ELECTRICITY

NATURAL GAS

The Annual Report of

ILLINOIS POWER COMPANY

1981

The Company's Directors

Illinois Power Company is directed by a board of 12 persons elected annually by the stockholders of the Company. Nine members of the current Board are "outside" directors, who bring to the Company expertise from the fields of education, finance, farming, manufacturing, marketing, personnel, and retailing. The outside directors, their principal occupations, and the years they were elected to our Board are shown throughout this annual report.

Illinois
Power
Company

ANNUAL REPORT
1981

Contents

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

Highlights of 1981

1980	1981	% Increase	
14,486	**14,213**	**(1.9)**	Electric sales—kilowatt-hours (millions)
$567,356	**$620,968**	**9.4**	Electric revenues (thousands)
986	**952**	**(3.4)**	Gas sales—therms (millions)
$316,014	**$343,324**	**8.6**	Gas revenues (thousands)
$883,370	**$964,292**	**9.2**	Total operating revenues (thousands)
$113,562	**$127,413**	**12.2**	Net income (thousands)
$ 94,493	**$107,516**	**13.8**	Earnings available for common stock (thousands)
32,906	**37,844**	**15.0**	Average number of shares outstanding (thousands)
$2.87	**$2.84**	**(1.0)**	Earnings per share of common stock

We Received

1980	1981	1981 %	
(Thousands of Dollars)			
$567,356	**$620,968**	**64.4**	Sales of electricity
316,014	**343,324**	**35.6**	Sales of gas
$883,370	**$964,292**	**100.0**	

We Paid Out or Set Aside

1980	1981	1981 %	
(Thousands of Dollars)			
$ 73,382	**$ 79,105**	**8.2**	Payrolls and benefits to employees engaged in operations
218,998	**257,427**	**26.7**	Gas purchased for resale
6,527	**18,970**	**2.0**	Power purchased for resale
(40,452)	**(55,684)**	**(5.8)**	Power interchanged—net
240,601	**245,626**	**25.5**	Fuel for electric plants
50,278	**59,772**	**6.2**	Materials and other expenses
57,835	**60,031**	**6.2**	Recovery of cost of property due to wear and obsolescence
113,786	**124,197**	**12.9**	Taxes—federal, state and local
23,071	**21,419**	**2.2**	Investment tax credit deferred—net
			Use of funds invested in our business—
(51,220)	**(61,411)**	**(6.4)**	Allowance for funds used during construction
77,002	**87,427**	**9.1**	Interest—including short-term loans
19,419	**19,897**	**2.1**	Preferred stock dividends
79,636	**92,814**	**9.6**	Common stock dividends
14,507	**14,702**	**1.5**	Future use in our business
$883,370	**$964,292**	**100.0**	

To All Stockholders:

Because of the increase of nearly 20 per cent in our electric rates on July 1, we were able to reverse an earlier decline in our earnings and end the year in a good financial position with our double A bond rating still intact.

With the new rates in effect the last half of the year, our 1981 per share earnings were $2.84 compared with the $2.87 of 1980.

In December we declared our 138th consecutive dividend to stockholders and increased our annual dividend on common stock from $2.38 to $2.48 per share.

We are encouraged that the Illinois Commerce Commission allowed us a return on $375 million of construction work in progress (CWIP) at our Clinton nuclear station. The Commission's authority to include CWIP in rate base was challenged in the courts after our 1979 rate order. The circuit court's ruling in favor of the Commission was recently upheld by the appellate court.

In February of 1982 we filed for increases in our electric and gas rates. Based on past practice, we expect a decision in early 1983. We know that for many of our customers these are bad times in which to ask for higher rates. Although we anticipate opposition to our request, our testimony will show that we are left with no better alternative in meeting our responsibility.

Moderate summer weather in 1981 reduced air conditioning usage and resulted in an electric peak 1.6 per cent below that of the unusually hot summer of 1980. We experienced an overall 1.9 per cent reduction in total electric kilowatt-hour sales and a 3.4 per cent reduction in the sale of natural gas to our customers during 1981. We anticipate improvement in the sale of both products during 1982.

On May 13, 1981 we realized $48.2 million from the sale of three million shares of common stock. The sale of stock through our dividend reinvestment and stock purchase plans brought us another $45.1 million. We were able to meet our 1981 requirements for outside financing without the sale of long-term bonds.

Through inventory reductions (about $25 million), deferment and curtailment of construction (about $20 million), and reductions in operations and maintenance expense (about $5 million), we will reduce the amount of outside financing needed in the next year or two.

We will, however, require an additional $285 million in outside financing in 1982 to help pay for our $410 million construction program. The sale of common stock through dividend reinvestment programs, stimulated by tax deferrals, is expected to exceed 2.5 million shares. We will balance the remainder, as advantageously as possible, between long-term debt, preferred stock, and common stock. An agreement arrived at in 1981 with European banks will offer us additional flexibility.

Looking further ahead, we can see the end of heavy outside financing and rate increases when Clinton is completed and planned commercial operation begins. Then, we believe, both our stockholders and our customers will benefit from the construction and financial policies that have guided us for the last ten years.

These and other matters are reported in detail on the following pages.

Sincerely,

Wendell J. Kelley

Wendell J. Kelley
Chairman and President

EARNINGS, REVENUES, AND SALES

Earnings per common share for 1981 were $2.84 compared to $2.87 per share earned in 1980. The major factors that contributed to preserving our financial position were the electric rate increase authorized in July, 1981 by the Illinois Commerce Commission and increased interchange sales. However, earnings per share reflect a decrease in sales of both kilowatt-hours of electricity and therms of gas, higher operating costs, and higher capital costs for our construction program.

Operating revenues increased 9.2 per cent over 1980, to $964.3 million. In 1981 electric and gas revenues increased 9.4 per cent and 8.6 per cent, respectively. Electric revenues were $621 million and reflect the 1981 rate increase and the recovery of increased fuel costs. The increase in gas revenues to $343.3 million resulted mainly from the recovery of higher natural gas costs.

Kilowatt-hour sales of electricity decreased 1.9 per cent, following a 1.8 per cent increase in 1980 over 1979. Moderate weather conditions, compared to an abnormally hot summer the previous year, and conservation resulted in a 6.6 per cent decrease in sales to residential customers. Sales to industrial customers were up 0.7 per cent and commercial sales were down 1.7 per cent, reflecting economic conditions that affected all of our customer groups adversely. In addition, the strike by the United Mine Workers of America further reduced sales to several coal-producing customers. Net interchange sales of electric energy to other utilities increased about $15.2 million over 1980. The interchange sales were possible as a result of adequate coal supplies and the availability of generating units.

Gas therm sales decreased 3.4 per cent from 1980. Sales to residential and commercial customers decreased 6.9 per cent and 1.6 per cent, respectively, also reflecting milder weather in 1981 and conservation efforts. Industrial sales increased less than 1 per cent, due principally to increased supplies of gas made available during 1979 and 1980 but adversely affected by poor economic conditions.

Robert J. Burow
Consultant and retired Publisher
The Commercial-News
Danville, Illinois
Elected to the Board in 1972

FINANCINGS

The financing of our 1981 construction expenditures came from the sale of three million shares of common stock ($48.2 million), the sale of stock through various reinvestment and stock purchase plans ($45.1 million), and the sale of nuclear fuel to a 50 per cent-owned affiliate ($39.8 million). The remainder of our construction funds came from short-term borrowings and internally generated funds.

On May 13, three million shares of common stock were offered to the public by a group of underwriters at a price of $16.875 per share. Proceeds to the Company were $16.055 per share, or $48.2 million.

The Automatic Reinvestment and Stock Purchase Plan, the

Grover J. Hansen
President and Chief Operating Officer
First Federal Savings and Loan Association of Chicago
Elected to the Board in 1981

Employees Stock Ownership Plan, and the Tax Reduction Stock Ownership Plan and Trust provided about $45.1 million from the sale of 2,579,837 shares of new common stock. These plans have provided $117.4 million of new capital since their inception. There were about 13,400 security holders participating in the Automatic Reinvestment and Stock Purchase Plan for the November, 1981 dividend. The number of security holders participating in the February, 1982 dividend increased by about 4,200, primarily due to changes in the federal income tax laws which have made the Reinvestment Plan even more attractive. The Plan provides for the purchase of shares through the reinvestment of dividends and interest at 95 per cent of market price. Based on changes in federal income tax laws, individual stockholders who reinvest dividends in common stock from 1982 through 1985 may defer payment of income taxes on such dividends up to $750 a year ($1,500 on a joint return). The proceeds from the sale of shares received from dividend reinvestment during this period will be taxed as a capital gain, providing the shares have been held for more than one year.

We sold our investment of $39.8 million in nuclear fuel in February, 1981 to Illinois Power Fuel Company, an affiliate formed to finan[illegible]rt of the fuel for Clinton power station Unit 1. We ow[illegible]ent of the fuel company, from which we will lease mos[illegible] our nuclear fuel.

We took measures in 1981 to prepare for the option of issuing debt in the European financial market. On October 1[illegible] we formed a foreign financing subsidiary, IPF (Illinois Power Finance) Company N.V., in the Netherlands Antilles to be the issuer of Euro-bonds should that financing option be selected. In December, 1981 we increased our lines of credit by establishing a $50 million three-year revolving credit agreement with 13 major European banks.

In the first quarter of 1982 we expect to replace our $140 million line of credit with four Chicago banks with a $180 million six-year credit facility with the same banks. The agreement will provide for a three-year revolving credit facility with an annual renewal option and with a provision for conversion to a three-year term loan.

These actions, domestically and abroad, provide additional financing flexibility during uncertain economic conditions.

We estimate construction requirements for 1982 of $410 million. We anticipate approximately $285 million of additional outside financing.

RATES

The Illinois Commerce Commission granted us a 19.9 per cent increase in electric rates on July 1. This will result in additional revenues of $104 million a year, 82 per cent of what we had requested. The order authorized an 11.47 per cent rate of return for electric operations. We did not ask for an increase in gas rates.

The order allowed $375 million of construction work in progress (CWIP) related to the Clinton power station to be included in our electric rate base. This represents 32 per cent of our investment in the Clinton power station as of December 31, 1981.

Donald E. Lasater
Chairman of the Board and
Chief Executive Officer
Mercantile Bancorporation Inc.
St. Louis, Missouri
Elected to the Board in 1981

The Commission noted that "even with this amount of construction work in progress included in rate base, Respondent's (Illinois Power's) rates, particularly its residential rates, will continue to be among the lowest available to ratepayers in this state".

The authority of the Commission to allow the inclusion of CWIP in the rate base of our 1979 rate case was challenged unsuccessfully in the Circuit Court of Champaign County, Illinois. The lower court's decision was upheld by the Appellate Court on December 30, 1981.

We filed a request in February, 1982 for an increase in our electric and natural gas rates. If approved, the proposed increase of 19.9 per cent in electric rates would provide additional annual revenues of $141 million. The proposed increase of 9.7 per cent in gas would provide additional annual revenues of $50 million. Using a new Commission policy which permits the filing of forecasted test years, we based our request on a 1983 test year. We requested an 18 per cent rate of return on common stock equity, and that a total of $875 million of CWIP be included in the electric rate base.

This filing requests some changes in both electric and gas rate design. Revisions to present electric rates include the expansion of our residential demand metered time-of-day rate to additional customers and the addition of a time-of-day rate for our larger general service customers. Proposed gas rate design revisions include restructuring of commercial/industrial rates.

The Commission is allowed 11 months to issue a decision. Accordingly, we expect an order in January, 1983.

On January 20, 1982 we filed with the Commission a new fuel adjustment clause for electric service to become effective March 1, 1982. The new clause conforms to the uniform fuel adjustment clause recently approved by the Commission to be used by all electric utilities in Illinois. This fuel adjustment clause provides for the recovery of purchased power costs and nuclear fuel costs not allowed in the existing fuel adjustment clause.

SYSTEMS OPERATIONS

ELECTRIC SERVICE AND FUEL SUPPLY

The annual firm peak demand on our system was 1.6 per cent lower than in 1980, due mainly to reduced use of air conditioning. The firm demand was 3,099,666 kilowatts, on July 13.

