IES
INDUSTRIES

1994 ANNUAL REPORT

At IES Industries, we provide the warmth, light and services that nurture families, communities and industries in the heartland.

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DESCRIPTION OF BUSINESS

IES Industries Inc. is a diversified holding company bringing long-term value to shareholders through operations and strategic investments. The Company has two wholly-owned subsidiaries: IES Utilities Inc. and IES Diversified Inc. IES Utilities provides electric, natural gas and steam energy to customers in more than 550 communities across Iowa. IES Diversified has interests in energy, telecommunications and transportation businesses.

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FINANCIAL HIGHLIGHTS

DOLLAR AMOUNTS IN THOUSANDS (EXCEPT PER SHARE DATA)	1994	1993	INCREASE (DECREASE)	PERCENT INCREASE (DECREASE)
Operating revenues	**$ 785,864**	$ 801,266	$(15,402)	(2)
Operating income	**$ 147,933**	$ 151,269	$ (3,336)	(2)
Net income	**$ 66,818**	$ 67,938	$ (1,120)	(2)
Earnings per average common share	**$ 2.34**	$ 2.45	$ (0.11)	(4)
Dividends declared per common share	**$ 2.10**	$ 2.10	–	–
Construction and acquisition expenditures	**$ 201,552**	$ 163,644	$ 37,908	23
Cash flows from operating activities	**$ 215,716**	$ 177,239	$ 38,477	22
Sales of electricity to customers (Kwh) (000s)	**9,291,575**	8,905,522	386,053	4
Utility gas sales (dekatherms) (000s)	**37,975**	39,006	(1,031)	(3)
Number of common shareholders	**32,567**	33,952	(1,385)	(4)
Number of full-time employees	**2,763**	2,792	(29)	(1)

MARKET PRICE PER COMMON SHARE

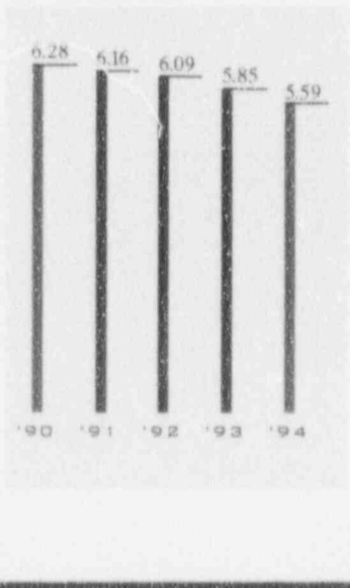
	1994			1993		
	HIGH	LOW	CLOSE	HIGH	LOW	CLOSE
First Quarter	**31⅜**	**27**	**27½**	31⅛	28⅜	29¼
Second Quarter	**29**	**25½**	**25⅞**	32⅝	28⅝	32⅜
Third Quarter	**28⅜**	**24⅞**	**26¼**	34¼	31¼	33
Fourth Quarter	**26⅝**	**24¾**	**25¼**	34	29⅛	31¼

Sales of Electricity to Customers

(MEGAWATT HOURS IN THOUSANDS)

Average Revenue per Kilowatt Hour

(CENTS PER KWH)



Assets

(IN MILLIONS OF DOLLARS)

LEE LIU

CHAIRMAN OF THE BOARD,

PRESIDENT & CHIEF

EXECUTIVE OFFICER

"IES Industries will be the supplier of choice for its products and services through outstanding performance and responsible corporate citizenship." This is the new Vision Statement which drives our aspiration to become ever more a high-performance company, distinguished by our skills in competition, quality in customer service and simplicity in structure and processes. With the momentum created in 1993, we have forged ahead in our journey of change. In 1994 we redefined the meaning of quality and value in our corporation. We have also begun an intensive effort to review all business processes with the aim to achieve breakthrough improvements in work simplification and cost reduction. In addition, we have introduced a new culture of continuous improvement in every facet of our operations in order to ensure the permanency of cost restructuring while generating higher quality, shorter cycle time, better customer service and further cost reduction. In the next three years, we expect an emergent high-performance organization energized with confidence to win in a broadened energy market.

The year of 1994 was one marked by successful operation, strategic reassessment and continuous growth. Due in part to the mild weather conditions, the net income was slightly lower than the previous year. However, I am satisfied with the progress made and confident that our long-term financial performance will continue to improve in the years ahead.

We have adopted a new corporate logo, shown for the first time on the cover of this annual report. Its red color represents our traditions and, at the same time, reflects a new image of motion and energy encircled by an expanded scope of business opportunities. You will see this logo widely used in the future.

IES Utilities' operating performance was exceptional in a number of areas. We have been able to consistently cut production cost, improve productivity and achieve budgetary goals. Our nuclear facility continues to be one of the best in the country, attaining good performance ratings from the regulatory bodies.

Our profitable growth strategy continues to add value to the utility business unit. Electrical sales increased 4 percent in 1994, with 9 percent growth in the industrial sector, capturing a lion's share of the industrial growth in Iowa. In 1994 new industrial investments in our service area exceeded $945 million, creating new jobs and spurring an impressive surge in housing and retail sales.

Another milestone at IES Utilities is the completion of the customer service center in Centerville, Iowa, the second one in our Company. Today all of our customers can reach us 24 hours a day and seven days a week. The addition of the customer service center is another effort to enhance the quality of service we offer.

In the non-utility area, our railroad transportation business historically has provided transportation services to a number of industries in eastern Iowa.

In 1994 sales in freight and switching service increased significantly. Operating income for IES Transportation rose 36 percent, yielding the best year ever for our rail transportation business.

For the third consecutive year, Whiting Petroleum, our wholly-owned subsidiary in the oil and natural gas business, significantly expanded its acquisition program in reserves. In 1994 our production output increased substantially as the result of these new acquisitions. Whiting Petroleum's operating income rose 24 percent last year in spite of the general depression in oil prices.

As the result of our recent merger, acquisition and subsequent successful execution of the consolidation, we are today better positioned to face the competition in the new energy business environment. The actions taken and the results achieved in the last two years signal the emergence of a new and invigorating culture centered on continuous improvement in every aspect of our operations. The current drive in process optimization and cost restructuring will provide us with a new platform to compete and to win. The transformation from a regulated business to a market-based enterprise cannot be accomplished overnight. I believe, however, that we will be able to capture significant benefits in the next three years.

Externally, we will intensify our effort to seek out the new opportunities across the full spectrum of our businesses in this country and abroad. The new globalized economy presents promising long-term opportunities. The Pacific Rim countries and others in Europe and South America are undergoing major privatization efforts in the energy sector. The continuing soundness of the American economy will support our future growth and success in the United States. Looking ahead, I am confident we will be able to enhance future investment value for our shareholders.

In closing, I again would like to acknowledge the contributions and dedication from every person in our organization. Their enthusiasm and support for the needed changes ensure the progress and success of our enterprise.

I would also like to express our gratitude to Robert Kucharski, Vice President and Secretary, who retired at the end of 1994. His 20 years of outstanding service to our Company will always be remembered.

On February 7, 1995, Blake O. Fisher, Jr. was named President, Chief Operating Officer & Chief Financial Officer of IES Utilities. He will also continue to serve as Executive Vice President & Chief Financial Officer of IES Industries.

Lee Liu

Chairman of the Board,

President & Chief Executive Officer

IN 1994 WE REDEFINED THE MEANING OF QUALITY AND VALUE IN OUR CORPORATION.

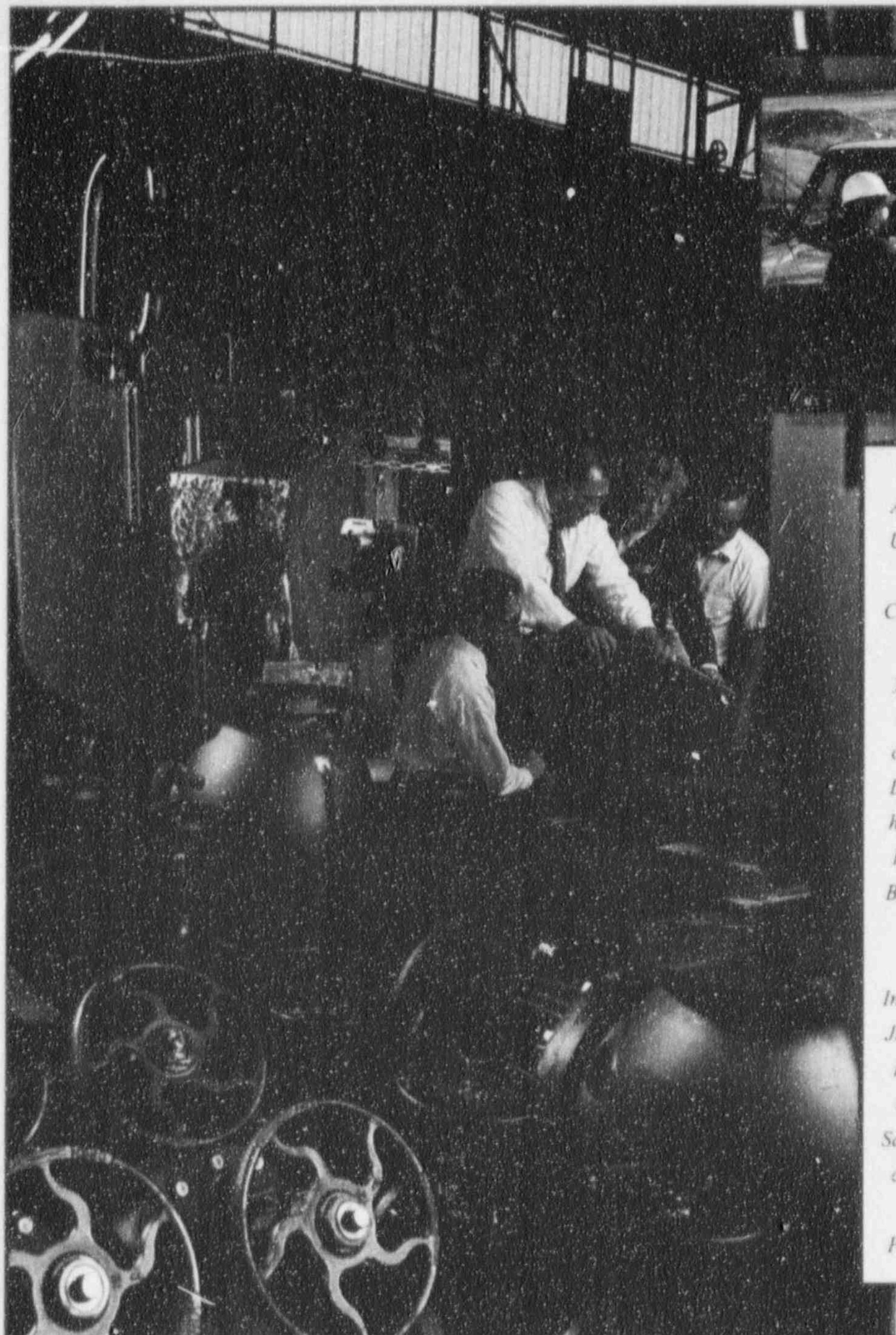
Continued improvements in operating efficiencies and major successes in new industrial loads were among the highlights for IES Industries Inc. during 1994. The Company's strategy of building upon utility strengths, diversifying selectively into areas where it possesses a competitive advantage and strategically positioning itself for profitable opportunities is built upon a continued desire to be the preferred supplier of products and services to customers.

