697	11,590	56,314	9,777
Earnings per common share	$ .01	$ .15	$ .74	$ .13
Common Stock Prices and Dividends				
High	$ 18 ⅜	$ 20	$ 21¼	$ 24 ⅛
Low	$ 15 ⅜	$ 18 ⅛	$ 18 ⅛	$ 20 ⅞
Dividends Declared	$ —	$ —	$ —	$ .40

	First Quarter 1990	Second Quarter 1990	Third Quarter 1990	Fourth Quarter 1990
Operating revenues	$336,771	$323,965	$441,857	$366,887
Operating income	36,517	53,479	128,521	35,971
Net income (loss)	(13,080)	3,667	80,724	(149,795)
Net income (loss) applicable to common stock	(22,363)	(5,659)	71,383	(158,684)
Earnings (loss) per common share	$ (.30)	$ (.07)	$ .94	$ (2.10)
Common Stock Prices and Dividends				
High	$ 19 ⅜	$ 19	$ 16 ⅝	$ 16 ¾
Low	$ 17 ⅛	$ 14 ½	$ 12 ¾	$ 12 ⅞
Dividends Declared	$ —	$ —	$ —	$ —

Quarterly earnings (loss) per common share are based on weighted average number of shares outstanding during the quarter and the sum of the quarters may not equal annual earnings (loss) per common share. As referenced in "Note 1 — Summary of Significant Accounting Policies" quarterly operating revenues have been reclassified for interchange sales.

The 1990 fourth quarter loss reflects recording the provision for disallowance of Clinton plant costs of $137 million or $1.82 per share, net of income taxes. See "Note 2 — Clinton Power Station."

The common stock is listed on the New York Stock Exchange and the Midwest Stock Exchange. The stock prices above are the prices reported on the Composite Tape. There were 53,417 registered holders of common stock at January 10, 1992. The Board of Directors voted on October 9, 1991 to resume paying a common stock dividend.

Selected FINANCIAL DATA*

	1991	1990	1989	1988	1987	1986	1981
Operating revenues							
Electric	$ 1,101	$ 1,085	$ 988	$ 950	$ 911	$ 814	$ 621
Electric interchange	86	73	81	110	92	77	78
Gas	288	311	325	335	309	370	343
Total operating revenues	$ 1,475	$ 1,469	$ 1,394	$ 1,395	$ 1,312	$ 1,261	$ 1,042
Net income (loss) before accounting change	$ 109	$ (78)	$ (288)	$ 155	$ 290	$ 293	$ 127
Net income (loss) after accounting change	$ 109	$ (78)	$ (288)	$ 189	$ 290	$ 293	$ 127
Effective income tax rate	40.4%	(37.9)%	20.7%	29.4%	19.1%	20.5%	34.4%
Net income (loss) applicable to common stock before accounting change	$ 78	$ (115)	$ (326)	$ 118	$ 252	$ 256	$ 108
Net income (loss) applicable to common stock after accounting change	$ 78	$ (115)	$ (326)	$ 152	$ 252	$ 256	$ 108
Earnings (loss) per common share before accounting change	$ 1.04	$ (1.53)	$ (4.34)	$ 1.66	$ 3.75	$ 3.98	$ 2.84
Earnings (loss) per common share after accounting change	$ 1.04	$ (1.53)	$ (4.34)	$ 2.14	$ 3.75	$ 3.98	$ 2.84
Cash dividends declared per common share	$ .40	$ —	$ .66	$ 2.64	$ 2.64	$ 2.64	$ 2.405
Dividend payout ratio (declared)	38.4%	—	N/A	124.3%	70.9%	66.7%	86.3 %
Book value per common share	$ 19.25	$ 18.70	$ 20.56	$ 25.80	$ 26.85	$ 25.79	$ 21.42
Price range of common shares							
High	$ 24 ⅛	$ 19 ⅜	$ 21 ¾	$ 25 ⅛	$ 31 ½	$ 32	$ 21 ⅝
Low	$ 15 ⅜	$ 12 ¾	$ 13 ⅜	$ 16 ½	$ 21 ¼	$ 23 ⅜	$ 16 ⅜
Weighted average number of common shares outstanding during the period (thousands)	75,644	75,613	75,052	70,900	67,251	64,503	37,844
Total assets**	$ 5,272	$ 5,345	$ 5,609	$ 6,053	$ 5,923	$ 5,623	$ 2,722
Capitalization							
Common stock equity	$ 1,456	$ 1,415	$ 1,554	$ 1,896	$ 1,842	$ 1,692	$ 858
Preferred stock	303	309	315	315	315	315	215
Mandatorily redeemable preferred stock	110	140	160	160	160	196	36
Long-term debt**	2,153	2,199	2,347	2,336	2,274	2,241	1,047
Total capitalization**	$ 4,022	$ 4,063	$ 4,376	$ 4,707	$ 4,591	$ 4,444	$ 2,156
Embedded cost of long-term debt	8.7%	9.3%	9.4%	9.5%	9.3%	9.1%	8.4%
Retained earnings	$ 76	$ 1	$ 143	$ 518	$ 555	$ 481	$ 198
Capital expenditures	$ 141	$ 131	$ 97	$ 115	$ 238	$ 706	$ 350
Cash flows from operations	$ 313	$ 253	$ 272	$ 223	$ 251	$ 246	$ 191
AFUDC as a percent of earnings applicable to common stock	3.7%	N/A	N/A	40.3%	80.3%	85.5%	57.1%
Return on average common equity	5.5%	(7.8)%	(18.9)%	8.1%	14.3%	15.9%	13.4%
Ratio of earnings to fixed charges***	1.85	0.70	(0.52)	1.83	2.51	2.57	3.16