The 1980-81 winter peak on our system was 2,472,000 kilowatts, 5.2 per cent higher than the record peak established the previous year. Electric heat is becoming a more important factor in winter use of electricity. It was installed in about 70 per cent of commercial expansion in 1981 and in more than 65 per cent of new housing.

Our generating system's efficiency ranked 13th among the 100 leading investor-owned electric utilities, according to an *Electric Light and Power* report. Also, the availability of our generating system is above the industry average, tabulations of the National Electric Reliability Council show. The operation and maintenance costs of our generating plants are the lowest of all Illinois investor-owned electric utilities. We are currently making further

improvements in our management system to maintain this standard.

Coal accounted for 98.7 per cent of the fuel we used to generate electricity. Oil, gas, and hydro accounted for the remainder. We used 7.3 million tons of coal in five power plants. About 5.5 million tons, or 75.7 per cent, came from Illinois mines. During the United Mine Workers of America strike from late March to early June, we had enough coal to avoid curtailment of electric service to customers. We have long-term contracts which, with extension options, will provide about 151 million tons of coal. Based on 1981 usage, this is enough to last more than 20 years.

At our Clinton power station we will use uranium purchased from the Kerr-McGee Nuclear Corp. and enriched by the Department of Energy. General Electric Company is under contract to provide the initial core load and to complete preparation of uranium for use as reactor fuel for the next 15 years. Changes made in 1980 in the fuel load schedule for Clinton will result in deferred delivery dates for some of the uranium. We are making progress in extending future deliveries to match more closely the anticipated requirements.

GAS SERVICE AND SUPPLY

Sales of natural gas in a 24-hour period reached a record high level of 759,049,000 cubic feet on February 11, 1981. This is slightly higher than the peak gas sendout during the severe winter of 1976-77. The 1981 record was surpassed on January 10, 1982 when a severe Arctic storm covered our territory and 857,324,000 cubic feet of natural gas was delivered to our customers.

The outlook for future gas supplies is encouraging. Our gas pipeline suppliers are able to fulfill all of our needs. For the first time since 1970, we were able in April to provide gas service to all applicants on the waiting list and to make gas available upon request. "Firm" gas was offered to all interruptible customers, and most accepted.

Our marketing efforts included meetings with our industrial customers to discuss long-range availability of gas, the status of the Natural Gas Policy Act, future pricing policies, and proposals to decontrol prices. We also are stressing the availability of natural gas to residential and commercial customers now using propane and oil for space heating.

Eva Jane Milligan
Senior Vice President,
General Personnel Manager
Marshall Field & Co.
Chicago, Illinois
Elected to the Board in 1980

ENVIRONMENTAL ACTIVITIES

We have all necessary operating permits and equipment to meet air, water, and solid waste regulations. We appealed unreasonable and unnecessary provisions of three water quality permits; progress on the appeals has been in our favor. The Illinois Pollution Control Board agreed that operation of one generating unit at Clinton power station will not cause harmful lake temperatures; therefore, installation of supplemental water cooling equipment is unnecessary. The U.S. Environmental Protection Agency is considering a rule change that will allow Baldwin power station to continue to burn Illinois coal as at present.

We continued participation in the Allis-Chalmers Kilngas process in our search for environmentally sound ways to use high-sulfur Illinois coal. We made the second payment of a five-year, $5.5 million commitment as our share of construction and demonstration

costs of the Kilngas process to convert high-sulfur coal into low-Btu gas for generating electricity. The $135 million demonstration plant, under construction at our Wood River power station, is also being funded by Allis-Chalmers, the State of Illinois, Gilbert Associates, and 11 other utilities. Construction is on schedule to be finished in late 1982, when testing will begin.

Congress is considering several bills on "acid rain" which call for reductions in sulfur emissions at coal-fired power plants in the Midwest. On behalf of the electric utility industry, we presented testimony to Congress that costly power plant emissions schemes to control "acid rain" are totally unjustified until scientific and policy questions about the phenomenon are resolved.

Keith R. Potter
Retired Vice Chairman
International Harvester Company
Easton, Maryland
Elected to the Board in 1973

CUSTOMER SERVICES

We conducted programs to keep and attract new jobs in our territory and to help our residential, commercial and industrial customers use energy more efficiently.

We provided industrial development training to business, government, and community leaders of three more cities during the year. This program, the only one of its kind in Illinois, helps local people promote the advantages of their communities to industry. In five years, more than 70 per cent of the industrial growth and expansion in our service area has occurred in the 26 communities that have used the program.

While economic conditions were adverse in 1981, nine companies built new manufacturing facilities and 27 companies expanded at existing locations in our area. This growth added 1.9 million square feet of building space and created 980 jobs.

To help keep businesses in our territory, we provided information about community assets to 1,000 manufacturers and small companies in a 13-county area of Southwestern Illinois.

We expanded our energy conservation programs for residential, commercial and industrial customers. We have now conducted about 80,000 residential and more than 3,000 business energy audits to show our customers how to keep bills down through conservation.

We also conducted our fifth annual conference on energy efficiency for commercial and industrial customers; sponsored an energy management seminar for hospital personnel; conducted energy audits of hospitals; and sponsored agri-energy seminars in 18 communities for farm customers.

We cooperated with governmental agencies that provide residential customers with financial assistance to meet rising utility bills, and we worked within Illinois Commerce Commission rules to avoid hardship disconnections during winter months.

We continue to be proud of the efficient performance of our 4,000 employees who provide the services to our customers. Our reasonable prices are possible because of this efficiency. During 1981, the Company and its 13 local unions negotiated three-year contracts covering wages and working conditions for 2,850 employees.

CONSTRUCTION

We spent $349.5 million in 1981 for construction activities, including $273.6 million for Clinton power station Unit 1, $56.9 million for other electric facilities, and $19 million for gas facilities.

Construction of new electric facilities include about 25 miles of 138,000-volt and eight miles of 34,500-volt lines. We completed rebuilding of 14 miles of 138,000-volt, 33 miles of 69,000-volt, and 13 miles of 34,500-volt lines.

We extended gas distribution mains by 42.6 miles and replaced another 91 miles.

At Baldwin power station we began work on a new fly ash storage bin scheduled for completion in early 1982. It will enable us to collect and sell fly ash from Baldwin Unit 3.

We completed a new office and operations building in the Trenton district and expanded the service unit building in Bloomington to include our customer service activities.

Construction is underway on our new central electric and gas dispatch center in Decatur. The first remote terminals for the Supervisory Control and Data Acquisition (SCADA) System have been installed. They eventually will be located in all major electric and gas substations. The building, which will house the master station equipment, is expected to be completed by the end of 1982. When placed in service during 1983, the new system will represent the most modern control technology available. It will enable us to respond immediately to major system outages, to dispatch electric generation more economically, to coordinate company-to-company power interchange more effectively, and to utilize our gas supply in the most effective manner.

Our estimated 1982 construction costs are about $410 million of which $300 million are for the Clinton power station Unit 1, $55 million for other electric projects, and $20 million for gas projects. The construction budget also includes about $35 million for investment in nuclear fuel. Construction started in 1982 on 35 miles of 345,000-volt line to provide another interconnection with Central Illinois Public Service Company and to reinforce transmission to our Champaign and Danville service areas.

Five-year construction costs from 1982 through 1986, including about $355 million for completion of the Clinton power station Unit 1, are expected to be $825 million. This five-year estimate includes no expenditures for future generating facilities after Clinton power station Unit 1. Our current load projections indicate that it will not be necessary to make a decision for several years regarding the type and timing of additional generating capacity. The estimate does not include expenditures that might be necessary due to future regulatory requirements.

Boyd F. Schenk
President and Chief Executive Officer
Pet Incorporated
St. Louis, Missouri
Elected to the Board in 1977

CLINTON CONSTRUCTION

On December 1 we increased the cost estimate for the Clinton power station Unit 1 by 5 per cent to $1.8 billion. Our share of the new estimate is $1.5 billion for 80 per cent ownership of the plant. Soyland Power Cooperative, Inc. and Western Illinois Power Cooperative, Inc., between them, own 20 per cent of the plant.

The new cost estimate is an increase of $86.2 million over the estimate made in December, 1980. The main factors causing the increase are the impact of existing regulations and new interpretations of regulations; additional equipment and testing of equipment, including that required as a result of the Three Mile Island accident; and an increased commitment to quality assurance and safe operation of the plant.

The Clinton cost estimate is $1,915 per kilowatt. This is considerably lower than the average of the six other single-unit boiling water reactors under construction in this country; their average estimated cost per kilowatt is $2,567. The Clinton project has experienced the least percentage increase in cost estimate and least delay in completion schedule among the seven.

At the end of 1981, our accumulated expenditures for Clinton were $1.133 billion, and construction of the plant was 83 per cent complete. Although construction was 115 days behind schedule at the end of 1981, we are working to catch up and have not revised the schedule for completion of the plant. Fuel load is scheduled for January, 1983, and commercial operation in August, 1983.

Structural work and the construction of large bore piping is essentially complete. Significant milestones achieved during the year include completion of construction work and testing of the main switchgear within the plant and the plant service water system; completion of containment dome concrete construction and condenser construction; assembly of the turbine generator; and installation of the power generation control panels.

About 70 per cent of the staff to operate the plant has been hired; their training is on schedule.

During 1981, about 653,000 people visited the recreational facilities being developed around the 5,000-acre lake. The recreation facilities are managed and maintained by the Illinois Department of Conservation.

Richard P. Stone
Grain and seed farm operator
Springfield, Illinois
Elected to the Board in 1978

MERGER WITH MT. CARMEL PUBLIC UTILITY CO.

We signed a merger agreement on November 20 with Mt. Carmel Public Utility Co. which serves approximately 5,500 electric customers and 3,500 gas customers in Southeastern Illinois.

We would issue approximately 190,000 shares of our common stock, through a wholly-owned subsidiary, I. P. Inc., to accomplish the merger.

Regulatory approval of this transaction is needed, and we have filed applications with the Illinois Commerce Commission and the Federal Energy Regulatory Commission. A registration statement has been filed with the Securities and Exchange Commission.

RESEARCH AND DEVELOPMENT

In 1981 we budgeted $3.9 million on research to meet future needs of our customers. This included studies of our needs for new electric and gas facilities and research for technologies of the future, and the Kilngas project activity described in Environmental Activities.

Our search for technologies included both our own independent study and support of industry-wide efforts. Major expenditures in 1981 included $2.0 million for Electric Power Research Institute (EPRI) projects and $1.1 million for the Kilngas project. Working with area utilities, EPRI and the Department of Energy, we completed in 1981 a three-year study of underground compressed energy storage technology.

MANAGEMENT

RESPONSIBILITY FOR INFORMATION

Gordon R. Worley
Executive Vice President—Finance
Montgomery Ward & Co., Incorporated
Chicago, Illinois
Elected to the Board in 1979

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

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

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

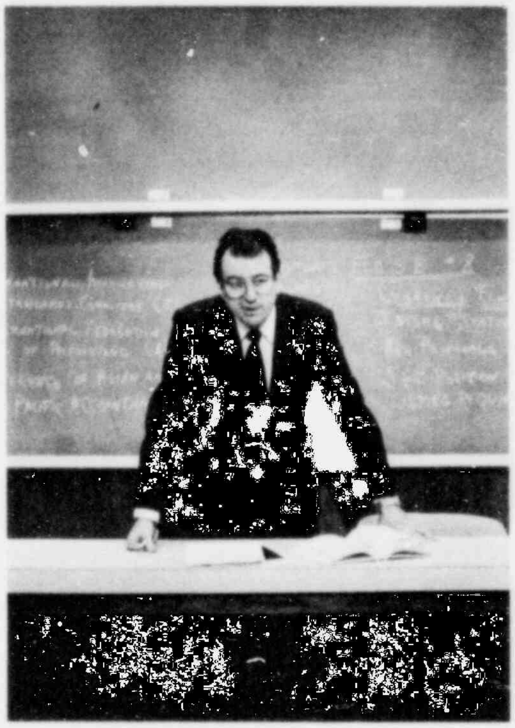
The Audit Committee of the Board of Directors, consisting solely of non-management directors, meets periodically with management, the internal auditors, and the independent accountants to discuss accounting, auditing and financial reporting matters. To assure their independence, both Price Waterhouse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

BOARD OF DIRECTORS AND OFFICERS

At our annual meeting on April 16, 1981, the stockholders elected two new directors of the Company and re-elected ten. The new directors are Mr. Grover J. Hansen, president and chief operating officer of First Federal Savings and Loan Association of Chicago, Illinois, and Mr. Donald E. Lasater, chairman of the board and chief executive officer of Mercantile Bancorporation Inc., St. Louis, Missouri. They succeeded retiring board members Mr. George E. Hatmaker and Mr. John H. Leslie, directors since 1971 and 1965, respectively.