1994 marked the first year that IES Utilities Inc. operated as a combined Company, following the December 31, 1993, merger of Iowa Electric Light and Power Co. and Iowa Southern Utilities Co. The benefits gained from this consolidation are well on their way to exceeding the pre-merger estimates of $30 million per year. The merged Company now provides service to 330,000 electric customers and 173,000 natural gas customers.

Continued sales growth for IES Utilities in 1994 reflected the growing Iowa economy. Electric sales volumes were 4.3 percent above the volumes recorded in 1993, despite a cooler than normal summer. Driving this growth was continued increase in electric sales volumes to industrial customers, which were 9.3 percent greater than industrial sales in 1993.

The Company's economic development initiatives resulted in several customer successes in 1994 and will yield substantial gains for IES Industries into the future. Among the many customer successes of 1994 was the commitment of Cedar River Paper Company, a joint venture of Weyerhaeuser Midwest Inc. and Midwest Recycle Inc., to build a second paper mill at its new facility in southwest Cedar Rapids. The total investment of this Company will be in the range of $500 million. IES Industries has positioned itself to meet the needs of this customer by providing electric, steam, rail and storage services.

Several industrial companies announced both new projects and business expansions in the IES Utilities service territory in 1994. In October, Guardian Industries of Michigan announced construction of a $110 million glass manufacturing plant in DeWitt. Polaris Industries began producing recreational watercraft in Spirit Lake. Roquette America, Inc. announced plans for a $400 million expansion of its Keokuk corn milling plant. Cargill Incorporated is pursuing a $75 million expansion of its corn processing facility in Eddyville. Archer Daniels Midland Company and Penford Products Co. in Cedar Rapids, Lennox Industries Inc. in Marshalltown, Maytag Corporation in Newton and Griffin Wheel in Keokuk continued their investments and growth.



Through its Total Assessment Audit, IES Utilities coordinated a complete review of Crane Valve Company's Washington, Iowa, facility, creating new opportunities for the customer and earning Department of Energy honors. Marty Stipe of IES and Ron Faszold, Brenda Perry and John Patterson examine Crane products. Inset: Barb Miltner and Jim Vermeer of IES and Penford Products Co. Vice President Garry Saathoff review plans to construct a cogeneration plant to meet Penford's steam needs.

In an effort to prepare for the competitive utility marketplace, on July 8 IES Utilities filed an electric pricing request with the Iowa Utilities Board (the Board). The proposal seeks to combine regional differences in pricing levels and focuses on the recovery of Duane Arnold Energy Center (DAEC) capital and decommissioning costs and increased capital costs. The Board is expected to issue its final order in the Company's request in May 1995.

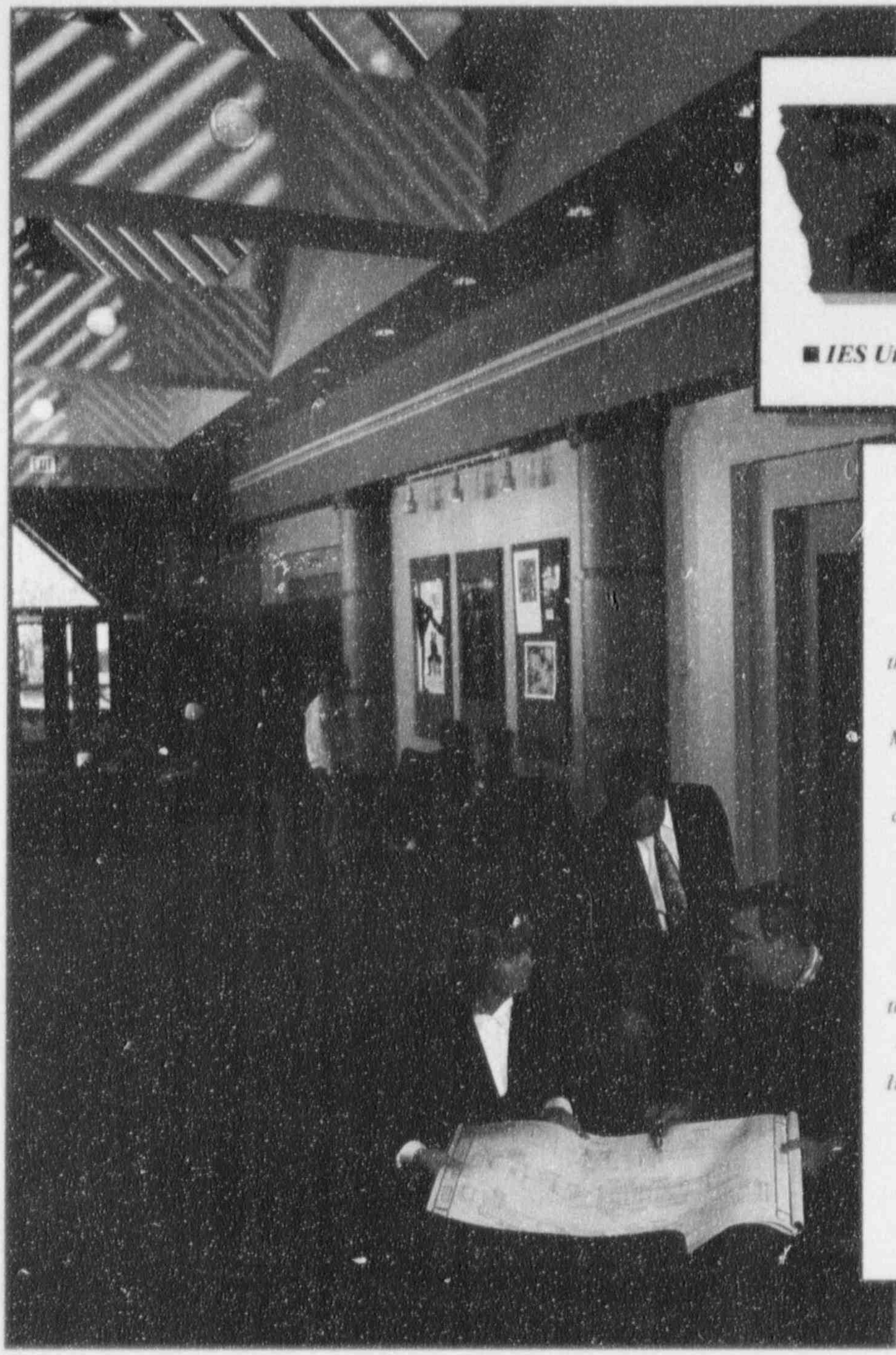
In addition to the July 8 price filing, IES Utilities also filed its request with the Board to recover costs associated with the Company's electric and natural gas energy-efficiency programs. As prescribed by state law, the filing seeks recovery for costs incurred between 1990 and 1993 for the mandated programs.

Although the Company's electric prices are competitive today, IES Utilities is committed to taking further steps to maintain competitive pricing for all customers. Average electric prices for IES Utilities improved 3.3 percent compared to the Company's lowest-priced industry peers. That trend is part of the Company's commitment to long-term value for customers.

During 1994, IES intensified its employee quality initiative effort through the adoption of a Corporate Vision, Values Statement and Quality Policy. A number of employees currently are participating in an effort to define and implement process improvements. These changes will help position IES as a more customer-focused, market-driven organization that will succeed in an increasingly competitive marketplace.

ELECTRIC OPERATIONS

IES Utilities continued to gain efficiencies in electric operations in 1994, notably in the generation area. The Company's coal-fired generating stations reported a 57.4 percent plant capacity factor, compared with 55.7 in 1993. The Ottumwa Generating Station reported a 1994 capacity factor of 71 percent. The 565-megawatt DAEC nuclear power plant achieved an 88.1 percent capacity factor during this year without a refueling outage. DAEC generated 4.1 billion kilowatt-hours in 1994, the second highest production year in its 20-year history.



■ *IES Utilities Service Area*

Grinnell College has worked closely with IES Utilities to maximize energy-efficiency benefits through the Company's Demand-Side Management program. The lighting and air conditioning improvements have allowed Grinnell College to reduce its energy demand and receive thousands of dollars in efficiency incentives. IES employees Valynda Akin and Jeff Haley review plans with Phil Schupach of Grinnell College.

South-central Iowa's worst ice storm in more than 20 years affected the IES Utilities service territory in early December. Trees and power lines were toppled and 25,000 customers lost service. As a result of the merger of the utilities, IES was able to direct substantial resources immediately to respond. From line crews to customer service center consultants, IES employees met the challenge. The result was a show of teamwork that was well appreciated by customers.

Employees continued to work safely throughout 1994. Utility employees achieved a substantial improvement in safety, recording the fewest lost-time accidents of any year in the Company's history.

GAS OPERATIONS

The first full year of operations in a post-FERC Order 636 environment saw changes in operations, but continued success in the competitive arena. Warmer than normal winter weather contributed to reduced gas throughput by nearly 3 percent for the year. Careful management of gas purchases by IES Utilities allowed the Company's average residential prices to remain among the lowest in Iowa and nationwide. The expanding Iowa economy and a program to expand the Company's gas system to new communities has resulted in a 5.3 percent increase in gas customers since 1991.

UNREGULATED ENERGY

Whiting Petroleum Corp. saw continued strong performance in 1994, despite depressed prices for natural gas and oil. The Company focused on increasing its reserves of both commodities. Acquisitions of new properties and investments in current properties in 1994 pushed oil production from an average of 1,300 barrels per day to more than 7,000 barrels per day. Natural gas production rose to 18 million cubic feet per day. The Company ended the year with total gas reserves of more than 47 billion cubic feet and oil reserves of 12 million barrels.

Industrial Energy Applications, Inc. (IEA) aggressively expanded operations in 1994. With 10 years of experience providing facilities-based and commodities-based energy services, IEA has installed and maintains standby generation for more than 25 customers in Iowa, Minnesota and South Dakota. The Company also buys and sells natural gas and coal, and is positioned to arrange electricity transactions. IEA has opened a St. Louis office and is prepared to open three other regional offices during 1995.

IES Industries employees contributed dollars, time and talents to build a home with the Burchland family through Cedar Valley Habitat for Humanity. IES employees Jim Fosdick (rear, right) and Nancy Gucciardo (at table) meet with Calvin, Jessica and Joshua Burchland in their completed kitchen.
Inset: Employees Louie Ervin, Bob Holmes and Jerry Greif hang drywall earlier in the year.