* *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.*

*** *The ratio of earnings to fixed charges represents the number of times that earnings before income taxes and fixed charges cover the fixed charges. Earnings used in the calculation of the above ratios include allowance for funds used during construction and deferred Clinton financing costs and are before the deduction of income taxes and fixed charges that include interest on long-term debt, related amortization of debt discount, premium and expense, other interest, and that portion of rent expense that is estimated to be representative of the interest component. Earnings available for fixed charges excludes the cumulative effect as of January 1, 1988 of accruing unbilled revenues. The ratio of earnings to fixed charges for 1990 and 1989 of 0.70 and (0.52), respectively indicates that earnings were inadequate to cover fixed charges. The dollar amount of the coverage deficiency for 1990 and 1989 was approximately $68 million and $375 million, respectively. Excluding the loss on disallowed plant costs of $137 million, net of income taxes recorded in the fourth quarter of 1990, the ratio of earnings to fixed charges would have been 1.41 for 1990. Excluding the loss on disallowed plant costs of $346 million, net of income taxes recorded in the first quarter of 1989, the ratio of earnings to fixed charges would have been 1.31 for 1989.*

Selected STATISTICS

	1991	1990	1989	1988	1987	1986	1981
Electric Sales in KWH (Millions)							
Residential	4,620	4,223	4,283	4,411	4,241	4,198	3,741
Commercial	3,111	2,981	2,962	2,938	2,862	2,821	2,450
Industrial	7,642	7,751	7,653	7,415	7,323	7,341	6,555
Other	339	328	333	338	322	320	296
Sales-ultimate consumers	15,712	15,283	15,231	15,102	14,748	14,680	13,042
Rural cooperatives, municipal and other utilities	3,720	3,374	3,913	5,529	4,270	3,281	3,775
Total electric sales	19,432	18,657	19,144	20,631	19,018	17,961	16,817
Electric Revenues (Millions)							
Residential	$ 447	$ 411	$ 373	$ 373	$ 352	$ 293	$ 209
Commercial	251	246	225	215	209	187	135
Industrial	355	373	339	312	325	290	224
Other	25	24	22	21	20	17	12
Revenues-ultimate consumers	1,078	1,054	959	921	906	787	580
Rural cooperatives, municipal and other utilities	102	99	104	134	116	99	114
Miscellaneous	7	6	6	5	(19)	5	5
Total electric revenues	$ 1,187	$ 1,159	$ 1,069	$ 1,060	$ 1,003	$ 891	$ 699
Gas Sales in Therms (Millions)							
Residential	339	322	379	367	332	357	391
Commercial	133	134	149	148	137	161	172
Industrial	98	99	114	154	96	198	385
Sales-ultimate consumers	570	555	642	669	565	716	948
Transportation of customer owned gas	253	269	265	235	327	253	—
Total gas sold and transported	823	824	907	934	892	969	948
Interdepartmental sales	8	18	10	9	5	1	4
Total gas delivered	831	842	917	913	897	970	952
Gas Revenues (Millions)							
Residential	$ 184	$ 180	$ 201	$ 207	$ 192	$ 206	$ 159
Commercial	61	62	68	71	66	78	61
Industrial	31	42	46	48	34	73	122
Sales-ultimate consumers	276	284	315	326	292	357	342
Transportation of customer owned gas	9	10	11	13	15	11	—
Interdepartmental revenues	2	3	3	2	1	—	1
Miscellaneous	1	14	(4)	(6)	1	2	—
Total gas revenues	$ 288	$ 311	$ 325	$ 355	$ 309	$ 370	$ 343
System peak demand (native load) in kw (thousands)	3,272	3,394	3,245	3,508	3,083*	3,176	3,165
Firm peak demand (native load) in kw (thousands)	3,108	3,180	3,009	3,077	2,923*	2,949	3,085
Net generating capability in kw (thousands)	3,909	3,891	3,885	3,938	3,400	3,397	3,672
Electric customers (end of year)	565,121	560,045	548,738	546,443	542,848	540,607	525,438
Gas customers (end of year)	401,763	398,891	386,960	385,336	384,091	383,201	383,474
Employees (end of year)	4,514	4,402	4,242	4,663	4,616	4,593	4,023