David F. Meek, Secretary-Treasurer of the Company, retired on June 1 after almost 44 years with the Company. His responsibilities were divided between Vice Presidents Arthur E. Gray, who was elected Vice President and Secretary, and Larry D. Haab, who was elected Vice President and Treasurer.

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



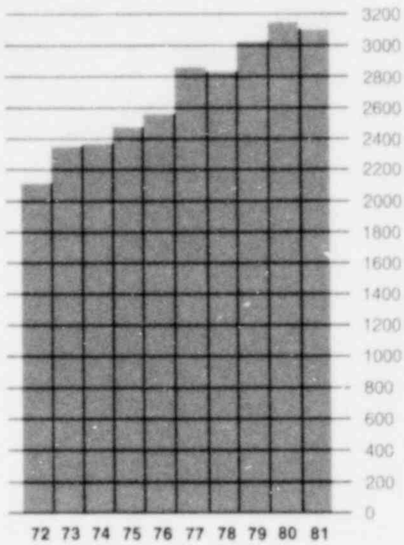
Vernon K. Zimmerman
Dean, College of Commerce and Business Administration
University of Illinois
Urbana, Illinois
Elected to the Board in 1973

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

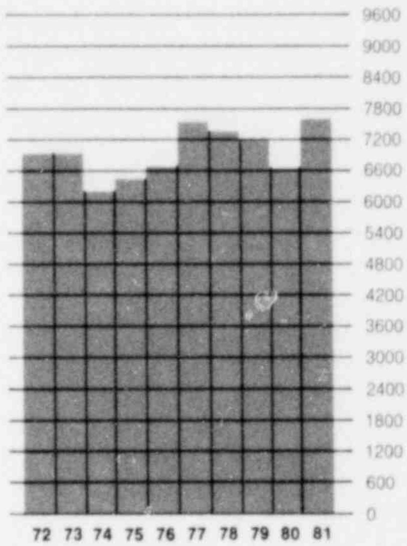
AUDIT COMMITTEE—This committee, which consists entirely of non-management directors, recommends the appointment of the Company's independent accountants, confers with the independent accountants, and reviews the scope of the audit, the results of auditors' examinations, and the activities of the Company's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

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

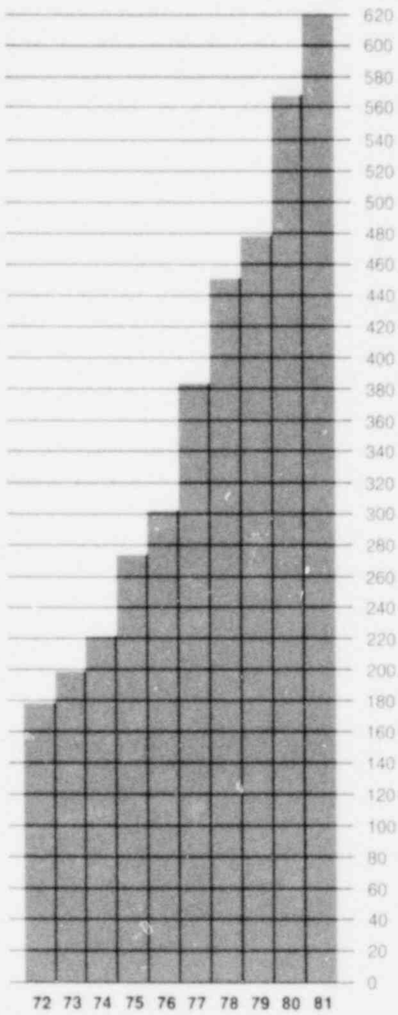
Electric Peak Loads
(IN THOUSANDS OF KW)



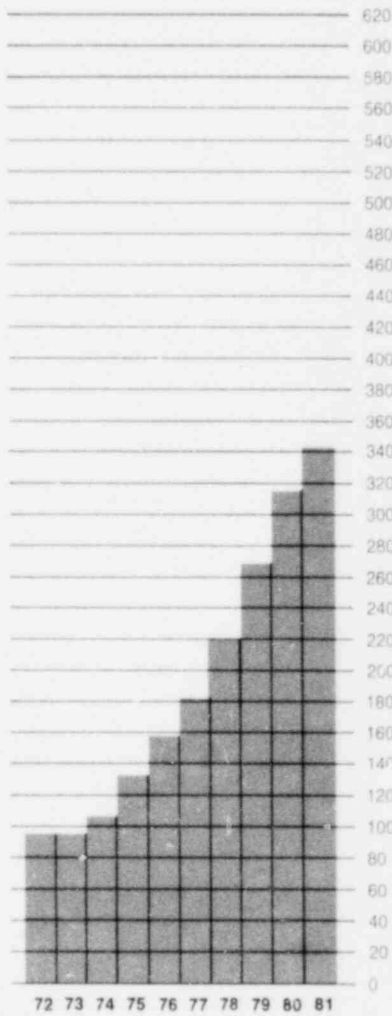
Gas Peak Loads
(IN THOUSANDS OF THERMS)



Electric Revenues
(MILLIONS OF DOLLARS)



Gas Revenues
(MILLIONS OF DOLLARS)



CONSUMER COMMUNICATIONS

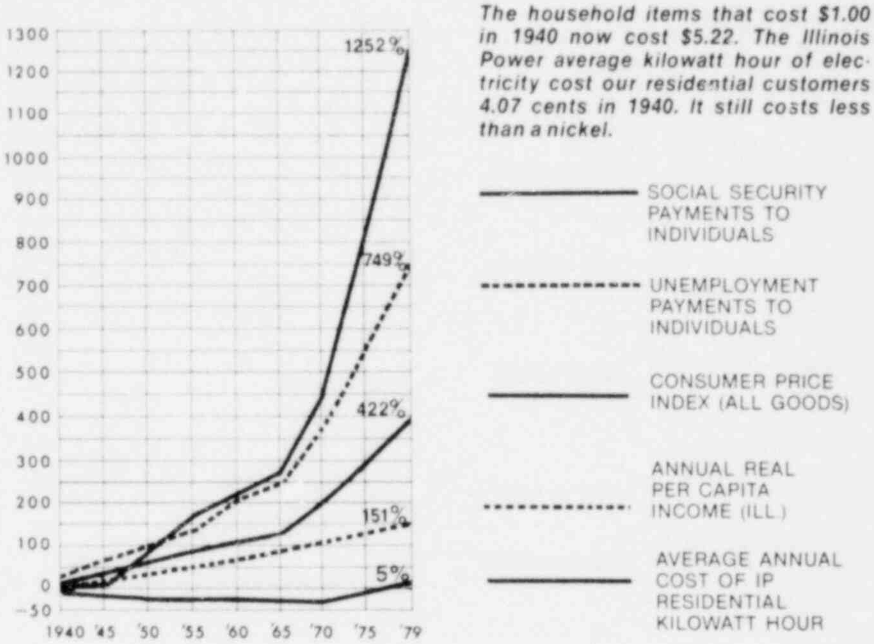
Through newspaper advertising and direct mail, we sent messages to our customers on the cost of electricity, the benefits of conservation, help with high bills, and other subjects.

Reprints on this page include a chart from a booklet on our 1980-81 rate case, a newspaper ad, and a page distributed to government and civic leaders.

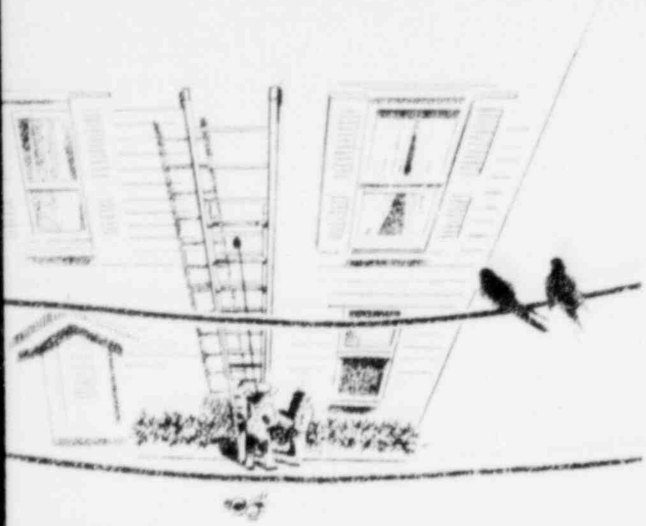
The ads on the adjoining page are typical of subjects covered in our 1981 newspaper advertising.

ELECTRICITY– AFFORDABLE THEN AND NOW

The household items that cost $1.00 in 1940 now cost $5.22. The Illinois Power average kilowatt hour of electricity cost our residential customers 4.07 cents in 1940. It still costs less than a nickel.



Electricity is ***still*** a bargain



Eyes up!
when you work near power lines

Overhead power lines carry a lot of electric current. When you're working or playing outdoors, the first safety rule is "Eyes up!" If there's a power line around, treat it with respect. A metal ladder, a metal pole, a grain auger or a tree trimmer can become a conductor when they touch a power line. If you're on the other end, the consequences could be serious, possibly fatal.

For the same reasons, don't fly kites or model planes near power lines. And please note this: almost any object—wood, plastic or rubber—can become a conductor when it's wet.

For outdoor safety it's "eyes up" when there's a power line nearby.

Do you know someone who may have trouble paying utility bills this winter?

Illinois Power wants to help

Illinois Power Company asks your cooperation in helping us get this important message throughout the territory we serve. This winter some of our customers may have difficulty in meeting their utility bills.

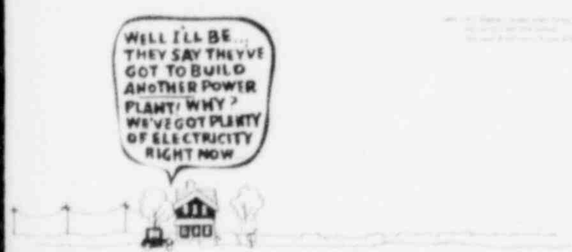
We want to help any customer with a legitimate reason for being unable to pay their gas or electric bill.

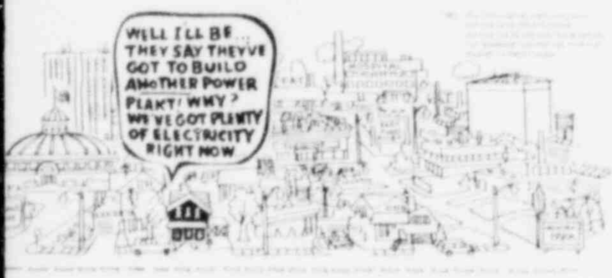
See us *now* if you're behind in your utility payments or may have difficulty making payments this winter.

We will work with our customers to arrange a reasonable payment plan. We can set up Budget Billing to level out monthly payments throughout the year. Or we can direct a customer to local agencies who may have funds to help meet utility payments in emergencies.

We will do everything possible to prevent shutting off anyone's service for non-payment.

So if you—or anyone you know—may have a problem paying utility bills this winter, please contact our Customer Service Representative now. We want to help—and we can.

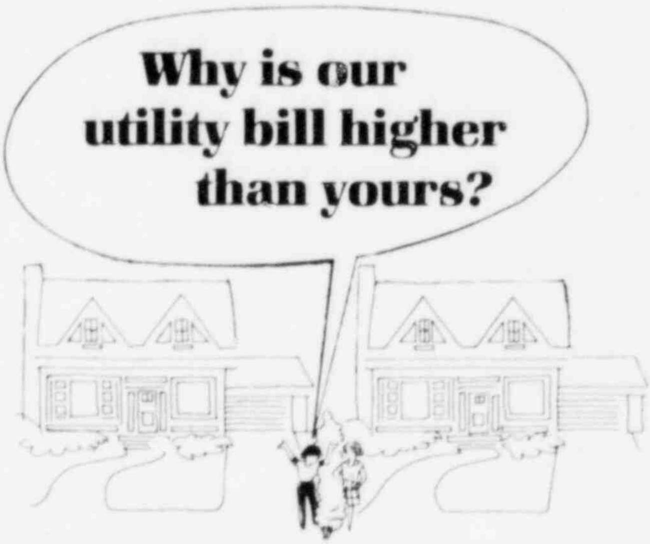




For generations some people have said that no more electric power plants are needed. If we and the rest of the utility industry had heeded those words, electricity today would be a precious commodity that would have to be closely rationed. Many of the good jobs and labor saving devices we take for granted simply would not exist.