1994 marked the first full year that IEA provided steam energy to Ajinomoto, located in the Eddyville Industrial Complex. Plant refurbishments at the Prairie Creek and Sixth Street Generating Stations will allow IES Utilities to meet many unique customer needs, including those of Cedar River Paper Company, and realize substantial gains through its steam service.

Building upon its strengths, IES Industries continued to explore opportunities available in the international arena. The Company is focusing its research in the Far East and Central and South America, where energy demands are greatest.

TRANSPORTATION

CRANDIC, the Cedar Rapids and Iowa City Railway Company, had an excellent year. While the flooding in Iowa in 1993 hampered customers' ability to acquire and transport grain and other products in that year, the pent-up demand released in 1994 resulted in a substantial increase in business for the short-line railroad.

TELECOMMUNICATIONS

IES Industries has a $7.5 million investment in McLeod, Inc., which provides local and long-distance telecommunications services to business customers and offers other communications services. The partnership between IES and McLeod offers substantial benefits in the competitive telecommunications industry. The coming information superhighway and Iowa's commitment to fiber optic technology also bodes well for this investment and involvement.

CUSTOMER FOCUS FOR THE FUTURE

The success of IES Industries in 1994 is a direct reflection of the Company's ability to anticipate the needs and desires of customers and to allocate resources to meet those needs. By following that philosophy of customer responsiveness, the Company has historically found success in its ventures. That is a trend which will only grow in 1995 and the years ahead.

The following discussion analyzes significant changes in the components of net income and financial condition from the prior periods for IES Industries Inc. (Industries) and its consolidated subsidiaries (the Company).

RESULTS OF OPERATIONS

Industries' wholly-owned subsidiaries are IES Utilities Inc. (Utilities) and IES Diversified Inc. (Diversified). The Company's net income decreased $1.1 million during 1994 and increased $19.2 million during 1993. Earnings per average common share declined from $2.45 in 1993 to $2.34 in 1994 because of the lower net income and the effect of increased average common shares outstanding. The 1994 results were affected by milder than normal weather, particularly during the summer months.The 1993 results reflect Utilities' acquisition of the Iowa service territory of Union Electric Company (UE) (as discussed in Note 2 of the Notes to Consolidated Financial Statements) and a return to more normal weather conditions in Utilities' service territory from that experienced in 1992. The 1993 results also reflect the recording of certain property write-downs at Diversified and a $2.5 million contribution to the IES Industries Charitable Foundation. The 1992 results were adversely affected by extremely cool summer weather and a mild winter in Utilities' service territory.

The Company's operating income decreased $3.3 million during 1994 and increased $42.2 million during 1993. Reasons for the changes in the results of operations are explained in the following discussion.

Electric Revenues

Electric revenues and Kwh sales for Utilities increased or (decreased) as compared with the prior year as follows:

(DOLLARS IN MILLIONS)	1994	1993
Electric revenues	**$(13.2)**	$87.5
Electric sales (excluding off-system sales):		
Residential and Rural	**(1.4)%**	17.1%
Commercial	**3.4%**	17.4%
Industrial	**9.3%**	40.6%
Total	**4.3%**	24.9%

The 1994 Kwh sales were adversely affected by milder than normal weather, particularly during the summer months. The largest effect of weather was on sales to residential and rural customers. Under normal weather conditions, 1994 sales would have been flat and total sales (excluding off-system sales) would have increased 4.8%, compared to 1993 actual sales. The growth in commercial and industrial sales continues to reflect the underlying strength of the economy as several major industrial expansions in Utilities' service territory were announced in 1994.

The 1993 sales increases are attributable to the acquisition of the UE territory and a return to more normal weather conditions. After adjusting for these items, underlying total electric sales (excluding off-system sales) increased 6% in 1993, which reflects the economic growth in the industrial and commercial customer base.

Utilities' electric tariffs include energy adjustment clauses (EAC) that are designed to currently recover the costs of fuel and the energy portion of purchased power billings to customers. See Note 1[k] of the Notes to Consolidated Financial Statements for discussion of the EAC.

The decrease in the 1994 electric revenues is attributable to lower fuel costs collected through the EAC, lower off-system sales to other utilities and the effect of the mix of sales between lower margin industrial customers and higher margin residential and rural customers. Increased total sales (excluding off-system sales) partially offset the effects of the above items. The increase in electric revenues for 1993 is primarily because of the higher sales and increased recovery of fuel costs through the EAC.

See Note 3[a] of the Notes to Consolidated Financial Statements for a discussion of Utilities' 1994 electric rate case.

Gas Revenues

Gas revenues increased or (decreased) as compared with the prior year as follows:

(IN MILLIONS)	1994	1993
Gas revenues:		
Utilities	**$(15.3)**	$14.9
Industrial Energy Applications, Inc. (IEA)	**(1.1)**	(0.1)
	$(16.4)	$14.8

Utilities' gas sales in therms (including transported volumes), which also reflect the effects of weather, decreased 2.7% in 1994 and increased 5.3% in 1993. Adjusting for the effects of weather, Utilities' gas sales decreased 1.8% and 1.5% in 1994 and 1993, respectively.

Utilities' gas tariffs include purchased gas adjustment clauses (PGA) that are designed to currently recover the cost of gas sold. See Note 1[k] of the Notes to Consolidated Financial Statements for discussion of the PGA.

Utilities' gas revenues decreased in 1994 primarily because of lower gas costs recovered through the PGA and, to a lesser extent, the effect of the lower sales. Gas revenues increased in 1993 substantially because of increased costs of gas recovered through the PGA, the effect of gas rate increases that became effective in September 1992 and the sales increase.

The decrease in IEA's gas revenues in 1994 also reflects the lower price of natural gas. Despite an increase of 16% in gas volumes, revenues decreased by $1.1 million.

Other Revenues

Other revenues increased $14.1 million and $20.6 million during 1994 and 1993, respectively, largely because of increased revenues at Whiting Petroleum Company (Whiting) and Diversified's other subsidiaries, primarily in the energy and transportation industries. In addition, approximately $10 million of the 1993 increase related to the acquisition of certain resort properties in March 1993; Diversified previously held an equity interest in a company that owned the properties. Utilities' steam revenues also contributed to the 1993 increase.

Operating Expenses

Despite an increase in the amount of Kwh generation from a year ago, fuel for production decreased $1.8 million in 1994 largely because of lower average fuel prices and the effect of lower fuel cost recoveries through the EAC, which are included in fuel for production. Generation at Utilities' generating stations increased because of the increase in electric Kwh sales and because of increased availability of Utilities' nuclear generating station, the Duane Arnold Energy Center (DAEC), which was down for part of 1993 because of a scheduled refueling outage. There were refueling outages in 1993 and 1992, but no such outage in 1994. Fuel for production increased $14.3 million in 1993 because of increased availability of Utilities' fossil-fueled generating stations, which experienced extended maintenance outages in 1992, and because of increased sales.

Purchased power decreased $24.7 million in 1994 because of lower off-system sales to other utilities, increased generation at Utilities' generating stations and the expiration, in April 1993, of a purchase power agreement with the City of Muscatine. Purchased power increased $18.7 million in 1993, of which approximately $14.7 million represents increased energy purchases and approximately $4.0 million is a net increase in capacity charges. The increase in energy purchases is because of the increased Kwh sales. The increased capacity costs reflect the contracts associated with the acquisition of the UE service territory, partially offset by the expiration of the purchase power agreement with the City of Muscatine. (See Note 12[b] of the Notes to Consolidated Financial Statements.)

Gas purchased for resale decreased $15.0 million in 1994 because of lower gas costs and lower gas sales at Utilities. Gas purchased for resale increased $7.6 million during 1993 primarily because of increased per unit gas costs at Utilities and the increased sales.

Other operating expenses increased $14.2 million and $20.3 million in 1994 and 1993, respectively. The 1994 increase is primarily attributable to increases in labor and benefits costs, nuclear operating costs, former manufactured gas plant (FMGP) clean-up costs and information technology costs at Utilities, and increased operating activities at Whiting. The 1993 increase is primarily because of increased labor and benefits costs at Utilities and increased operating activities at several of Diversified's subsidiaries, including IEA and Whiting. In addition, $9 million of the 1993 increase is attributable to the resort properties acquired in March 1993.

Maintenance expenses increased $3.9 million and $7.5 million during 1994 and 1993, respectively. The 1994 increase is primarily because of increased labor costs and maintenance at the DAEC, partially offset by lower maintenance at Utilities' fossil-fueled generating stations.

The 1993 increase is primarily because of increased maintenance at Utilities' fossil-fueled generating stations and the DAEC.

Depreciation and amortization increased during both years because of increases in utility plant in service, increased amortization and depreciation of oil and gas properties and, in 1993, the acquisition of the UE territory on December 31, 1992. An increase in the average gas utility property depreciation rate, resulting from an updated depreciation study, also contributed to the 1993 increase. Depreciation and amortization expenses for all years include $5.5 million for the DAEC decommissioning provision, which is collected through rates.

The staff of the Securities and Exchange Commission (SEC) has questioned certain of the current accounting practices of the electric utility industry regarding the recognition, measurement and classification of decommissioning costs for nuclear generating stations in the financial statements of electric utilities. In response to these questions, the Financial Accounting Standards Board has agreed to review the accounting for removal costs, including decommissioning. If current electric utility industry accounting practices for such decommissioning are changed: (1) annual provisions for decommissioning could increase, (2) the estimated cost for decommissioning could be recorded as a liability rather than as accumulated depreciation, and (3) trust fund income from the external decommissioning trusts could be reported as investment income rather than as a reduction to decommissioning expense. If such changes are required, Utilities believes that there would not be an adverse effect on its financial position or results of operations based on current rate making practices. (See Note 1[g] of the Notes to Consolidated Financial Statements for a discussion of Utilities' proposal for collection of decommissioning costs included in its current rate filing.)

Taxes other than income taxes increased $1.9 million and $4.8 million during 1994 and 1993, respectively, largely because of increased property taxes. The 1993 increase is related, in part, to the acquisition of the UE service territory.

Interest Expense and Other

Interest expense increased $1.6 million during 1994 primarily because of an increase in the average amount of debt outstanding. Interest expense decreased $1.0 million in 1993 because of a lower average interest rate, partially offset by an increase in the average amount of debt outstanding. The lower average interest rate reflects the refinancing of certain long-term debt issues at lower rates and lower cost short-term borrowings outstanding for interim periods between the redemption of certain long-term debt series and the issuance of their long-term replacements.

Miscellaneous, net reflects income of $3.5 million and $7.5 million in 1994 and 1992, respectively, and expense of $2.9 million in 1993. The comparability of the years was significantly affected by the following 1993 transactions: (1) certain property write-downs at Diversified, (2) a contribution to the IES Industries Charitable Foundation, (3) a loss on the defeasance of Industries' debentures, and (4) gains on the sale of assets at Whiting and IEA aggregating $2.6 million. In 1994, a gain on the sale of an investment by one of Diversified's subsidiaries, net of lower interest income, also contributed to the increase in income over 1993.