* System peak and firm peak demand for 1987 did not occur on the same hour.

Shareholder SERVICES

Transfer Agents and Registrar

Continental Bank N.A.
c/o Mellon Securities
Attn: Transfer Department
85 Challenger Road
Overpeck Center
Ridgefield Park,
New Jersey 07660

Illinois Power Company
Shareholder Services
500 South 27th Street
Decatur, Illinois 62525

Transfer of Stock

To transfer stock or to change the registration, send the stock certificate along with a transmittal letter to Shareholder Services. There is no single stock transfer procedure that covers all possible circumstances. However, for most transfers, shareholders should follow this procedure:

1. Sign the back of the stock certificate exactly as your name appears in print on the front. If there is more than one owner, all persons must sign.
2. Have the signature(s) guaranteed by an authorized representative of a commercial bank or trust company or by a stockbroker who is a member of one of the major stock exchanges. There is usually no charge for this service. (The signature of a notary public is not acceptable.)
3. List on the back of the certificate the full name in which the shares are to be registered as well as the address and Social Security Number or other taxpayer identification number of the new owner.
4. If you transfer fewer than the number of shares represented by the original certificate, indicate on the back of the certificate the exact number to be transferred.
5. Send the certificate by registered or certified mail to Shareholder Services. We recommend the mailing be insured for two percent of the market value of the stock to cover certificate replacement should it be lost in the mail.
6. If you want to change the registration of Automatic Reinvestment and Stock Purchase Plan shares between existing accounts, submit requests to Shareholder Services.
7. The requirements and documentation to transfer stock from an estate vary depending upon the state of residence. Contact Shareholder Services or Continental Bank for more information.

Purchase/Sale of Stock

Except for shares held in the Automatic Reinvestment and Stock Purchase Plan, Illinois Power does not buy or sell its own securities. Such transactions must be handled through a registered securities dealer.

Lost or Stolen Certificates

If a stock certificate is lost or stolen, notification should be sent immediately to Shareholder Services so a "stop" can be placed on the missing certificate. The letter should describe the certificate in as much detail as possible, including the certificate number, date issued and registration.

Once a "stop" has been placed on the missing certificate, the stockholder will be sent an affidavit that must be completed, signed, notarized and returned in accordance with the transfer agent's instructions before a replacement certificate can be issued. An irrevocable indemnity bond for the lost stock certificate is also required. The cost of the bond is about two percent of the market value of the missing certificate, calculated at time the indemnity bond is issued.

Information regarding lost or stolen certificates should be sent to Shareholder Services.

Certificate Safekeeping

Owners should safeguard stock certificates by keeping them in a secure place such as a bank safety deposit box. Owners should also maintain a separate certificate record that includes each certificate number, purchase date, date of issue, amount paid, and exact registration. The Company does not safeguard certificates for stockholders.

Change of Address

Requests for address change 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. A change of address form is located on the back page of the Quarterly Report to Stockholders.

Duplicate Mailings

Because of a slight difference in your name, address or tax identification number, we may have more than one account for you. We will consolidate these accounts for which you hold the stock certificates upon receipt of a written request to Shareholder Services signed by all registered owners of the stock.

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 allows common and preferred stockholders to reinvest their dividends in the purchase of Illinois Power common stock. In addition, stockholders may purchase shares of common stock through an optional cash feature.

If you are interested in participating in the Automatic Reinvestment and Stock Purchase Plan, contact Shareholder Services for more information.

Stockholder Inquiries

Illinois Power maintains a toll-free telephone number for stockholders to use when making inquiries about stock transactions. The number is 1-800-800-8220. Shareholder Services office hours are 8:15 a.m. to 4:45 p.m., Central Time, Monday through Friday.

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500 South 27th Street
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Supervisor-Shareholder Services
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Decatur, Illinois 62525-1805
Toll-free telephone
1-800-800-8220

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Assistant Treasurer
Director-Investor Relations
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