We have an obligation to see to it that the next generation will have ample electric energy too.

Remember, years ago somebody looked ahead and built the power plants that supply you today.



Why some bills are higher than others

Two homes may look alike and even have the same floor plan, but there can be a big difference in the way they use energy.

The number of persons in the household and the ages of the family members have a bearing on energy usage, of course. A large family with young children naturally will use more energy for laundry, cooking and water heating than a smaller family with older children.

But any household can operate comfortably with less energy by following the suggestions at right.

Ways to live well with less energy

- Weatherproof your home with adequate ceiling insulation, storm sash, weather stripping and caulking around all outside openings.
- Do a little planning to use appliances less frequently. Use the dishwasher and laundry equipment with full loads. Use the oven only when it's needed, not for warming food. When using top burners, use pans that fit.
- Conserve energy by setting your thermostat down at night, by reducing the water heater temperature a few degrees, by opening the refrigerator door as infrequently as possible.

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

Reference is made to the Financial Statements and Electric and Gas Operating Statistics for information concerning financial condition and results of operations. The factors having significant impact upon financial condition, changes in financial condition and results of operations since January 1, 1979 are as follows:

Liquidity and Capital Resources

During the three-year period, 1979 through 1981, capital requirements for construction were $291.6 million, $315.6 million and $349.5 million, respectively. In addition bond refunding required $25.0 million during the period.

The major item of construction is the Clinton nuclear power station which accounted for approximately 72% of the total construction expenditures in this three-year period. Our 80% ownership interest in the Clinton nuclear power station Unit 1 is estimated to cost $1.5 billion and will require additional capital expenditures of about $355 million prior to scheduled completion in 1983. These expenditures are about 43% of the $825 million projected capital requirements for the five-year period 1982-1986.

Cash flow from operations has provided sufficient liquidity to meet ongoing operating requirements and to provide additional funds for the construction program. Sources of capital during the three-year period have been composed of approximately: 32% through the issuance of long-term debt, 41% through the sale of common and preferred stock, and 27% provided from operations. Commencing with the commercial operation of Clinton Unit 1, we anticipate a reduction in the need for external capital.

During this three-year period, we used short-term borrowings to meet interim cash requirements. These short-term obligations were partially repaid from long-term financings. At December 31, 1981 there was $70.5 million of outstanding short-term borrowings.

Lines of credit with commercial banks are maintained to meet interim cash requirements. At December 31, 1981 we had a total line of credit of $347.5 million which we expect to increase in the first quarter of 1982 to $393 million. Included in our line of credit is $125 million which is intended to support our commitment to IP Fuel Company.

In addition to the above lines of credit, we established a foreign financing subsidiary, IPF (Illinois Power Finance) Company N. V. in October, 1981. The purpose of this new subsidiary is to provide the option for the issuance of Euro-bonds.

At December 31, 1981, based upon the most restrictive earnings test contained in the Company's Mortgage and Deed of Trust, approximately $171 million of additional first morgtage bonds could be issued at an assumed interest rate of 14%.

Obtaining the future capital necessary for our ongoing construction program will require the Company to achieve and maintain the financial standards necessary for flexible access to financial markets. Our bonds and preferred stock are currently rated double A and our common stock is rated single A-. To preserve these financial ratings, which will result in lower financing costs and thereby benefit both customers and shareholders, we filed a request for an increase in electric and gas rates with the Illinois Commerce Commission in February, 1982. If granted, the increase would provide additional annual electric and gas revenue of about $141 million and $50 million, respectively, commencing in January, 1983.

As a part of this rate filing, we have requested the inclusion of an additional $500 million of CWIP in electric rate base. While we capitalize an allowance for funds used during construction (AFUDC), this non-cash credit to income does not generate immediate cash to pay the related financing costs. The inclusion of additional CWIP in our rate base will provide additional cash to help pay the financing costs, and will result in lower non-cash credits to income through AFUDC.

This additional rate relief is important to maintain our financial strength. Without the above rate increase, it is foreseeable that we will be unable to maintain the interest coverage ratios required by the Mortgage and Deed of Trust for the issuance of additional first mortgage bonds. An interest coverage deficiency could necessitate the use of alternative and potentially-higher cost financing methods in order to provide the projected capital requirements associated with both an ongoing construction program and other working capital needs.

Results of Operations

Electric Operations—Electric revenues increased 37.3% from the beginning of 1979 through 1981 primarily resulting from rate increases, the recovery of increased fuel costs, and the net impact of changes in kilowatt-hour sales. The components of the annual revenue increases were approximately as follows:

	Twelve Months Ended December 31,		
	1981	1980	1979
Revenue increase (Thousands of dollars)	$53,612	$88,304	$26,845
Components of revenue increase (%)—			
Rate increases	88%	53%	12%
Recovery of increased fuel costs	19	27	43
Kilowatt-hour sales	(7)	20	45
	100%	100%	100%

Revenue growth from rate changes reflects general retail rate increases of 10.9% effective November, 1979 and 19.9% effective July, 1981, as granted by the ICC.

Kilowatt-hour sales, which increased 4.8% in 1979 and 1.8% in 1980, declined 1.9% in 1981. This trend towards declining annual sales, or nominal growth, reflects the impact of the current economy and customer conservation efforts combined, and changes in seasonal weather conditions such as we experienced with a mild 1981 summer as contrasted to the abnormally hot summer of 1980. The most significant portion of the 1981 sales decline occurred in the residential customer category which had a 6.6% decrease.

We have experienced increases in fuel for electric plants of about $18.5 million in 1979, $15.0 million in 1980, and $5.0 million in 1981. Changes in fuel costs are affected by kilowatt-hour generation, fuel price increases and the availability of all generating units. Kilowatt-hour generation, which increased 6.9% in 1979, declined in both 1980 and 1981 by 3.1% and 3.8%, respectively. Coal, which is our primary fuel, constituted about 95.9%, 97.3% and 98.7% of our fuel used for generation in 1979, 1980 and 1981, respectively. The weighted average cost per ton of coal burned increased about 5.9%, 13.4% and 6.7% in 1979, 1980 and 1981, respectively.

In 1979, the fuel cost increase was partially offset by the greater use of lower cost generating units. Further, the commercial operation of Havana power station Unit 6, beginning in June, 1978, increased our coal-fired generating capacity which is lower in cost as compared to either gas or oil. Fuel costs for 1981 reflect the impact of the United Mine Workers of America strike (March 27 through June 7) during which period it was necessary to utilize our higher cost generating units as a result of the unavailability of coal deliveries to the Baldwin power station, our most efficient generating station. In addition, the 1981 increase in fuel costs and related decrease in generation reflects a $12.4 million increase in power purchased for resale as a result of the availability of additional power from Electric Energy, Inc.

Sales of interchange power fluctuate as a direct result of market demand based upon the needs of other utilities and the availability of our generating capacity to serve those needs. The credit for power interchanged net increased about $11.4 million in 1979, decreased about $18.0 million in 1980 and increased about $15.2 million in 1981. Overall, during this period there existed a favorable market for these "opportunity sales" of interchange power and our generating capacity was available when needed.

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

	Twelve Months Ended December 31,		
	1981	1980	1979
Revenue increase (Thousands of dollars)	$27,310	$43,244	$52,963
Components of revenue increase (%)—			
Recovery of increased gas costs	129%	100%	82%
Rate increases	—	36	1
Therm sales	(29)	(36)	17
	100%	100%	100%

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

The increase in gas supply, changes in economic and weather conditions, and customer conservation efforts were the major factors affecting therm sales during this period, which increased 1.6% in 1979, but decreased 6.3% and 3.4% in 1980 and 1981, respectively.

The cost of gas purchased for resale increased $45.8 million, $27.7 million and $38.4 million in 1979-

Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

1981, respectively. The annual cost increases were primarily attributable to higher prices paid for gas. The average cost per therm increased 29.6%, 20.2% and 22.8% for 1979, 1980 and 1981, respectively.

Other Expenses and Taxes—Since 1978 the Company has experienced increases in other operating expenses, maintenance and general taxes as follows:

	1981	1980	1979
	(Thousands of Dollars)		
Other operating expenses	$9,567	$12,097	$3,068
Maintenance	4,549	2,419	3,809
Depreciation	2,196	1,668	4,398
General taxes	6,348	17,164	900

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

During the above three-year period, inflation, as measured by the average Consumer Price Index, increased about 11.3%, 13.5% and 10.4% in 1979, 1980 and 1981, respectively.

During the period we continued to exert stringent budget control over expenses. In addition, through both the timing and scope of our rate requests, we have attempted to reduce the financial impact of inflation. In ICC rate orders received in both November, 1979 and July, 1981 we were granted a request for an adjustment to other operating and maintenance expenses to provide for partial recovery of such expenses at an inflationary level projected through the first year in which new rates would be in effect. In the February, 1982 rate filing, we have requested the use of a completely forecasted test year which will more fully reflect the impact of inflation in our rates.

The major item affecting depreciation expense during this period was the completion of Havana Unit 6 in 1978.

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

The Company's effective combined federal and state income tax rate has been 35.1%, 36.2% and 34.4% for the years 1979, 1980 and 1981, respectively. For a detailed analysis of income tax components, see Note 5 of the "Notes to Financial Statements".

Other Income—Total allowance for funds used during construction (AFUDC) increased approximately $9.8 million, $12.5 million and $10.2 million during 1979 through 1981. Increases in AFUDC relate to the AFUDC rate, the amount of construction work in progress (CWIP) and discontinuance of the capitalization of AFUDC on CWIP amounts included in rate base. During the three-year period amounts of CWIP included in rate base were related to Clinton Unit 1 and amounted to $97.1 million from November, 1979 through June, 1981, and $375 million since July, 1981. The increased amounts of AFUDC in 1980 and 1981 also reflect increases in the AFUDC effective after-tax rate which was increased from 7% to 7¾% beginning May 1, 1980, and from 7¾% to 8¾% effective July 1, 1981. The increased AFUDC rates reflect the increased cost of financing our ongoing construction program.

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

Interest Charges—Interest charges have increased $9.9 million, $13.2 million and $10.4 million during 1979 through 1981, respectively. These increases primarily reflect the $225 million of long-term debt issued during the period at a weighted average interest rate of 11.0%. During this period we retired $25 million of long-term debt with a weighted average interest rate of 2.8%.

Earnings per Common Share—The increases in net income applicable to common stock in 1979 through 1981 resulted from the interaction of all the factors discussed herein, including the issuance of additional preferred stock. Changes in earnings per common share also reflect the increased number of common shares outstanding in each year. (See Notes 9, 10 and 11 in "Notes to Financial Statements").

Inflation

The high rates of inflation which have been experienced in recent years have an impact on our reported earnings, shareholders equity and other financial information that is not measured by traditional accounting methods. For supplementary information to disclose the effects of changing prices, see pages 32 and 33.