Federal and state income taxes increased $4.5 million and $13.2 million in 1994 and 1993, respectively. The increase in 1994 is largely because of the effect of property related temporary differences for which deferred taxes had not been provided that are now becoming payable. The 1993 increase results from an increase in taxable income and an increase of 1% in the Federal statutory income tax rate. Adjustments of $1.5 million, recorded in the second quarter of 1992, to previously recorded tax reserves also affected the comparability of 1993 with the prior period.

Other Matters

The National Energy Policy Act of 1992 addresses several matters designed to promote competition in the electric wholesale power generation market, including mandated open access to the electric transmission system and greater encouragement of independent power production and cogeneration. Although various states throughout the

country are currently exploring the possibility of expanded competition in the retail electric energy market, there is no significant activity underway in Iowa.

The Company cannot predict the long-term consequences of these competitive issues on its results of operations or financial condition. The Company's strategy for dealing with these emerging issues includes seeking growth opportunities, continuing to offer quality customer service, on-going cost reductions and productivity enhancements. The Company recently initiated a major project to review and redesign its business processes with the primary goals being reduced operating costs, increased efficiency, and enhanced customer service.

LIQUIDITY AND CAPITAL RESOURCES

The Company's capital requirements are primarily attributable to Utilities' construction programs, its debt maturities and sinking fund requirements and the level of Diversified's business opportunities. The Company's pre-tax ratio of earnings to fixed charges was 3.38, 3.38 and 2.63 in 1994-1992, respectively. In 1994, cash flows from operating activities were $216 million. These funds were primarily used for construction and acquisition expenditures and for energy efficiency program costs mandated by the Iowa Utilities Board (IUB).

The Company anticipates that future capital requirements will be met by cash generated from operations and external financing. The level of cash generated from operations is partially dependent upon economic conditions, legislative activities, environmental matters and timely rate relief for Utilities. (See Notes 3 and 12 of the Notes to Consolidated Financial Statements.)

Access to the long-term and short-term capital and credit markets is necessary for obtaining funds externally. The Company's debt ratings are as follows:

		MOODY'S	STANDARD & POOR'S
Utilities	–Long-term debt	A1	A
	–Short-term debt	P1	A1
Diversified	–Short-term debt	P2	A2

Utilities' liquidity and capital resources will be affected by environmental and legislative issues, including the ultimate disposition of remediation issues surrounding the FMGP issue, the Clean Air Act as amended, the National Energy Policy Act of 1992 and Federal Energy Regulatory Commission (FERC) Order 636, as discussed in Note 12 of the Notes to Consolidated Financial Statements. Consistent with rate making principles of the IUB, management believes that the costs incurred for the above matters will not have a material adverse effect on the financial position or results of operations of the Company.

The IUB has adopted rules which require Utilities to spend 2% of electric and 1.5% of gas gross retail operating revenues annually for energy efficiency programs. Energy efficiency costs in excess of the amount in the most recent electric and gas rate cases are being recorded as regulatory assets by Utilities. At December 31, 1994, Utilities had $35 million of such costs recorded as regulatory assets. Under provisions of the IUB rules, Utilities made its initial filing for recovery of the costs in August 1994. See Note 3[b] of the Notes to Consolidated Financial Statements for a discussion of the filing.

CONSTRUCTION AND ACQUISITION PROGRAM

The Company's construction and acquisition program anticipates expenditures of approximately $202 million for 1995, of which approximately $163 million represents expenditures at Utilities and approximately $39 million represents expenditures at Diversified. Of the $163 million of Utilities' expenditures, 32% represents expenditures for electric transmission and distribution facilities, 23% represents fossil-fueled generation expenditures, 15% represents expenditures for steam distribution plant and 9% represents nuclear generation expenditures.
The remaining 21% represents miscellaneous electric, gas and general expenditures. Diversified's anticipated expenditures include approximately $26 million at Whiting. In addition to the $163 million, Utilities anticipates expenditures of $13 million in connection with mandated energy efficiency programs. Substantial commitments have been made in connection with all such expenditures.

The Company's levels of construction and acquisition expenditures are projected to be $230 million in 1996, $209 million in 1997, $235 million in 1998 and $227 million in 1999. It is estimated that approximately 70% of construction expenditures will be provided by cash from operating activities (after payment of dividends) for the five-year period 1995–1999.

Capital expenditure and investment and financing plans are subject to continual review and change. The capital expenditure and investment programs may be revised significantly as a result of many considerations including changes in economic conditions, variations in actual sales and load growth compared to forecasts, requirements of environmental, nuclear and other regulatory authorities, acquisition opportunities, the availability of alternate energy and purchased power sources, the ability to obtain adequate and timely rate relief, escalations in construction costs and conservation and energy efficiency programs.

LONG-TERM FINANCING

Other than Utilities' periodic sinking fund requirements, which Utilities intends to meet by pledging additional property, the following long-term debt will mature prior to December 31, 1999:

(IN MILLIONS)	
Issue:	
Utilities	$173.7
Diversified's variable rate credit facility	80.5
Other subsidiaries' debt	11.7
	$265.9

The Company intends to refinance the majority of the debt maturities with long-term securities.

In order to provide an up-to-date instrument for the issuance of bonds, notes or other evidence of indebtedness, Utilities has entered into an Indenture of Mortgage and Deed of Trust dated September 1, 1993 (New Mortgage). The lien of the New Mortgage is subordinate to the lien of Utilities' first mortgages until such time as all bonds issued under the first mortgages have been retired and such mortgages satisfied. The New Mortgage provides for, among other things, the issuance of Collateral Trust Bonds upon the basis of First Mortgage Bonds being issued by Utilities. Accordingly, to the extent that Utilities issues Collateral Trust Bonds on the basis of First Mortgage Bonds, it must comply with the requirements for the issuance of First Mortgage Bonds under Utilities' first mortgages. Under the terms of the New Mortgage, Utilities has covenanted not to issue any additional First Mortgage Bonds under its first mortgages except to provide the basis for issuance of Collateral Trust Bonds.

The Indentures pursuant to which Utilities issues First Mortgage Bonds constitute direct first mortgage liens upon substantially all tangible public utility property and contain covenants which restrict the amount of additional bonds which may be issued. At December 31, 1994, such restrictions would have allowed Utilities to issue $320 million of additional First Mortgage Bonds. Utilities has received authority from the FERC to issue $250 million of long-term debt and is currently authorized by the SEC to issue $50 million of long-term debt under an existing registration statement. Utilities expects to replace two series of First Mortgage Bonds that mature in 1995 with other long-term securities.

Diversified has a variable rate credit facility that extends through November 9, 1997, with two one-year extensions available to Diversified. The facility also serves as a stand-by agreement for Diversified's commercial paper program. The agreement provides for a combined maximum of $150 million of borrowings under the agreement and commercial paper to be outstanding at any one time. Interest rates and maturities are set at the time of borrowing for direct borrowings under the agreement and for issuances of commercial paper. The interest rate options are based upon quoted market rates and the maturities are less than one year. At December 31, 1994, $12 million was borrowed under this facility, bearing an interest rate of 6.44%, maturing in January 1995. Diversified also had $68.5 million of commercial paper outstanding at December 31, 1994, with interest rates ranging from 6.27% to 6.38% and maturity dates in the first quarter of 1995, which was also supported by the facility. Diversified intends to continue borrowing under the renewal options of the facility and no conditions exist at December 31, 1994, that would prevent such borrowings. Accordingly, this debt is classified as long-term in the Consolidated Balance Sheets.

The Articles of Incorporation of Utilities authorize and limit the aggregate amount of additional shares of Cumulative Preferred Stock and Cumulative Preference Stock which may be issued. At December 31, 1994, Utilities could have issued an additional 700,000 shares of Cumulative Preference Stock and 100,000 additional shares of Cumulative Preferred Stock. In addition, Industries had 5,000,000 shares of Cumulative Preferred Stock, no par value, authorized for issuance, none of which were outstanding at December 31, 1994.

The Company's capitalization ratios at year-end were as follows:

	1994	1993
Long-term debt	**48%**	47%
Preferred stock	**2**	2
Common equity	**50**	51
	100%	100%

The 1994 ratios include $100 million of Utilities' First Mortgage Bonds maturing in 1995 that are classified as a current liability in the Consolidated Balance Sheets, but which are expected to be refinanced with long-term securities.

SHORT-TERM FINANCING

For interim financing, Utilities is authorized by the FERC to issue, through 1996, up to $200 million of short-term notes. In addition to providing for ongoing working capital needs, this availability of short-term financing provides Utilities flexibility in the issuance of long-term securities. At December 31, 1994, Utilities had outstanding short-term borrowings of $55.5 million, including $18.5 million of notes payable to associated companies.

Utilities has an agreement, which expires in 1999, with a financial institution to sell, with limited recourse, an undivided fractional interest of up to $65 million in its pool of utility accounts receivable. At December 31, 1994, Utilities had sold $54 million under the agreement.

At December 31, 1994, the Company had bank lines of credit aggregating $77.7 million (Industries–$1.5 million, Utilities–$67.7 million, Diversified–$7.5 million and Whiting –$1.0 million). Utilities was using $37 million of its lines to support commercial paper (weighted average interest rate of 6.13%) and $7.7 million to support certain pollution control obligations. Commitment fees are paid to maintain these lines and there are no conditions which restrict the unused lines of credit. In addition to the above, Utilities has an uncommitted credit facility with a financial institution whereby it can borrow up to $40 million. Rates are set at the time of borrowing and no fees are paid to maintain this facility. At December 31, 1994, there were no borrowings under this facility. Utilities also has a letter of credit in the amount of $3.4 million supporting two of its variable rate pollution control obligations.

ENVIRONMENTAL MATTERS

Utilities has been named as a Potentially Responsible Party (PRP) by either the Iowa Department of Natural Resources (IDNR), the Minnesota Pollution Control Agency (MPCA) or the United States Environmental Protection Agency (EPA) for 28 FMGP sites. Utilities believes that it is not responsible for two of the sites for which it has been designated a PRP. Utilities has another FMGP site for which it has not yet been formally designated as a PRP. Utilities is working pursuant to the requirements of the IDNR, MPCA and EPA to investigate, mitigate, prevent and remediate, where necessary, damage to property, including damage to natural resources, at and around the remaining 27 sites in order to protect public health and the environment. In addition, Utilities has recently become aware that two additional sites may exist, but it has not yet been able to determine if any liability may exist.

Utilities has completed the remediation of three sites and is in various stages of the investigation and/or remediation processes for 22 sites. The investigation process is scheduled to begin in 1995 or 1996 for the two other sites. In 1994, Utilities received updated investigation reports on a number of sites, which, at some sites, indicated a greater volume of contaminated soil, surface and ground water needing treatment, and a greater volume of substances requiring higher cost incineration, than was anticipated in prior estimates. It is possible that future cost estimates will be greater than the current estimates as the investigation process

proceeds and as additional facts become known.

Utilities has recorded environmental liabilities related to the FMGP sites of $31 million (including $4.3 million as current liabilities) at December 31, 1994. These amounts are based upon Utilities' best current estimate of the amount to be incurred for investigation and remediation costs for those sites where the investigation process has been or is substantially completed. For those sites where the investigation is in its earlier stages or has not started, the liability represents the minimum of the estimated cost range. All investigations are expected to be completed by 1999 and site-specific remediations, based on recommendations from the IDNR, MPCA and EPA, are anticipated to be completed within three years after the completion of the investigations of each site. Utilities may be required to monitor these sites for a number of years upon completion of remediation, as is the case with the three sites for which remediation has been completed.

Utilities has begun pursuing coverage for investigation, mitigation, prevention, remediation and monitoring costs from its insurance carriers and is investigating the potential for third party cost sharing for FMGP investigation and clean-up costs. The amount of shared costs, if any, can not be reasonably determined and, accordingly, no potential sharing has been recorded at December 31, 1994. Regulatory assets of $31.0 million have been recorded in the Consolidated Balance Sheets, which reflect the future recovery that is being provided through Utilities' rates. Considering the rate treatment allowed by the IUB, management believes that the clean-up costs incurred by Utilities for these FMGP sites will not have a material adverse effect on its financial position or results of operations.

The Clean Air Act Amendments Act of 1990 (Act) requires emission reductions of sulfur dioxide and nitrogen oxides to achieve reductions of atmospheric chemicals believed to cause acid rain. The provisions of the Act will be implemented in two phases with Phase I affecting two of Utilities' units beginning in 1995 and Phase II affecting all units beginning in the year 2000. Utilities is in the process of completing the modifications necessary to meet the Phase I requirements.

Utilities expects to meet the requirements of Phase II by switching to lower sulfur fuels and through capital expenditures primarily related to fuel burning equipment and boiler modifications. Utilities estimates capital expenditures at approximately $22.5 million, including $4.4 million in 1995, in order to meet the requirements of the Act.

The National Energy Policy Act of 1992 requires owners of nuclear power plants to pay a special assessment into a "Uranium Enrichment Decontamination and Decommissioning Fund." The assessment is based upon prior nuclear fuel purchases and, for the DAEC, averages $1.4 million annually through 2007, of which Utilities' 70% share is $1.0 million. Utilities is recovering the costs associated with this assessment through its electric fuel adjustment clauses over the period the costs are assessed. Utilities' 70% share of the future assessment, $12.0 million payable through 2007, has been recorded as a liability in the Consolidated Balance Sheets, including $0.8 million included in "Current liabilities–Environmental liabilities," with a related regulatory asset for the unrecovered amount.

The Nuclear Waste Policy Act of 1982 assigned responsibility to the U.S. Department of Energy (DOE) to establish a facility for the ultimate disposition of high level waste and spent nuclear fuel and authorized the DOE to enter into contracts with parties for the disposal of such material beginning in January 1998. Utilities entered into such a contract and has made the agreed payments to DOE. The DOE, however, has experienced significant delays in its efforts and material acceptance is now expected to occur no earlier than 2010. Utilities has been storing spent nuclear fuel on-site since plant operations began in 1974 and has current on-site capability to store spent fuel until 2002. Utilities is aggressively reviewing options for additional spent nuclear fuel storage capability, including expanding on-site storage, pursuing other off-site storage and supporting legislation to resolve the lack of progress by the DOE.

The Low-Level Radioactive Waste Policy Amendments Act of 1985 mandated that each state must take responsibility for the storage of low-level radioactive waste produced within its borders. The State of Iowa has joined the Midwest Interstate Low-Level Radioactive Waste Compact Commission (Compact), which is plan-

ning a storage facility to be located in Ohio to store waste generated by the Compact's six member states. At December 31, 1994, Utilities has prepaid costs of approximately $1 million to the Compact for the building of such a facility. Currently, Utilities is storing its low-level radioactive waste generated at the DAEC on-site until new disposal arrangements are finalized among the Compact members. A Compact disposal facility is anticipated to be in operation in approximately ten years. On-site storage capability currently exists for low-level radioactive waste expected to be generated until the Compact facility is able to accept waste materials.

The possibility that exposure to electric and magnetic fields emanating from power lines, household appliances and other electric sources may result in adverse health effects has been the subject of increased public, governmental and media attention. A considerable amount of scientific research has been conducted on this topic without definitive results. Research is continuing in order to resolve scientific uncertainties.

Whiting is responsible for certain dismantlement and abandonment costs related to various off-shore oil and gas properties, the most significant of which is located off the coast of California. Whiting accrues these costs as reserves are extracted and such costs are included in "Depreciation and amortization" in the Consolidated Statements of Income. A corresponding environmental liability, $0.1 million at December 31, 1994, has been recognized in the Consolidated Balance Sheets for the cumulative amount expensed.

EFFECTS OF INFLATION

Under the rate making principles prescribed by the regulatory commissions to which Utilities is subject, only the historical cost of plant is recoverable in revenues as depreciation. As a result, Utilities has experienced economic losses equivalent to the current year's impact of inflation on utility plant.

In addition, the regulatory process imposes a substantial time lag between the time when operating and capital costs are incurred and when they are recovered. Utilities does not expect the effects of inflation at current levels to have a significant effect on its results of operations.

SELECTED CONSOLIDATED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following unaudited consolidated quarterly data, in the opinion of the Company, includes adjustments, which are normal and recurring in nature, necessary for the fair presentation of the results of operations and financial position. Utilities' results of operations are a significant portion of the consolidated results. The quarterly amounts were affected by seasonal weather conditions. The comparability of earnings per average common share is affected by the sale of 2.3 million shares to the public in the first quarter of 1993 as discussed in Note 8 of the Notes to Consolidated Financial Statements.

	QUARTER ENDED			
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
1994				
Operating revenues	**$211,621**	**$171,117**	**$207,345**	**$195,781**
Operating income	**35,694**	**28,436**	**56,700**	**27,103**
Net income	**15,144**	**10,858**	**28,009**	**12,807**
Earnings per average common share	**0.53**	**0.38**	**0.98**	**0.45**
1993				
Operating revenues	$213,077	$170,470	$212,052	$205,667
Operating income	34,514	27,455	57,767	31,533
Net income	13,935	11,740	27,957	14,306
Earnings per average common share	0.53	0.42	0.99	0.51

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of IES Industries Inc.:

We have audited the accompanying consolidated balance sheets and statements of capitalization of IES Industries Inc. (an Iowa corporation) and subsidiary companies as of December 31, 1994 and 1993, and the related consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IES Industries Inc. and subsidiary companies as of December 31, 1994 and 1993, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1994, in conformity with generally accepted accounting principles.

As discussed in Note 7 to the consolidated financial statements, effective January 1, 1993, IES Industries Inc. and subsidiary companies changed their method of accounting for postretirement benefits other than pensions.

Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Chicago, Illinois,
February 3, 1995

REPORT OF MANAGEMENT

The Company's management has prepared and is responsible for the presentation, integrity and objectivity of the consolidated financial statements and related information included in this report. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis and, in some cases, include estimates that are based upon management's judgment and the best available information, giving due consideration to materiality. Financial information contained elsewhere in this report is consistent with that in the consolidated financial statements.

The Company maintains a system of internal accounting controls which it believes is adequate to provide reasonable assurance that assets are safeguarded, transactions are executed in accordance with management authorization and the financial records are reliable for preparing the consolidated financial statements. The system of internal accounting controls is supported by written policies and procedures, by a staff of internal auditors and by the selection and training of qualified personnel. The internal audit staff conducts comprehensive audits of the Company's system of internal accounting controls. Management strives to maintain an adequate system of internal controls, recognizing that the cost of such a system should not exceed the benefits derived. In accordance with generally accepted auditing standards, the independent public accountants (Arthur Andersen LLP) obtained a sufficient understanding of the Company's internal controls to plan their audit and determine the nature, timing and extent of other tests to be performed. Management is not aware of any material internal control weaknesses.

The Board of Directors, through its Audit Committee comprised entirely of outside directors, meets periodically with management, the internal auditor and Arthur Andersen LLP to discuss financial reporting matters, internal control and auditing. To ensure their independence, both the internal auditor and Arthur Andersen LLP have full and free access to the Audit Committee.

CONSOLIDATED STATEMENTS OF INCOME

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	Year Ended December 31 1994	1993	1992
Operating revenues:			
Electric	**$537,327**	$550,521	$462,999
Gas	**165,569**	181,923	167,082
Other	**82,968**	68,822	48,215
	785,864	801,266	678,296
Operating expenses:			
Fuel for production	**85,952**	87,702	73,368
Purchased power	**68,794**	93,449	74,794
Gas purchased for resale	**120,795**	135,830	128,259
Other operating expenses	**176,863**	162,642	142,348
Maintenance	**52,841**	48,913	41,415
Depreciation and amortization	**86,378**	77,012	69,392
Taxes other than income taxes	**46,308**	44,449	39,696
	637,931	649,997	569,272
Operating income	**147,933**	151,269	109,024
Interest expense and other:			
Interest expense	**46,010**	44,440	45,426
Allowance for funds used during construction	**(3,910)**	(1,972)	(3,177)
Preferred dividend requirements of IES Utilities Inc.	**914**	914	1,729
Miscellaneous, net	**(3,472)**	2,908	(7,495)
	39,542	46,290	36,483
Income before income taxes	**108,391**	104,979	72,541
Federal and state income taxes	**41,573**	37,041	23,830
Net income	**$ 66,818**	$ 67,938	$ 48,711
Average number of common shares outstanding	**28,560**	27,764	25,389
Earnings per average common share	**$ 2.34**	$ 2.45	$ 1.92

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(IN THOUSANDS)	Year Ended December 31 1994	1993	1992
Balance at beginning of year	**$211,750**	$202,919	$202,882
Add:			
Net income	**66,818**	67,938	48,711
Acquisition of Whiting Petroleum Corporation	—	—	5,233
Deduct:			
Cash dividends declared on common stock, at a per share rate of $2.10 for all years	**60,065**	59,107	53,350
Other	**210**	—	557
Balance at end of year			
($18,209,000 restricted as to payment of cash dividends)	**$218,293**	$211,750	$202,919

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Assets (IN THOUSANDS)	December 31 1994	1993
Property, plant and equipment, at original cost:		
Utility–		
Plant in service–		
Electric	**$1,798,059**	$1,708,757
Gas	**158,115**	147,956
Other	**86,005**	75,845
	2,042,179	1,932,558
Less–Accumulated depreciation	**880,888**	813,312
	1,161,291	1,119,246
Leased nuclear fuel, net of amortization	**49,731**	51,681
Construction work in progress	**73,339**	45,566
	1,284,361	1,216,493
Other, net of accumulated depreciation and amortization of $34,490,000 and $35,007,000, respectively	**153,795**	124,275
	1,438,156	1,340,768
Current assets:		
Cash and temporary cash investments	**4,993**	7,465
Accounts receivable–		
Customer, less reserve	**26,098**	33,642
Other	**10,388**	10,421
Income tax refunds receivable	**1,330**	3,376
Production fuel, at average cost	**13,988**	14,338
Materials and supplies, at average cost	**30,216**	29,046
Adjustment clause balances	**1,433**	—
Regulatory assets	**20,145**	14,225
Prepayments and other	**34,607**	34,265
	143,198	146,778
Investments:		
Nuclear decommissioning trust funds	**33,779**	28,059
Cash surrender value of life insurance policies	**8,867**	7,562
Investment in McLeod, Inc.	**7,500**	4,500
Other	**5,609**	4,349
	55,755	44,470
Other assets:		
Regulatory assets	**192,955**	148,592
Deferred charges and other	**13,925**	19,211
	206,880	167,803
	$1,843,989	$1,699,819