BALANCE SHEETS

December 31,	1981	1980
	(Thousands of Dollars)	
ASSETS		
Utility Plant, at original cost		
Electric (includes construction work in progress of $1,191,374,000 and $920,167,000, respectively)	$2,802,500	$2,481,189
Gas (includes construction work in progress of $5,829,000 and $6,949,000, respectively)	343,596	327,991
	3,146,096	2,809,180
Less—Accumulated depreciation	660,623	607,017
	2,485,473	2,202,163
Nuclear fuel in process	—	39,429
Acquisition adjustment (less amortization of $1,925,000 and $1,680,000, respectively)	2,007	2,253
	2,487,480	2,243,845
Investments and Other Assets	8,651	8,596
Current Assets		
Cash	11,070	10,441
Temporary cash investments, at cost, which approximates market	2,000	6,000
Accounts receivable (less allowance for doubtful accounts of $3,500,000 and $3,000,000, respectively)	72,522	63,866
Materials and supplies, at average cost		
Fuel	51,099	67,744
Gas in underground storage	31,286	17,388
Operating materials	23,290	22,743
Prepayments and miscellaneous accounts receivable	30,242	21,494
	221,509	209,676
Deferred Charges		
Unamortized debt expense	3,566	3,855
Other	1,289	1,219
	4,855	5,074
	$2,722,495	$2,467,191

December 31,	1981	1980
CAPITAL AND LIABILITIES		
Capitalization		
Common stock—		
No par value, 60,000,000 and 40,000,000 shares authorized, respectively; 40,087,688 and 34,507,851 shares outstanding, respectively, stated at	$ 665,921	$ 572,685
Retained earnings	197,762	183,060
Less—Capital stock expense	5,067	4,640
Total common stock equity	858,616	751,105
Preferred and preference stock	215,171	215,171
Redeemable preferred stock	36,000	36,000
Long-term debt	971,639	991,402
Total capitalization	2,081,426	1,993,678
Current Liabilities		
Accounts payable	86,106	65,014
Notes payable	70,500	—
Long-term debt maturing within one year	20,000	—
Dividends payable	29,947	25,648
Income taxes accrued	7,832	9,681
General taxes accrued	28,500	25,039
Interest accrued	28,747	28,716
Other	21,230	12,866
	292,862	166,964
Other		
Accumulated deferred income taxes	193,461	173,221
Accumulated deferred investment tax credit	154,746	133,328
	348,207	306,549
Commitments (Note 7)		
	$2,722,495	$2,467,191

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

STATEMENTS OF INCOME

For the Years Ended December 31,	1981	1980	1979
Operating Revenues*			
Electric	$620,968	$567,356	$479,052
Gas	343,324	316,014	272,770
Total	964,292	883,370	751,822
Operating Expenses and Taxes			
Fuel for electric plants	245,626	240,601	225,621
Power purchased for resale	18,970	6,527	6,171
Power interchanged—net	(55,684)	(40,452)	(58,498)
Gas purchased for resale	257,427	218,998	191,296
Other operating expenses	95,195	85,628	73,531
Maintenance	44,731	40,182	37,763
Depreciation	60,031	57,835	55,967
General taxes	78,737	72,389	55,225
State income taxes—current	8,014	7,983	4,820
deferred (net)	3,239	3,169	2,090
Federal income taxes—current	32,215	27,210	14,231
deferred (net)	17,594	15,683	15,329
Investment tax credit—deferred (net)	21,419	23,071	21,958
Total	827,514	758,824	645,504
Operating income	136,778	124,546	106,318
Other Income			
Allowance for funds used during construction—			
All funds—prior to January 1, 1977	—	—	—
Other funds—after December 31, 1976	45,101	36,567	27,520
Miscellaneous—net	16,651	14,798	10,043
Total	61,752	51,365	37,563
Income before interest charges	198,530	175,911	143,881
Interest Charges			
Interest on long-term debt	82,318	72,952	62,005
Other interest charges	5,109	4,050	1,752
Allowance for borrowed funds used during construction—after December 31, 1976	(16,310)	(14,653)	(11,211)
Total	71,117	62,349	52,546
Net income	127,413	113,562	91,335
Preferred dividend requirements	19,897	19,069	15,699
Net income applicable to common stock	$107,516	$ 94,493	$ 75,636
Weighted average number of common shares outstanding during the period	37,843,513	32,906,017	27,979,606
Earnings per common share	$2.84	$2.87	$2.70
Cash dividends declared per common share	$2.405	$2.355	$2.28

* *Includes revenue related taxes added to customer billings in each of the years 1972 through 1981. In 1981, 1980 and 1979 these revenue related taxes were $23,162,000, $20,643,000 and $17,526,000, respectively.*

RETAINED EARNINGS

For the Years Ended December 31,	1981	1980	1979
		(Thousands of Dollars)	
Balance at Beginning of Year	$183,060	$168,553	$157,532
Net Income	127,413	113,562	91,335
	310,473	282,115	248,867
Less—			
Cash dividends—			
Preferred stock	19,897	19,419	15,699
Common stock	92,814	79,636	64,615
	112,711	99,055	80,314
Balance at End of Year	$197,762	$183,060	$168,553

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

1978	1977	1976	1975	1974	1973	1972
	(Thousands of Dollars)					
$452,207	$383,567	$303,066	$275,809	$221,126	$199,489	$177,209
219,807	183,820	153,595	133,142	108,789	94,953	95,445
672,014	567,387	461,661	408,951	329,915	294,442	272,654
207,082	148,553	123,782	88,725	63,013	41,408	34,470
5,505	8,664	7,092	5,591	4,727	4,179	3,671
(47,078)	(30,855)	(51,484)	(29,522)	(18,321)	(10,547)	266
145,486	117,812	91,476	71,288	56,539	47,728	46,469
70,463	59,827	53,295	49,631	41,083	37,649	32,302
33,954	28,919	25,726	19,506	17,584	16,131	15,500
51,569	47,188	45,556	42,911	39,282	36,103	32,178
54,325	46,974	40,368	37,036	31,210	28,833	26,282
2,697	3,188	2,444	2,381	1,717	1,732	1,479
1,846	980	1,199	1,166	817	813	714
6,812	15,760	16,001	11,575	15,831	14,099	15,265
18,638	9,053	11,433	11,681	7,367	7,199	6,838
22,793	19,573	10,994	15,034	1,706	5,118	1,567
574,092	475,636	377,882	327,003	262,555	230,445	217,001
97,922	91,751	83,779	81,948	67,360	63,997	55,653
—	—	10,503	7,459	7,960	7,189	7,339
21,321	15,137	—	—	—	—	—
9,402	5,709	3,174	1,967	2,231	2,143	2,101
30,723	20,846	13,677	9,426	10,191	9,332	9,440
128,645	112,597	97,456	91,374	77,551	73,329	65,093
52,453	42,091	35,927	33,144	28,779	25,237	22,810
1,439	1,888	1,744	1,508	4,122	891	1,079
(7,608)	(5,046)	—	—	—	—	—
46,284	38,933	37,671	34,652	32,901	26,128	23,889
82,361	73,664	59,785	56,722	44,650	47,201	41,204
15,699	13,257	10,606	7,229	7,229	7,229	5,729
$ 66,662	$ 60,407	$ 49,179	$ 49,493	$ 37,421	$ 39,972	$ 35,475
24,302,139	22,521,013	20,369,958	18,277,397	16,544,110	15,940,000	14,887,945
$2.74	$2.68	$2.41	$2.71	$2.26	$2.51	$2.38
$2.28	$2.22	$2.20	$2.20	$2.20	$2.20	$2.20

Price Waterhouse

ONE MEMORIAL DRIVE
ST LOUIS, MO 63102
314 425-0500

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of Illinois Power Company:

In our opinion, the accompanying balance sheets and the related statements of income, of retained earnings and of sources of funds provided for gross property additions present fairly the financial position of Illinois Power Company at December 31, 1981 and 1980, and the results of its operations and the sources of funds provided for gross property additions for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles consistently applied. Also, in our opinion, the statements of income and of sources of funds provided for gross property additions for each of the seven years in the period ended December 31, 1978, which have been prepared from the applicable statements covered by our reports on each of those years, present fairly the financial information included therein. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

February 1, 1982

Price Waterhouse

STATEMENTS OF SOURCES OF FUNDS PROVIDED FOR GROSS PROPERTY ADDITIONS

For the Years Ended December 31,	1981	1980	1979
Funds Provided from Operations			
Net income	$127,413	$113,562	$ 91,335
Items not requiring working capital—			
Depreciation and amortization	62,659	59,967	57,653
Deferred income taxes—net	20,240	19,922	18,635
Investment tax credit—deferred (net)	21,419	23,071	21,958
Allowance for funds used during construction	(61,411)	(51,220)	(38,731)
Total funds provided from operations	170,320	165,302	150,850
Dividends on—Preferred stock	(19,897)	(19,419)	(15,699)
Common stock	(92,814)	(79,636)	(64,615)
Net funds provided from operations	57,609	66,247	70,536
Funds Obtained from External Sources			
Proceeds from sales of—Common stock	93,236	82,146	85,451
Preferred stock	—	36,000	—
Capital stock expense	(427)	(845)	(368)
Proceeds from sales of bonds	—	125,000	100,000
Proceeds from sale of Nuclear Fuel	39,810	—	—
Pollution control construction funds held by trustee	—	—	—
Proceeds from sale of ownership interests in the Clinton power station	—	—	—
Net increase (decrease) in notes payable	70,500	(34,145)	24,145
Retirement of bonds	—	(10,000)	(15,000)
Total funds obtained from external sources	203,119	198,156	194,228
Other Funds Provided (Used)			
Net decrease (increase) in working capital*	23,565	414	(11,048)
Miscellaneous—net	3,811	(474)	(835)
Total other funds provided (used)	27,376	(60)	(11,883)
Total funds from above sources	288,104	264,343	252,881
Allowance for funds used during construction	61,411	51,220	38,731
Gross property additions	$349,515	$315,563	$291,612
Decrease (Increase) in Components of Working Capital*			
Cash and temporary investments	$ 3,371	$ (3,406)	$ (5,146)
Accounts receivable	(8,656)	4,328	(11,673)
Materials and supplies	2,200	1,707	(19,228)
Accounts payable	21,092	(22,799)	27,781
Dividends payable	4,299	4,825	2,365
Accrued taxes	1,612	12,148	(3,455)
Interest accrued	31	7,202	3,286
Other—net	(384)	(3,591)	(4,978)
	$ 23,565	$ 414	$(11,048)

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

GROSS PROPERTY ADDITIONS AND RETIREMENTS

For the Years Ended December 31,		1981	1980	1979
Additions	—Electric	$330,470	$297,157	$270,806
	Gas	19,045	18,406	20,806
		$349,515	$315,563	$291,612
Retirements	—Electric	$ 7,420	$ 5,607	$ 5,748
	Gas	3,139	2,943	2,218
		$ 10,559	$ 8,550	$ 7,966

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

1978	1977	1976	1975	1974	1973	1972
(Thousands of Dollars)						
$ 82,361	$ 73,664	$ 59,785	$ 56,722	$ 44,650	$ 47,201	$ 41,204
53,003	49,761	49,845	44,810	41,216	37,532	33,351
20,275	14,099	12,632	12,847	8,184	8,012	7,552
22,793	19,573	10,994	15,034	1,706	5,118	1,567
(28,925)	(20,183)	(10,503)	(7,459)	(7,960)	(7,189)	(7,339)
149,503	136,914	122,753	121,954	87,796	90,674	76,335
(15,699)	(13,590)	(10,979)	(7,229)	(7,229)	(7,229)	(5,950)
(56,252)	(50,051)	(45,226)	(41,338)	(36,993)	(35,068)	(33,418)
77,552	73,273	66,548	73,387	43,574	48,377	36,967
67,870	3,788	63,712	47,256	27,894	—	43,306
—	50,450	50,100	—	—	—	35,177
(379)	(275)	(525)	(186)	(139)	—	(242)
100,000	118,700	100,000	—	58,500	60,000	—
—	—	—	—	—	—	—
2,999	(2,999)	—	—	—	—	—
33,926	42,855	27,199	—	—	—	—
10,000	—	(10,000)	(12,000)	19,000	(6,000)	8,000
(15,000)	—	(45,000)	—	—	—	—
199,416	212,519	185,486	35,070	105,255	54,000	86,241
7,345	(23,480)	(13,177)	7,378	(27,781)	4,546	(160)
(814)	1,371	965	(407)	(1,238)	(1,743)	5,523
6,531	(22,109)	(12,212)	6,971	(29,019)	2,803	5,363
283,499	263,683	239,822	115,428	119,810	105,180	128,571
28,929	20,183	10,503	7,459	7,960	7,189	7,339
$312,428	$283,866	$250,325	$122,887	$127,770	$112,369	$135,910
$ 22,231	$ (534)	$(17,997)	$ 1,996	$ (3,873)	$ 1,985	$ (2,278)
(10,466)	(3,632)	(8,313)	12,749	(25,792)	1,842	(4,077)
(14,253)	(24,868)	(11,149)	(9,134)	(11,944)	(1,348)	(3,685)
10,884	9,832	6,429	6,983	3,186	(2,896)	8,321
1,650	1,528	2,533	1,210	962	—	1,487
178	(4,466)	5,529	(6,330)	5,101	4,094	(1,023)
3,711	692	6,520	(402)	2,827	379	(2)
(6,590)	(2,032)	3,271	306	1,752	490	1,097
$ 7,345	$(23,480)	$(13,177)	$ 7,378	$(27,781)	$ 4,546	$ (160)

1978	1977	1976	1975	1974	1973	1972
(Thousands of Dollars)						
$296,597	$272,462	$239,936	$112,234	$116,637	$ 98,646	$119,893
15,831	11,404	10,389	10,653	11,133	13,723	16,017
$312,428	$283,866	$250,325	$122,887	$127,770	$112,369	$135,910
$ 6,247	$ 5,040	$ 8,010	$ 7,420	$ 6,264	$ 5,742	$ 6,532
2,280	1,746	2,034	1,695	2,014	2,126	2,369
$ 8,527	$ 6,786	$ 10,044	$ 9,115	$ 8,278	$ 7,868	$ 8,901

NOTES TO FINANCIAL STATEMENTS

Note 1—Summary of Accounting Policies:

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

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

Depreciation—For financial statement purposes, depreciation is provided over the estimated lives of the various classes of depreciable property by applying composite rates on a straight-line basis. Provisions for depreciation in 1981, 1980 and 1979 were equivalent to approximately 3.4% and 2.9% of the average depreciable cost for electric and gas utility plant, respectively.