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Capitalization and Liabilities

(IN THOUSANDS)	December 31 1994	1993
Capitalization (See Consolidated Statements of Capitalization):		
Common stock	**$ 373,490**	$ 360,301
Retained earnings	**218,293**	211,750
Total common equity	**591,783**	572,051
Cumulative preferred stock of IES Utilities Inc.	**18,320**	18,320
Long-term debt	**473,206**	522,343
	1,083,309	1,112,714
Current liabilities:		
Short-term borrowings	**37,000**	24,000
Capital lease obligations	**14,385**	15,345
Maturities and sinking funds	**100,422**	464
Accounts payable	**78,582**	53,980
Accrued interest	**9,494**	9,471
Accrued taxes	**44,897**	42,368
Accumulated refueling outage provision	**15,196**	2,660
Dividends payable	**15,839**	15,519
Adjustment clause balances	**—**	5,149
Provision for rate refund liability	**—**	8,670
Environmental liabilities	**5,428**	4,871
Other	**21,844**	23,127
	343,087	205,624
Long-term liabilities:		
Capital lease obligations	**35,346**	36,336
Environmental liabilities	**38,288**	21,324
Other	**58,793**	45,231
	132,427	102,891
Deferred credits:		
Accumulated deferred income taxes	**245,365**	236,131
Accumulated deferred investment tax credits	**39,801**	42,459
	285,166	278,590
Commitments and contingencies (Note 12)		
	$1,843,989	$1,699,819

(IN THOUSANDS)	December 31 1994	1993
Common equity:		
Common stock–no par value–authorized 48,000,000 shares; outstanding 28,777,046 and 28,304,188 shares, respectively	**$ 373,490**	$ 360,301
Retained earnings	**218,293**	211,750
	591,783	572,051
Cumulative preferred stock of IES Utilities Inc.	**18,320**	18,320
Long-term debt:		
IES Utilities Inc.–		
Collateral Trust Bonds–		
6% series, due 2008	**50,000**	50,000
7% series, due 2023	**50,000**	50,000
5.5% series, due 2023	**19,400**	19,400
	119,400	119,400
First Mortgage Bonds–		
Series J, 6-1/4%, due 1996	**15,000**	15,000
Series L, 7-7/8%, due 2000	**15,000**	15,000
Series M, 7-5/8%, due 2002	**30,000**	30,000
Series W, 9-3/4%, due 1995	**50,000**	50,000
Series X, 9.42%, due 1995	**50,000**	50,000
Series Y, 8-5/8%, due 2001	**60,000**	60,000
Series Z, 7.60%, due 1999	**50,000**	50,000
6-1/8% series, due 1997	**8,000**	8,000
9-1/8% series, due 2001	**21,000**	21,000
7-3/8% series, due 2003	**10,000**	10,000
7-1/4% series, due 2007	**30,000**	30,000
	339,000	339,000
Pollution control obligations–		
5.75%, due serially 1995 to 2003	**3,696**	3,920
5.95%, due 2007, secured by First Mortgage Bonds	**10,000**	10,000
Variable rate (5.45%-5.60% at December 31, 1994), due 2000 to 2010	**11,100**	11,100
	24,796	25,020
Total IES Utilities Inc.	**483,196**	483,420
IES Diversified Inc.–		
Variable rate credit facility	**80,500**	32,000
Other subsidiaries' debt maturing through 2013	**12,584**	10,510
	576,280	525,930
Unamortized debt premium and (discount), net	**(2,652)**	(3,123)
	573,628	522,807
Less–Amount due within one year	**100,422**	464
	473,206	522,343
	$1,083,309	$1,112,714

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

(IN THOUSANDS)	*Year Ended December 31* 1994	1993	1992
Cash flows from operating activities:			
Net income	**$ 66,818**	$ 67,938	$ 48,711
Adjustments to reconcile net income to net cash flows from operating activities–			
Depreciation and amortization	**86,378**	77,012	69,392
Principal payments under capital lease obligations	**16,246**	11,429	11,725
Deferred taxes and investment tax credits	**4,050**	9,254	(1,374)
Refueling outage provision	**12,536**	(4,889)	(5,503)
Allowance for equity funds used during construction	**(2,299)**	(824)	(1,831)
Other	**4,859**	8,764	1,761
Other changes in assets and liabilities–			
Accounts receivable	**6,777**	(8,861)	(4,000)
Production fuel, materials and supplies	**(1,184)**	5,836	83
Accounts payable	**21,871**	7,984	(3,894)
Accrued taxes	**4,575**	7,549	7,111
Provision for rate refunds	**(8,670)**	(350)	7,528
Adjustment clause balances	**(6,582)**	6,366	(4,122)
Gas in storage	**1,135**	(2,300)	(7,908)
Other	**9,206**	(7,669)	7,136
Net cash flows from operating activities	**215,716**	177,239	124,815
Cash flows from financing activities:			
Dividends declared on common stock	**(60,065)**	(59,107)	(53,350)
Dividends payable	**320**	1,727	13,679
Proceeds from issuance of common stock	**16,426**	79,746	10,726
Purchase of treasury stock	**(6,233)**	—	—
Proceeds from issuance of long-term debt	**60,140**	146,734	114,400
Reductions in long-term debt and preferred stock	**(9,790)**	(126,803)	(70,158)
Net change in short-term borrowings	**13,000**	(68,000)	51,100
Principal payments under capital lease obligations	**(16,304)**	(11,276)	(12,337)
Sale of utility accounts receivable	**800**	10,490	7,710
Other	**(177)**	1,247	(29)
Net cash flows from financing activities	**(1,883)**	(25,242)	61,741
Cash flows from investing activities:			
Construction and acquisition expenditures–			
Utility	**(138,829)**	(113,212)	(171,013)
Other	**(62,723)**	(50,432)	(20,821)
Nuclear decommissioning trust funds	**(5,532)**	(5,532)	(5,532)
Deferred energy efficiency costs	**(16,157)**	(9,747)	(6,877)
Investments in unconsolidated affiliates	**(4,956)**	(5,373)	(686)
Proceeds from disposition of assets	**8,803**	28,790	1,106
Other	**3,089**	3,633	642
Net cash flows from investing activities	**(216,305)**	(151,873)	(203,181)
Net increase (decrease) in cash and temporary cash investments	**(2,472)**	124	(16,625)
Cash and temporary cash investments at beginning of year	**7,465**	7,341	23,966
Cash and temporary cash investments at end of year	**$ 4,993**	$ 7,465	$ 7,341
Supplemental cash flow information:			
Cash paid during the year for–			
Interest	**$ 47,094**	$ 44,697	$ 41,747
Income taxes	**$ 36,097**	$ 22,179	$ 23,539
Noncash investing and financing activities–			
Capital lease obligations incurred	**$ 14,297**	$ 14,605	$ 1,973

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[a] Basis of Consolidation - The Consolidated Financial Statements include the accounts of IES Industries Inc. (Industries) and its consolidated subsidiaries (collectively the Company). All subsidiaries for which Industries owns directly or indirectly more than 50% of the voting stock are included as consolidated subsidiaries. Industries' wholly-owned subsidiaries are IES Utilities Inc. (Utilities) and IES Diversified Inc. (Diversified). All significant intercompany balances and transactions, other than energy related transactions affecting Utilities, have been eliminated from the Consolidated Financial Statements. Such energy related transactions are made at prices that approximate market value and the associated costs are recoverable from Utilities' customers through the rate making process.

Investments for which the Company has at least a 20% interest are generally accounted for under the equity method of accounting. These investments are stated at acquisition cost, increased or decreased for the Company's equity in undistributed net income or loss, which is included in "Interest expense and other - Miscellaneous, net" in the Consolidated Statements of Income.

Certain prior period amounts have been reclassified on a basis consistent with the 1994 presentation.

[b] Regulation - Because of its ownership of Utilities, Industries is a holding company under the Public Utility Holding Company Act of 1935, but claims an exemption from all provisions thereof except Section 9(a)(2), which applies to the purchase of stock of other utility companies. Utilities is subject to regulation by the Iowa Utilities Board (IUB) and the Federal Energy Regulatory Commission (FERC).

[c] Regulatory Assets - Utilities is subject to the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS 71). The regulatory assets represent probable future revenue to Utilities associated with certain incurred costs as these costs are recovered through the rate making process. At December 31, regulatory assets as reflected in the Consolidated Balance Sheets were comprised of the following items:

(IN MILLIONS)	1994	1993
Deferred income taxes (Note 1[d])	**$ 90.1**	$ 88.6
Environmental liabilities (Note 12[f])	**43.8**	25.4
Energy efficiency programs (Note 3[b])	**34.7**	18.5
Employee pension and benefit costs (Note 7)	**25.0**	14.1
FERC Order No. 636 transition costs (Note 12[h])	**8.0**	5.0
Unamortized loss on reacquired debt	**6.1**	6.4
Cancelled plant costs	**2.4**	3.3
Other	**3.0**	1.5
	213.1	162.8
Classified as "Current assets - regulatory assets"	**20.1**	14.2
Classified as "Other assets - regulatory assets"	**$193.0**	$148.6

Refer to the individual footnotes referenced above for a further discussion of certain items reflected in regulatory assets.

[d] Income Taxes - The Company follows the liability method of accounting for deferred income taxes, which requires the establishment of deferred tax liabilities and assets, as appropriate, for all temporary differences between the tax basis of assets and liabilities and the amounts reported in the financial statements. Deferred taxes are recorded using currently enacted tax rates.

Except as noted below, income tax expense includes provisions for deferred taxes to reflect the tax effects of temporary differences between the time when certain costs are recorded in the accounts and when they are deducted for tax return purposes. As temporary differences reverse, the related accumulated deferred income taxes are reversed to income. Investment tax credits for Utilities have been deferred and are subsequently credited to income over the average lives of the related property.

Consistent with rate making practices for Utilities, deferred tax expense is not recorded for certain temporary differences (primarily related to utility property, plant and equipment). Accordingly, Utilities has recorded deferred tax liabilities and regulatory assets, as identified in Note 1[c].

[e] Temporary Cash Investments - Temporary cash investments are stated at cost, which approximates market value, and are considered cash equivalents for the Consolidated Statements of Cash Flows. These investments consist of short-term liquid investments which have maturities of less than 90 days from the date of acquisition.

[f] Depreciation of Utility Property, Plant and Equipment - The average rates of depreciation for electric and gas properties of Utilities, including Utilities' nuclear generating station, the Duane Arnold Energy Center (DAEC), which is being depreciated over a 36-year life using a remaining life method, consistent with current rate making practices, were as follows:

	1994	1993	1992
Electric	**3.6%**	3.5%	3.5%
Gas	**3.8%**	3.5%	3.0%

[g] Decommissioning of the DAEC - Included in Utilities' proposed electric rate increase discussed in Note 3[a] is a proposal to increase the annual recovery of anticipated costs to decommission the DAEC to approximately $9 million annually from the current level of $5.5 million. Decommissioning expense is included in "Depreciation and amortization" in the Consolidated Statements of Income and the cumulative amount is included in "Accumulated depreciation" in the Consolidated Balance Sheets to the extent recovered through rates. The proposal is based on the following assumptions: 1) cost to decommission the DAEC of $252.7 million in 1993 dollars, based on the Nuclear Regulatory Commission (NRC) minimum formula (which exceeds the amount in the current site-specific study completed in 1994); 2) inflation of 4.91% annually to the year 2014, when decommissioning is expected to begin; 3) the prompt dismantling and removal method of decommissioning; 4) monthly funding of all future collections into external trust funds and funded on a tax-qualified basis to the extent possible; 5) an average after-tax return of 6.82% for all external investments; and 6) collection of the costs on a straight-line basis, in real terms, through 2014. Current levels of rate recovery: 1) do not recognize estimated future inflation for the entire period prior to commencement of the decommissioning process; 2) assume that decommissioning begins in 2010; and 3) provide recovery on a straight-line basis without considering the effects of inflation. At December 31, 1994, Utilities had $33.8 million invested in external decommissioning trust funds as indicated in the Consolidated Balance Sheets, and also had an internal decommissioning reserve of $21.7 million recorded as accumulated depreciation. Earnings on the external trust funds, which were $1.0 million in 1994, are recorded as interest income and a corresponding interest expense payable to the funds is recorded. The earnings accumulate in the external trust fund balances and in accumulated depreciation on utility plant.

See "Management's Discussion and Analysis of the Results of Operations and Financial Condition" for a discussion of industry issues raised by the staff of the SEC and a Financial Accounting Standards Board review regarding the electric utility industry method of accounting for decommissioning costs.

[h] Allowance for Funds Used During Construction - The allowance for funds used during construction (AFC), which represents the cost during the construction period of funds used for construction purposes, is capitalized by Utilities as a component of the cost of utility plant. The amount of AFC applicable to debt funds and to other (equity) funds, a non-cash item, is computed in accordance with the prescribed FERC formula. The aggregate gross rates used by Utilities for 1994-1992 were 9.3%, 5.7% and 9.2%, respectively.

[i] Oil and Gas Properties - Whiting Petroleum Company (Whiting), a wholly-owned subsidiary of Diversified, uses the full cost method of accounting for its oil and gas properties. Accordingly, all costs of acquisition, exploration and development of properties are capitalized. Amortization of proved oil and gas properties is calculated using the units of production method. At December 31, 1994, capitalized costs less related accumulated amortization do not exceed the sum of (1) the present value of future net revenue from estimated production of proved oil and gas reserves (calculated using current prices); plus (2) the cost of properties not being amortized, if any; plus (3) the lower of cost or estimated fair value of unproved properties included in the costs being amortized, if any; less (4) income tax effects related to differences in the book and tax basis of oil and gas properties. See Note 12[f] for a discussion of dismantlement and abandonment costs associated with certain oil and gas properties.

[j] Operating Revenues - The Company accrues revenues for services rendered but unbilled at month-end in order to more properly match revenues with expenses.

[k] Adjustment Clauses - Utilities' tariffs provide for subsequent adjustments to its electric and natural gas rates for changes in the cost of fuel and purchased energy and in the cost of natural gas purchased for resale. Changes in the under/over collection of these costs are reflected in "Fuel for production" and "Gas purchased for resale" in the Consolidated Statements of Income. The cumulative effects are reflected in the Consolidated Balance Sheets as a current asset or current liability, pending automatic reflection in future billings to customers.

[l] Accumulated Refueling Outage Provision - The IUB allows Utilities to collect, as part of its base revenues, funds to offset other operating and maintenance expenditures incurred during refueling outages at the DAEC. As these revenues are collected, an equivalent amount is charged to other operating and maintenance expenses with a corresponding credit to a reserve. During a refueling outage, the reserve is reversed to offset the refueling outage expenditures.

2 ACQUISITION OF IOWA SERVICE TERRITORY OF UNION ELECTRIC COMPANY

Effective December 31, 1992, Utilities purchased the Iowa distribution system and a portion of the Iowa transmission facilities of Union Electric Company (UE) for approximately $65 million in cash. The net book value of the acquired assets was approximately $35 million and the amount of the purchase price in excess of the book value (approximately $30 million) has been recorded as an acquisition adjustment. The acquisition adjustment is being amortized over the life of the property and the amortization is included in "Interest expense and other–Miscellaneous, net" in the Consolidated Statements of Income. Recovery of the acquisition adjustment through rates has been requested in Utilities' current electric rate filing, which is discussed in Note 3[a]. See Note 12[b] for a discussion of the purchase power contracts between Utilities and UE associated with this acquisition.

3 RATE MATTERS

[a] 1994 Electric Rate Case - In 1994, Utilities applied to the IUB for an increase in retail electric rates of approximately $26 million annually, or 5.2%. Utilities' proposal includes approximately $12 million in annual revenue requirement related to increased recovery levels of depreciation expense and nuclear decommissioning expense. To the extent these proposals are approved by the IUB, corresponding increases in expense would be recorded and there would be no effect on net income. No interim increase was requested.

The Office of Consumer Advocate (OCA) filed a petition in connection with this proceeding to reduce the rates for retail electric service by approximately $27 million or 5.5%. The primary differences between the amount of the increase requested by Utilities and the decrease proposed by the OCA are: 1) a 13.9% return on common equity requested by Utilities compared to 11.1% proposed by the OCA; 2) OCA's rejection of Utilities' proposal to increase collections for decommissioning the DAEC; 3) OCA's rejection of Utilities' proposal to increase depreciation rates; 4) OCA's proposal to reject most of Utilities' request to recover an acquisition adjustment associated with its acquisition of the Iowa service territory of UE; and 5) an adjustment to test year sales levels proposed by the OCA. If a rate reduction is ultimately ordered by the IUB, the reduction would be effective from October 22, 1994, and revenues collected beyond that date would be subject to refund to the extent of the reduction approved by the IUB, if any. As of December 31, 1994, Utilities' revenues collected subject to refund were approximately $5 million.

Intervenors in the proceeding also submitted filings in October 1994. These parties, which primarily represent individual or groups of customers, generally object to particular elements of the price increase and Utilities' price design proposals. Those intervenors that quantified their positions have generally argued for a price decrease, but none as large as that proposed by the OCA.

Utilities expects to receive an order from the IUB in May 1995.

[b] 1994 Energy Efficiency Cost Recovery Filing - The IUB has adopted rules that mandate Utilities to spend 2% of electric and 1.5% of gas gross retail operating revenues for energy efficiency programs. Under provisions of the IUB rules, in August 1994, Utilities applied to the IUB for recovery of approximately $23 million and $13 million for the electric and gas programs, respectively, related to costs incurred through 1993 for such programs. The $36 million total for the electric and gas programs is comprised of $21 million of direct expenditures and carrying costs (recorded as a "Regulatory asset" in the Consolidated Balance Sheets, including $3.6 million as current), $7 million for a return on the expenditures over the recovery period and $8 million for a reward based on a sharing of the benefits of such programs.

In October 1994, the OCA and an intervenor in the proceeding filed their direct testimony. The principal difference between Utilities and the other parties is approximately $7 million in the reward calculation. Hearings in the proceeding were held in January 1995. Any increase approved by the IUB is not expected to be effective before April 1995, and recovery will be over a four-year period with a return allowed on the unrecovered portion over the recovery period.

4 LEASES

Utilities has a capital lease covering its 70% undivided interest in nuclear fuel purchased for the DAEC. Future purchases of fuel may also be added to the fuel lease. This lease provides for annual one-year extensions and Utilities intends to exercise such extensions through the DAEC's operating life. Interest costs under the lease are based on commercial paper costs incurred by the lessor. Utilities is responsible for the payment of taxes, maintenance, operating cost, risk of loss and insurance relating to the leased fuel.

The lessor has an $80 million credit agreement with a bank supporting the nuclear fuel lease. The agreement continues on a year-to-year basis, unless either party provides at least a three-year notice of termination; no such notice of termination has been provided by either party.

Annual nuclear fuel lease expenses include the cost of fuel, based on the quantity of heat produced for the generation of electric energy, plus the lessor's interest costs related to fuel in the reactor and administrative expenses. These expenses (included in "Fuel for production" in the Consolidated Statements of Income) for 1994–1992 were $17.8 million, $12.4 million and $12.9 million, respectively.

The Company's operating lease rental expenses for 1994–1992 were $11.1 million, $9.1 million and $7.7 million, respectively.

The Company's future minimum lease payments by year are as follows:

YEAR	CAPITAL LEASE (IN THOUSANDS)	OPERATING LEASES (IN THOUSANDS)
1995	$15,634	$ 8,549
1996	15,653	8,479
1997	12,942	5,674
1998	6,394	4,245
1999	4,176	3,109
2000–2002	1,267	601
	56,066	$30,657
Less: Amount representing interest	6,335	
Present value of net minimum capital lease payments	$49,731	

5 UTILITY ACCOUNTS RECEIVABLE

Customer accounts receivable, including unbilled revenues, arise primarily from the sale of electricity and natural gas. At December 31, 1994, Utilities was serving a diversified base of residential, commercial and industrial customers consisting of approximately 330,000 electric and 173,000 gas customers.

Utilities has entered into an agreement, which expires in 1999, with a financial institution to sell, with limited recourse, an undivided fractional interest of up to $65 million in its pool of utility accounts receivable. At December 31, 1994, $54 million was sold under the agreement.

6 INCOME TAXES

The components of Federal and state income taxes for the years ended December 31, were as follows:

(IN MILLIONS)	1994	1993	1992
Current tax expense	**$37.5**	$27.8	$25.2
Deferred tax expense	**6.7**	14.1	1.4
Amortization and adjustment of investment tax credits	**(2.6)**	(4.9)	(2.8)
	$41.6	$37.0	$23.8

The overall effective income tax rates shown below for the years ended December 31, were computed by dividing total income tax expense by income before income taxes.