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

The tax effect of additional deductions for income tax purposes, which result from (a) use of liberalized depreciation methods and use of different book and tax depreciable lives, including the Class Life (ADR) System for assets placed in service prior to 1981 and the ACRS system for assets placed in service subsequent to 1980, and (b) the amortization of certain facilities, is deferred and recognized in determination of net income for financial statement purposes when book provisions exceed deductions taken for tax purposes. The tax effect which results from the use of different book and tax depreciable lives of gas utility plant (other than ADR) was not normalized for financial statement purposes prior to November, 1979, but is being normalized subsequent thereto in accordance with the provisions of an Illinois Commerce Commission order in November, 1979. Since the level of rates approved by the Commission included the normalization expense, there was no effect on net income.

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

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

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

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

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

The rate used in computing AFUDC by the Company, which is an after-tax rate compounded semi-annually, was 7% during 1979 and through April, 1980, 7¾% from May, 1980 through June, 1981 and 8¾% thereafter.

In accordance with Illinois Commerce Commission rate orders, the Company excluded $97,064,000 of electric plant construction work in progress ("CWIP") from the base on which AFUDC is computed for the Clinton power station unit No. 1 from November 28, 1979 through June 30, 1981 and $375,000,000 thereafter. Since these orders authorized the inclusion of such expenditures in the rate base upon which the Company realizes revenues, there was no material effect on net income.

Unbilled Revenue—The Company records revenue as billed to its customers on a monthly cycle billing basis. At the end of each month, there is an undetermined amount of unbilled electric and gas service which has been rendered from the latest date of each cycle billing to the month end. Revenues as determined by meters read but not billed at year end are subject to income

taxes. The income tax effect of this book-tax timing difference in the recognition of revenues is normalized.

Debt Premium and Discount—Debt premium, discount and related expenses are being amortized on a straight-line basis over the lives of the related issues.

Note 2—Investments and Other Assets:

Investments and Other Assets are carried at cost, except for the Company's investment at December 31, 1981 and 1980 of $3,809,000 and $4,361,000, respectively, in IP Gas Supply Company, a wholly-owned subsidiary. The investment in IP Gas Supply is for the purpose of exploration to increase available natural gas supplies through one of the Company's pipeline suppliers. In accordance with an order from the Illinois Commerce Commission, the accounts of the subsidiary are not consolidated with the accounts of the Company but are accounted for as an investment on the equity accounting method.

Note 3—Short-Term Loans and Compensating Balances:

At December 31, 1981 notes payable consisted of $70,500,000 in commercial paper bearing interest at an average rate of 12.6% and maturing between January 4, 1982 and January 29, 1982. At December 31, 1980 there were no outstanding notes payable. At December 31, 1979 notes payable consisted of $34,145,000 in commercial paper bearing interest at an average rate of 13.9% and maturing between January 2, 1980 and February 29, 1980.

The Company has lines of credit of $112,523,000 with commercial banks for short-term bank borrowings. Bank borrowings under such commitments have a 360-day maturity from the time of issuance and carry an interest rate equivalent to the prime rate in effect at the time of issuance, adjusted to the prime rate in effect on the first day of each calendar quarter thereafter. These lines of credit include unwritten agreements with banks commited for $80,000,000 of the total bank commitments to maintain average checking account balances equivalent to 10% of the commitments for borrowings from the banks or 15% of the borrowings outstanding, whichever is greater.

The Company also has a credit agreement which provides for a revolving loan commitment of $60,000,000 through May 1, 1983 with a provision for conversion to a term loan having quarterly installment payments beginning August 1, 1983 and maturing May 1, 1986. No borrowings have been made under this agreement through 1981. The agreement is on a fee basis of ½% of the unused line of credit through May 1, 1983. Borrowings through 1982 are at the greater of the lending banks' prime rate or the average 90-day certificate of deposit rate published by the Federal Reserve Bank of New York and 103% thereof through 1984 and 105% thereof until maturity.

Another credit agreement provides for a revolving loan commitment of $50,000,000 through December 7, 1984. No borrowings have been made under this agreement through 1981. The agreement is on a fee basis of ¼% of the unused line of credit. The interest rate under this agreement is based upon the borrowing rate of prime banks in the London Interbank Market, plus a margin of ⅜% through December 6, 1982 and ½% through December 7, 1984.

In addition, the Company has a credit agreement which provides for a revolving loan commitment of $125,000,000 through December 31, 1985. The Company intends to maintain this agreement to support its commitment to Illinois Power Fuel Company ("Fuel Company"). See "Note 7—Commitments". This agreement is on a fee basis of ½% based on Fuel Company commercial paper borrowings prior to June 30, 1982 and ¼% of the loan commitment thereafter. Interest on borrowings is at the Domestic Rate or the Euro-dollar Rate. At December 31, 1981, Fuel Company had commercial paper outstanding of $57,040,000.

Under these lines of credit, the Company had total bank commitments of $347,523,000 at December 31, 1981. Bank commitments are held available to support the amount of commercial paper outstanding at any time.

The maximum aggregate amount of short-term borrowings at any month end during 1981, 1980 and 1979 was $70,500,000, $77,580,000 and $34,145,000, respectively. The average daily short-term borrowings during these periods approximated $21,200,000, $30,100,000 and $12,000,000, respectively (calculated as an average of the daily borrowings outstanding), with a weighted average interest rate of 15.6%, 11.8% and 11.3%, respectively (calculated by dividing the interest expense during the period for such borrowings by the average short-term borrowings indicated above).

The Company also is negotiating a credit agreement which provides for a three-year revolving loan commitment of $180,000,000 renewable on each anniversary date of the agreement with a provision for conversion to a three-year term loan. This agreement will replace the $80,000,000 line of credit and the $60,000,000 revolving loan agreement.

Note 4—Jointly Owned Facilities:

Pursuant to agreements entered into in August, 1976, Soyland Power Cooperative, Inc. and Western Illinois Power Cooperative, Inc. have a 10.5% and a 9.5% interest in the Clinton power station, respectively. Each

party is responsible for its portion of financing and construction expenditures. The Company's 80% interest in the power station including land, nuclear fuel in process and allowance for funds used during construction applicable to the Company's interest at December 31, 1981 and 1980 was $1,176,473,000 and $941,263,000, respectively. The agreements include the provisions that the Company will exercise control over construction and operation of the generating station, the parties will share electricity generated in proportion to their interests and the Company will have certain obligations to provide replacement power to the Cooperatives when the units are out of service.

Note 5—Income Taxes:

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

	Year Ended December 31,		
	1981	1980	1979
	(Thousands of Dollars)		
Current taxes—			
Included in Operating Expenses and Taxes	**$40,229**	$35,193	$19,051
Included in Other Income—Miscellaneous—net	**(15,648)**	(12,685)	(9,037)
Total current taxes	**24,581**	22,508	10,014
Deferred taxes—			
Book-tax depreciation differences—net	**10,673**	14,398	14,240
Certain overhead, dismantling and other costs capitalized—net	**9,144**	5,524	4,395
Book-tax revenue recognition differences	**1,016**	(1,070)	(1,216)
Total deferred taxes	**20,833**	18,852	17,419
Investment tax credit—deferred (net)	**21,419**	23,071	21,958
Total income taxes	**$66,833**	$64,431	$49,391

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

	Year Ended December 31,		
	1981	1980	1979
	(Thousands of Dollars)		
Computed tax expense at statutory federal and state income tax rates	**$96,066**	$88,356	$68,815
Reductions (increase) in income taxes resulting from—			
Allowance for funds used during construction	**30,371**	25,425	18,940
Other—net	**(1,138)**	(1,500)	484
Total income taxes	**$66,833**	$64,431	$49,391

Note 6—Pension Costs:

The Company has pension plans covering all officers and employees. Pension costs, which are funded as accrued, include current service costs plus unfunded prior service costs which are being amortized over a period of about 25 years. Actuarial assumptions were revised in 1981 upon recommendations by the Company's independent actuary to reflect both actual Plan experience and actuarial projections. These revisions resulted in a decrease of approximately $8,600,000 in unfunded prior service costs. The cost of the pension plans was $5,808,000, $6,839,000 and $6,391,000 during 1981, 1980 and 1979, respectively.

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

	1981	1980
	(Thousands of Dollars)	
Actuarial present value of accumulated plan benefits—		
Vested	**$ 70,172**	$69,802
Non-vested	**8,996**	9,730
	$ 79,168	$79,532
Net assets available for benefits	**$124,713**	$95,948

The assumed rate of return used in determining actuarial present value was 7% in 1981 and 6% in 1980.

Note 7—Commitments:

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

If the Company had accounted for the nuclear fuel lease as a capital lease, both net assets and liabilities would have been increased by approximately $75,000,000 at December 31, 1981.

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

Note 8—Quarterly Financial Information (Unaudited):

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	1981	1980	1981	1980	1981	1980	1981	1980
	(Thousands of Dollars Except Earnings Per Common Share)							
Operating revenues	$271,252	$264,662	$198,693	$194,718	$239,724	$212,823	$254,623	$211,167
Operating income	38,535	36,181	25,580	32,497	43,228	34,497	29,435	21,371
Net income	37,078	30,720	25,130	30,109	39,351	32,546	25,854	20,187
Net income applicable to common stock	32,104	26,573	20,156	25,135	34,377	27,572	20,879	15,213
Earnings per common share	92¢	87¢	54¢	76¢	88¢	82¢	52¢	44¢

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

Note 9—Common Stock and Retained Earnings:

At the annual meeting of the Company on April 16, 1981, the stockholders voted to amend the Articles of Incorporation to authorize an additional 20,000,000 shares of common stock of the Company.

The Company has an Automatic Reinvestment and Stock Purchase Plan and an Employees Stock Ownership Plan ("ESOP") for which 4,996,647 and 72,990 shares, respectively, of common stock were designated for issuance at December 31, 1981.

The Company also has a Tax Reduction Act Stock Ownership Plan ("TRASOP"), permitting the Company a maximum additional investment tax credit of 1% provided common stock of the Company equal in value to the additional credit is contributed to the Trust. The TRASOP allows an additional investment tax credit up to ½% provided that such amount is matched by employee contributions and that common stock of the Company equal in value to the additional credit and the employee contributions is contributed to the Trust. Under this plan, 182,675 shares of common stock were designated for issuance at December 31, 1981.

Changes in common stock during 1981, 1980 and 1979 were as follows:

	1981		1980		1979	
	Shares	Amount*	Shares	Amount*	Shares	Amount*
Balance beginning of year	34,507,851	$572,685	29,487,643	$490,539	25,474,381	$405,088
Public offerings	3,000,000	48,165	3,000,000	45,075	3,000,000	64,650
Automatic Reinvestment and Stock Purchase Plan	2,222,506	38,399	1,676,155	30,369	771,796	15,509
ESOP	33,020	595	31,053	569	21,439	454
TRASOP	324,311	6,077	313,000	6,133	220,027	4,838
Balance end of year	40,087,688	$665,921	34,507,851	$572,685	29,487,643	$490,539

* Thousands of dollars

None of the Company's retained earnings at December 31, 1981, were restricted with respect to the declaration or payment of dividends.

Note 10—Preferred and Preference Stock:

The following tabulation shows preferred and preference stock, issued and outstanding at December 31, 1981, 1980 and 1979, and the redemption prices (exclusive of accrued dividends) applicable to each series.

Serial preferred stock, cumulative, $50 par value—

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

Series	Shares	Redemption prices	1981	1980	1979
			(Thousands of Dollars)		
4.08%	300,000	$51.50	**$ 15,000**	$ 15,000	$ 15,000
4.26%	150,000	51.50	**7,500**	7,500	7,500
4.70%	200,000	51.50	**10,000**	10,000	10,000
4.42%	150,000	51.50	**7,500**	7,500	7,500
4.20%	180,000	52.00	**9,000**	9,000	9,000
8.24%	600,000	52.93 prior to August 1, 1986 51.90 thereafter	**30,000**	30,000	30,000
7.56%	700,000	53.575 prior to July 1, 1982 52.63 thereafter and prior to July 1, 1987 51.685 thereafter	**35,000**	35,000	35,000
8.94%	1,000,000	54.25 prior to March 1, 1986 52.90 thereafter and prior to March 1, 1991 51.60 thereafter	**50,000**	50,000	50,000
8.00%	1,000,000	55.29 prior to August 1, 1982* 54.29 thereafter and prior to August 1, 1987 53.29 thereafter and prior to August 1, 1992 52.29 thereafter	**50,000**	50,000	50,000
Premium on preferred stock			**1,171**	1,171	1,171
Serial preferred stock, cumulative, without par value—					
Authorized 5,000,000 shares; none outstanding			**—**	—	—
Total preferred stock			**215,171**	215,171	215,171
Preference stock, cumulative, without par value—					
Authorized 5,000,000 shares; none outstanding			**—**	—	—
Total preferred and preference stock			**$215,171**	$215,171	$215,171

* *Not redeemable through a refunding operation at a cost to the Company of less than 7.93% per annum prior to August 1, 1982.*

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

Note 11—Redeemable Preferred Stock:

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

Note 12—Long-Term Debt:

Long-term debt was represented by:

	December 31, 1981	December 31, 1980
	(Thousands of Dollars)	
First mortgage bonds—		
3½% series due 1982	**$ 20,000**	$ 20,000
3½% series due 1983	**20,000**	20,000
3¾% series due 1986	**20,000**	20,000
11⅜% series due 1987	**75,000**	75,000
4% series due 1988	**25,000**	25,000
4¼% series due 1993	**35,000**	35,000
5.85% series due 1996	**40,000**	40,000
6⅜% series due 1998	**25,000**	25,000
6¾% series due 1998	**45,000**	45,000
8.35% series due 1999	**35,000**	35,000
9% series due 2000	**35,000**	35,000
7.60% series due 2001	**35,000**	35,000
7⅝% series due 2003	**60,000**	60,000
6.60% series due 2004 (Pollution Control Series A)	**8,500**	8,500
9⅞% series due 2004	**100,000**	100,000
10½% series due 2004	**50,000**	50,000
8⅝% series due 2006	**100,000**	100,000
6% series due 2007 (Pollution Control Series B)	**18,700**	18,700
8¼% series due 2007	**100,000**	100,000
8⅞% series due 2008	**100,000**	100,000
12⅝% series due 2010	**50,000**	50,000
Total long-term debt	**997,200**	997,200
Unamortized premium and discount on debt	**(5,561)**	(5,798)
	991,639	991,402
Less first mortgage bonds maturing within one year	**20,000**	—
	$971,639	$991,402

Certain supplemental indentures to the Mortgage and Deed of Trust require that the Company, beginning in 1985, deposit annually in cash as a sinking and property fund, $5,000,000 for the 9⅞% series due 2004 and $100,000, and increasing amounts in later years, for the 6.60% series due 2004 (Pollution Control Series A), which amounts are not subject to reduction. Certain other supplemental indentures require that the Company deposit annually in cash as a sinking and property fund amounts not to exceed $3,150,000 in 1982, $2,950,000 in 1983, $3,550,000 in 1984, $4,050,000 in 1985 and $3,850,000 in 1986, which amounts are subject to reduction in accordance with certain terms of the mortgage; historically these requirements have been met by pledging property additions.

The above bonds are secured by a first mortgage lien on substantially all of the fixed property, franchises and rights of the Company with certain minor exceptions expressly provided in the mortgage securing the bonds. The remaining balance of net bondable additions at December 31, 1981 was approximately $847,000,000.

Note 13—Segments of Business:

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

	Year Ended December 31, 1981			Year Ended December 31, 1980			Year Ended December 31, 1979		
	Electric	Gas	Total Company	Electric	Gas	Total Company	Electric	Gas	Total Company
	(Thousands of Dollars)			(Thousands of Dollars)			(Thousands of Dollars)		
Operating information—									
Operating revenues	$ 620,968	$343,324	$ 964,292	$ 567,356	$316,014	$ 883,370	$ 479,052	$272,770	$ 751,822
Operating expenses, excluding provision for income taxes	419,079	325,954	745,033	401,517	280,191	681,708	343,592	243,484	587,076
Pre-tax operating income	201,889	17,370	219,259	165,839	35,823	201,662	135,460	29,286	164,746
Allowance for funds used during construction (AFUDC)	61,356	55	61,411	51,032	188	51,220	38,525	206	38,731
Pre-tax operating income, including AFUDC	$ 263,245	$ 17,425	280,670	$ 216,871	$ 36,011	252,882	$ 173,985	$ 29,492	203,477
Other (income) and deductions			(16,651)			(14,798)			(10,043)
Interest charges			87,427			77,002			63,757
Provision for income taxes			82,481			77,116			58,428
Net income per accompanying statements of income			$ 127,413			$ 113,562			$ 91,335
Other information—									
Depreciation	$ 50,522	$ 9,509	$ 60,031	$ 48,838	$ 8,997	$ 57,835	$ 47,377	$ 8,590	$ 55,967
Capital expenditures	$ 330,470	$ 19,045	$ 349,515	$ 297,157	$ 18,406	$ 315,563	$ 270,806	$ 20,806	$ 291,612
Investment information—									
Identifiable assets*	$2,307,598	$285,489	$2,593,087	$2,088,962	$269,619	$2,358,581	$1,836,862	$266,463	$2,103,325
Nonutility plant and other investments			8,651			8,596			8,663
Assets utilized for overall Company operations			120,757			100,014			102,664
Total assets			$2,722,495			$2,467,191			$2,214,652

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

Two-Year Dividends and Stock Prices by Quarters

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

		1981 Stock Prices								1980 Stock Prices							
		1		2		3		4		1		2		3		4	
	Dividends*	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low
Common	**	19⅛	17	19¾	16⅝	20	17⅞	21⅜	17⅝	19⅛	15¾	22½	16	21¾	18⅝	20⅛	16¾
4.08% Pfd.	$ .51	16½	14¼	16	14⅛	16	13½	15½	14	18	15¾	19½	14	19½	17	17	14½
4.26% Pfd.	.53¼	16½	14½	17	15¾	17	15¼	16	14¼	20	16¾	20	16	20	17¼	18	15
4.70% Pfd.	.58¾	18½	16	18½	16¼	17½	15½	17¼	15¼	22	18½	23½	17	22⅞	18	19½	16
4.42% Pfd.	.55¼	17	15½	17	15½	17½	14¾	16	14¼	19	18	21⅜	17¾	19½	19½	18	17¼
4.20% Pfd.	.52½	16½	14½	15⅝	14½	15½	14½	15¾	14	19⅛	14¼	19¾	14⅛	19¼	17¾	16½	15
8.24% Pfd.	1.03	31½	29	30¼	28¼	30½	27	30	25¼	36	27	40¾	26¼	40	33⅜	34¼	28½
7.56% Pfd.	.94½	31	27	28	26¾	27¾	25½	27½	24	36	25	37¼	25¼	34¾	31	30½	26
8.94% Pfd.	1.11¾	33½	32	34½	31	31⅞	29	32½	28⅞	42⅜	33¼	44	32	42	34	36½	30½
8.00% Pfd.	1.00	30¾	27½	31½	28	29¾	28	28	26	37⅜	32	40	28½	39	32½	32⅞	28½
11.66% Pfd.	1.45¾	50¾	49	48¾	48¼	49	46	47⅝	43½	—	—	55	49	55	52½	52	48⅞

* *The amount declared in each quarter during 1980 and 1981. The 11.66% Preferred was issued on March 13, 1980 and dividends were declared thereafter at the indicated rate.*

** *$.57 per common share in first quarter 1980, $.59½ second quarter 1980 through third quarter 1981 and $.62 in fourth quarter 1981.*

There were 81,938 registered record holders of common stock at January 11, 1982.

Selected Financial Data*

	1981	1980	1979	1978	1977
Total operating revenues	$ 964,292	$ 883,370	$ 751,822	$ 672,014	$ 567,387
Net income	$ 127,413	$ 113,562	$ 91,335	$ 82,361	$ 73,664
Net income applicable to common stock	$ 107,516	$ 94,493	$ 75,636	$ 66,662	$ 60,407
Earnings per common share	$ 2.84	$ 2.87	$ 2.70	$ 2.74	$ 2.68
Cash dividends declared per common share	$ 2.405	$ 2.355	$ 2.28	$ 2.28	$ 2.22
Total assets	$2,722,495	$2,467,191	$2,214,652	$1,938,506	$1,776,662
Long-term debt	$ 971,639	$ 991,402	$ 866,747	$ 776,559	$ 692,255
Redeemable preferred stock	$ 36,000	$ 36,000	—	—	—
Ratio of earnings to fixed charges**	3.16	3.25	3.15	3.34	3.58

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

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

Supplementary Information to Disclose the Effects of Changing Prices

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

Utility Plant and Depreciation

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

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

The increase in depreciation expense on utility plant restated for the effects of changing prices, represents the excess of depreciation expense in terms of constant dollars and current cost over historical depreciation expense ($60.0 million) used for financial statement purposes.

Reduction to Net Recoverable Cost

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

The July, 1981 Illinois Commerce Commission rate order considered both the "fair value" and historical cost of electric plant. However, since the allowed depreciation associated with electric plant was based upon historical cost, the need to reflect a reduction to net recoverable cost remains unchanged.

Gain from the Decline in Purchasing Power of Net Amounts Owned

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

Inventories and Taxes

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

As prescribed in the Statement of Financial Accounting Standards No 33, income taxes were not adjusted. Present income tax laws ignore the effects of inflation in measuring taxable income. Higher depreciation expense under constant dollar and current cost accounting is not tax deductible. Therefore, the Company's combined effective federal and state income tax rate, when adjusted for inflation, is 56.3% under constant dollar and 62.8% under current cost for 1981 each of which exceeds the reported effective tax rate of 34.4% and the combined statutory federal and state rate of 49.5%.

Statement of Income Adjusted for Changing Prices

	For the Year Ended December 31, 1981 (Thousands of Dollars) Constant Dollar Average 1981 Dollars	Current Cost Average 1981 Dollars
Net income, as reported	$ 127,413	$127,413
Increase in depreciation expense on utility plant as restated for the effects of changing prices	75,636	87,907
Net income (excluding reduction to net recoverable cost)	$ 51,777*	$ 39,506
Increase in specific prices (current cost) of utility plant held during the year**		$269,956
Less increase in cost of utility plant adjusted for changes in general price level		326,425
Excess of increase in general price level over increase in specific prices		(56,469)
Reduction to net recoverable cost	$(171,483)	(102,743)
		(159,212)
Gain from decline in purchasing power of net amounts owed	122,045	122,045
Net price level adjustment	$ (49,438)	$(37,167)

* *Including the reduction to net recoverable cost, the net loss on a constant dollar basis would have been approximately $120 million for 1981.*

** *At December 31, 1981, current cost of utility plant, net of accumulated depreciation, was approximately $3.9 billion, while net historical cost recoverable through depreciation was approximately $2.4 billion.*

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

For the Years Ended December 31,	1981	1980	1979	1978	1977
Operating revenues—					
Historical cost	$964,292	$883,370	$751,822	$672,014	$567,387
Adjusted for general inflation	964,292	975,000	942,025	936,830	851,549
Historical cost information adjusted for general inflation					
Income from operations (excluding reduction to net recoverable cost)	51,777	50,035	47,171		
Income per common share (after preferred stock dividend requirements and excluding reduction to net recoverable cost)	.84	.88	.98		
Net assets at year end at net recoverable cost	831,993	791,800	773,828		
Current cost information					
Income from operations (excluding reduction to net recoverable cost)	39,506	32,477	25,544		
Income per common share (after preferred stock dividend requirements and excluding reduction to net recoverable cost)	.52	.34	.21		
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost	159,212	168,248	219,949		
Net assets at year end at net recoverable cost	831,993	791,800	773,828		
General information					
Gain from decline in purchasing power of net amounts owed	122,045	158,904	192,752		
Cash dividends declared per common share—					
Historical cost	2.405	2.355	2.28	2.28	2.22
Adjusted for general inflation	2.405	2.60	2.86	3.18	3.33
Market price per common share at year end—					
Historical cost	20.625	17.88	19.13	22.75	26.50
Adjusted for general inflation	19.96	18.85	22.67	30.54	38.79
Average consumer price index	272.4	246.8	217.4	195.4	181.5
Year-end consumer price index	281.5	258.4	229.9	202.9	186.1

* *In thousands of average 1981 dollars except per share data and indices.*

ELECTRIC OPERATING STATISTICS

	1981	1980	1979	1978	1977
Revenues (Thousands of Dollars)					
Residential	**$ 209,310**	$ 199,124	$ 160,355	$ 159,493	$ 139,458
Commercial and small power	**134,968**	123,463	105,262	102,170	69,947
Large power and light	**223,950**	198,177	174,315	158,611	149,307
Other	**11,430**	9,897	8,137	7,631	6,286
Revenues—ultimate consumers	**579,658**	530,661	448,069	427,905	364,998
Rural cooperatives and municipal utilities	**35,826**	33,236	27,790	21,448	15,853
Other electric utilities	**47**	68	59	66	50
Miscellaneous	**5,437**	3,391	3,134	2,788	2,666
	$ 620,968	$ 567,356	$ 479,052	$ 452,207	$ 383,567
Customers at End of Year					
Residential	**469,452**	466,546	461,966	455,014	445,130
Commercial and small power	**54,895**	54,546	53,804	53,051	51,384
Large power and light	**361**	359	374	368	1,305
Other	**718**	715	714	699	692
	525,426	522,166	516,858	509,132	498,511
Sales in KWH (Thousands)					
Residential	**3,741,175**	4,003,563	3,737,245	3,770,703	3,632,898
Commercial and small power	**2,449,342**	2,492,930	2,408,131	2,383,521	1,696,894
Large power and light	**6,555,190**	6,507,468	6,738,321	6,271,872	6,541,429
Other	**295,922**	290,851	282,848	271,853	260,263
Sales—ultimate consumers	**13,041,629**	13,294,812	13,166,545	12,697,949	12,131,484
Rural cooperatives and municipal utilities	**1,169,163**	1,189,702	1,057,113	874,452	817,334
Other electric utilities	**1,758**	1,961	1,874	2,004	2,035
	14,212,550	14,486,475	14,225,532	13,574,405	12,950,853
Generated and Purchased in KWH (Thousands)					
Generated—					
Steam	**15,710,540**	16,306,993	16,840,214	15,770,060	14,530,570
Hydro and internal combustion	**35,447**	61,914	55,241	38,039	74,117
Total generated	**15,745,987**	16,368,907	16,895,455	15,808,099	14,604,687
Purchased and interchanged—net	**(616,437)**	(838,615)	(1,666,889)	(1,256,163)	(666,844)
Total output	**15,129,550**	15,530,292	15,228,566	14,551,936	13,937,843
Less—used and unaccounted for	**917,000**	1,043,817	1,003,034	977,531	986,990
	14,212,550	14,486,475	14,225,532	13,574,405	12,950,853
Peak Demand (native load) in KW (Thousands)	**3,100**	3,150	3,019	2,825	2,846
Net Generating Capability in KW (Thousands)	**3,815**	3,815	3,815	3,815	3,412

Due to a change in the Company's rate structure in 1977, there was a reclassification of customers between the commercial and small power category and the large power and light category for the years 1981, 1980, 1979 and 1978. As a result of this reclassification, only customers having a demand of 500 Kw or greater are classified in the large power and light category.

GAS OPERATING STATISTICS

	1981	1980	1979	1978	1977
Revenues (Thousands of Dollars)					
Residential —without space heating	**$ 2,372**	$ 2,201	$ 2,056	$ 1,758	$ 1,819
with space heating	**156,378**	142,050	124,354	105,484	91,798
Commercial—without space heating	**4,040**	2,265	2,858	1,722	1,469
with space heating	**57,602**	52,976	46,010	37,536	31,098
Industrial —non-interruptible	**114,944**	76,743	43,714	30,910	25,641
interruptible	**6,803**	31,951	51,354	40,906	33,376
Revenues—ultimate consumers	**342,139**	308,186	270,346	218,316	185,201
Interdepartmental revenues—interruptible	**1,074**	1,825	2,365	1,058	75
Miscellaneous	**111**	6,003	59	433	(1,456)
	$ 343,324	$ 316,014	$ 272,770	$ 219,807	$ 183,820
Customers at End of Year					
Residential —without space heating	**13,470**	16,040	18,251	19,834	21,377
with space heating	**336,504**	332,695	326,816	319,968	313,900
Commercial—without space heating	**1,624**	1,891	2,048	2,112	2,192
with space heating	**31,387**	30,725	30,032	29,522	29,116
Industrial —non-interruptible	**482**	474	480	470	457
interruptible	**7**	24	58	80	102
	383,474	381,849	377,685	371,986	367,144
Sales in Therms (Thousands)					
Residential —without space heating	**4,487**	5,165	6,231	6,172	6,840
with space heating	**386,282**	414,405	459,329	469,906	436,838
Commercial—without space heating	**10,792**	6,749	10,586	7,986	7,554
with space heating	**161,720**	168,563	182,212	181,960	166,455
Industrial —non-interruptible	**363,633**	280,471	194,310	181,029	172,089
interruptible	**21,183**	101,935	186,264	180,138	147,205
Sales—ultimate consumers	**948,097**	977,288	1,038,932	1,027,191	936,981
Interdepartmental sales—interruptible	**4,360**	8,853	13,141	8,034	693
	952,457	986,141	1,052,073	1,035,225	937,674
Purchased and Produced—Therms (Thousands)					
Purchased	**1,040,091**	980,426	1,118,246	1,087,749	1,024,805
Storage—net of (injected) and withdrawn	**(48,047)**	55,525	(30,203)	(14,998)	(57,182)
Purchased gas delivered	**992,044**	1,035,951	1,088,043	1,072,751	967,623
Produced	**21**	99	69	24	2,417
Total	**992,065**	1,036,050	1,088,112	1,072,775	970,040
Less—used and unaccounted for	**39,608**	49,909	36,039	37,550	32,366
	952,457	986,141	1,052,073	1,035,225	937,674

Board of Directors

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

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

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

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

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

Eva Jane Milligan
Senior Vice President, General Personnel
Manager of Marshall Field & Company
(a retailer)
Chicago, Illinois

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

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

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

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

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

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

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

Officers

Wendell J. Kelley
Chairman and President

William C. Gerstner
Executive Vice President

Charles W. Wells
Executive Vice President

Arthur E. Gray
Vice President and Secretary

James O. McHood
Vice President

Larry D. Haab
Vice President and Treasurer

William E. Warren
Vice President

Leonard J. Koch
Vice President

Porter J. Womeldorff
Vice President

Larry F. Altenbaumer
Assistant Treasurer

John B. Burdick
Assistant Secretary

Transfer Agent and Registrar

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

Stockholder Records and Dividend Disbursing Office

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

The annual stockholders' meeting will be held April 15, 1982, at the executive office of the Company at 10 A.M. Proxies for this meeting will be requested by the Board of Directors. A proxy statement will be mailed to stockholders about March 12, 1982.

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

ILLINOIS POWER COMPANY

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Monticello, Illinois 61856

Executive Office
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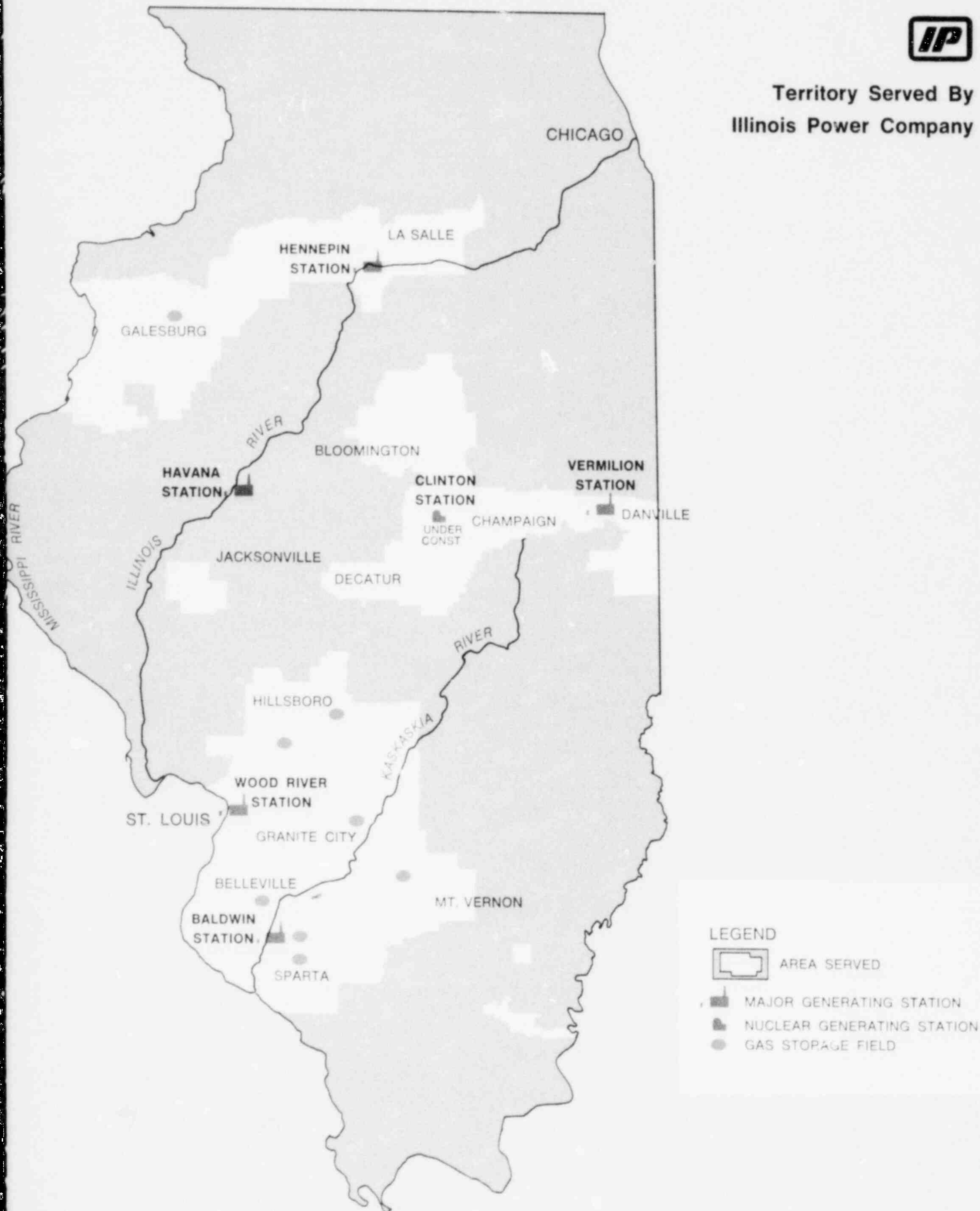
Phone (217) 424-6600

IP

Territory Served By Illinois Power Company



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ELECTRICITY

ILLINOIS POWER COMPANY

NATURAL GAS