	1994	1993	1992
Statutory Federal income tax rate	**35.0%**	35.0%	34.0%
Add (deduct):			
State income taxes, net of Federal benefits	**5.9**	5.5	5.8
Effect of property related temporary differences for which deferred taxes are not provided under rate making principles	**3.0**	1.5	0.4
Amortization of investment tax credits	**(2.5)**	(2.6)	(3.9)
Reversal through tariffs of deferred taxes provided at rates in excess of the current statutory Federal income tax rate	**(1.4)**	(1.7)	(2.4)
Adjustment of prior period taxes	**(1.6)**	(2.3)	(1.6)
Other items, net	**–**	(0.1)	0.6
Overall effective income tax rate	**38.4%**	35.3%	32.9%

The accumulated deferred income taxes as set forth below in the Consolidated Balance Sheets at December 31, arise from the following temporary differences:

(IN MILLIONS)	1994	1993
Property related	**$288**	$280
Investment tax credit related	**(28)**	(30)
Decommissioning related	**(13)**	(12)
Other	**(2)**	(2)
	$245	$236

7 BENEFIT PLANS

[a] Pension Plans - The Company has one contributory and two noncontributory retirement plans that, collectively, cover substantially all of its employees. Plan benefits are generally based on years of service and compensation during the employees' latter years of employment. Payments made from the pension funds to retired employees and beneficiaries during 1994 totaled $9.9 million.

The Company's policy is to fund the pension cost at an amount that is at least equal to the minimum funding requirements mandated by the Employee Retirement Income Security Act (ERISA) and that does not exceed the maximum tax deductible amount for the year.

Pursuant to the provisions of SFAS 71, certain adjustments to Utilities' pension provision are necessary to reflect the accounting for pension costs allowed in its most recent rate cases.

The components of the pension provision for the years ended December 31, were as follows:

(IN THOUSANDS)	1994	1993	1992
Service cost	**$ 5,863**	$ 4,342	$ 4,529
Interest cost on projected benefit obligation	**11,431**	11,314	10,219
Assumed return on plans' assets	**(12,593)**	(12,363)	(11,872)
Amortization of unrecognized gain	**(180)**	(767)	(135)
Amortization of prior service cost	**1,354**	1,213	956
Amortization of unrecognized plans' assets as of January 1, 1987	**(333)**	(389)	(389)
Pension cost	**5,542**	3,350	3,308
Adjustment to funding level	**(5,431)**	(2,940)	294
Total pension costs paid to the Trustees	**$ 111**	$ 410	$ 3,602
Actual return on plans' assets	**$ (97)**	$12,880	$ 8,949

A reconciliation of the funded status of the plans to the amounts recognized in the Consolidated Balance Sheets at December 31, is presented below:

(DOLLARS IN THOUSANDS)	1994	1993
Fair market value of plans' assets	**$167,535**	$176,935
Actuarial present value of benefits rendered to date–		
Accumulated benefits based on compensation to date, including vested benefits of $98,384,000 and $102,621,000, respectively	**108,585**	112,561
Additional benefits based on estimated future salary levels	**40,146**	43,673
Projected benefit obligation	**148,731**	156,234
Plans' assets in excess of projected benefit obligation	**18,804**	20,701
Remaining unrecognized net asset existing at January 1, 1987, being amortized over 20 years	**(3,844)**	(4,177)
Unrecognized prior service cost	**18,260**	16,985
Unrecognized net gain	**(34,420)**	(29,278)
Prepaid (accrued) pension cost recognized in the Consolidated Balance Sheets	**$(1,200)**	$4,231
Assumed rate of return, all plans	**8.00%**	8.00%
Weighted average discount rate of projected benefit obligation, all plans	**8.25%**	7.50%
Range of assumed rates of increase in future compensation levels for the plans	**4.00-5.75%**	4.00-5.75%

[b] Other Postemployment Benefit Plans-The Company provides certain benefits to retirees (primarily health care benefits). Through 1992, the Company expensed such costs as benefits were paid ($2.2 million for 1992), which was consistent with rate making practices at that time.

Effective January 1, 1993, the Company adopted SFAS 106, which requires the accrual of the expected cost of postretirement benefits other than pensions during the employees' years of service. The IUB has adopted rules stating that postretirement benefits other than pensions will be included in Utilities' rates pursuant to the provisions of SFAS 106. The rules permit Utilities to amortize the transition obligation as of January 1, 1993, over 20 years and require that all amounts collected are to be funded into an external trust to pay benefits as they become due. Beginning in 1993, the gas portion of these costs is being recovered in Utilities' gas rates, and is funded in external trust funds. The IUB has adopted a rule that permits a deferral of the incremental electric SFAS 106 costs until the earlier of: 1) an order in an electric rate case, or 2) December 31, 1995. Accordingly, pursuant to the provisions of SFAS 71, Utilities had deferred $5.6 million of such costs at December 31, 1994. Utilities has requested recovery of these costs in the electric rate case discussed in Note 3[a].

The transition obligation for the non-regulated operations was expensed in 1993 and is reflected in other operating expenses.

The components of postretirement benefit costs for the years ended December 31, were as follows:

(IN THOUSANDS)	1994	1993
Service cost	**$1,838**	$1,744
Interest cost on accumulated postretirement benefit obligation	**3,275**	3,363
Actual return on plans' assets	**(47)**	—
Amortization of transition obligation existing at January 1, 1993, for regulated operations	**2,024**	2,024
Amortization of unrecognized asset loss	**(13)**	—
Amortization of unrecognized gain	**(6)**	—
Amortization of prior service cost	**19**	—
Write-off of transition obligation existing at January 1, 1993, for non-regulated operations	—	1,434
Postretirement benefit costs	**7,090**	8,565
Less: Deferred postretirement benefit costs	**2,732**	2,858
Net postretirement benefit costs	**$4,358**	$5,707

A reconciliation of the funded status of the plans to the amounts recognized in the Consolidated Balance Sheets at December 31, is presented below:

(DOLLARS IN THOUSANDS)	1994	1993
Fair market value of plans' assets	**$ 1,127**	$ 1,171
Accumulated postretirement benefit obligation:		
Active employees not yet eligible	**18,896**	19,092
Active employees eligible	**5,306**	4,294
Retirees	**18,602**	20,739
Total accumulated postretirement benefit obligation	**42,804**	44,125
Accumulated postretirement benefit obligation in excess of plans' assets	**(41,677)**	(42,954)
Unrecognized transition obligation	**36,439**	38,463
Unrecognized net gain	**(5,703)**	(1,175)
Unrecognized prior service cost	**170**	—
Accrued postretirement benefit cost in the Consolidated Balance Sheets	**$(10,771)**	$ (5,666)

Assumed rate of return	**8.00%**	8.00%
Weighted average discount rate of accumulated postretirement benefit obligation	**8.25%**	7.50%
Medical trend on paid charges:		
Initial trend rate	**11.00%**	12.00%
Ultimate trend rate	**6.50%**	6.50%

The assumed medical trend rates are critical assumptions in determining the service cost and accumulated postretirement benefit obligation related to postretirement benefit costs. A 1% change in the medical trend rates, holding all other assumptions constant, would have changed the 1994 service cost by $1.0 million (20%) and the accumulated postretirement benefit obligation at December 31, 1994, by $6.8 million (16%).

On January 1, 1994, the Company adopted the provisions of SFAS 112, "Employers' Accounting for Postemployment Benefits," and its adoption did not have a material effect on the Company's financial position or results of operations.

8 COMMON STOCK

The following table presents information relating to the issuance of common stock.

(DOLLARS IN THOUSANDS)	NUMBER OF SHARES OUTSTANDING	AMOUNT
Balance, December 31, 1991	24,298,807	$260,414
Stock plan issuances*	404,324	11,473
Shares issued in connection with the Whiting merger	853,832	7,923
Balance, December 31, 1992	25,556,963	279,810
Public offering	2,300,000	66,555
Stock plan issuances*	447,225	13,936
Balance, December 31, 1993	28,304,188	360,301
Shares issued in connection with acquisition of Okie Companies	139,102	4,027
Purchases of treasury stock	(213,300)	(6,233)
Stock plan issuances*	547,056	15,395
Balance, December 31, 1994	28,777,046	$373,490
Shares reserved for issuance pursuant to the Company's stock plans at December 31, 1994*	2,457,397	

* *Dividend Reinvestment and Stock Purchase Plan, Employee Stock Purchase Plan, Employee Savings Plan, Long-Term Incentive Plan of 1987, IES Bonus Stock Ownership Plan and Whiting Stock Option Plans*

In 1994, Industries issued 139,102 shares of its common stock for the purchase of certain companies, collectively referred to as the Okie Companies, in a transaction that was accounted for as a purchase. The Okie Companies hold oil and gas properties in the United States and are now wholly-owned subsidiaries of Whiting.

During 1994, Industries reacquired 213,300 shares of its common stock on the open market, at an average price of $29.22 per share, which were subsequently issued to the Dividend Reinvestment Plan and certain of its benefit plans. At December 31, 1994, no shares remained held as treasury stock.

In the first quarter of 1993, Industries sold 2.3 million shares of its common stock in a public offering. The shares were priced at $30 per share. Net proceeds to Industries from this sale were approximately $67 million.

9 PREFERRED AND PREFERENCE STOCK

Utilities has 466,406 shares of Cumulative Preferred Stock, $50 par value, authorized for issuance at December 31, 1994, of which the 6.10%, 4.80% and 4.30% Series had 100,000, 146,406 and 120,000 shares, respectively, outstanding at both December 31, 1994 and 1993. These shares are redeemable at the option of Utilities upon 30 days notice at $51.00, $50.25 and $51.00 per share, respectively, plus accrued dividends.

There are 5,000,000 shares of Industries Cumulative Preferred Stock (no par value) and 700,000 shares of Utilities Cumulative Preference Stock ($100 par value) authorized for issuance, of which none were outstanding at December 31, 1994.

10 DEBT

[a] Long-Term Debt-Utilities' Indentures and Deeds of Trust securing its First Mortgage Bonds constitute direct first mortgage liens upon substantially all tangible public utility property. Utilities' Indenture and Deed of Trust securing its Collateral Trust Bonds constitutes a second lien on substantially all tangible public utility property while First Mortgage Bonds remain outstanding.

Diversified has a variable rate credit facility that extends through November 9, 1997, with two one-year extensions available to Diversified. The facility also serves as a standby agreement for Diversified's commercial paper program. The agreement provides for a combined maximum of $150 million of borrowings under the agreement and commercial paper to be outstanding at any one time. Interest rates and maturities are set at the time of borrowing for direct borrowings under the agreement and for issuances of commercial paper. The interest rate options are based upon quoted market rates and the maturities are less than one year. At December 31, 1994, $12 million was borrowed under this facility, bearing an interest rate of 6.44%, maturing in January 1995. Diversified also had $68.5 million of commercial paper outstanding at December 31, 1994, with interest rates ranging from 6.27% to 6.38% and maturity dates in the first quarter of 1995, which was also supported by the facility. Diversified intends to continue borrowing under the renewal options of the facility and no conditions exist at December 31, 1994, that would prevent such borrowings. Accordingly, this debt is classified as long-term in the Consolidated Balance Sheets.

Total sinking fund requirements, which Utilities intends to meet by pledging additional property under the terms of Utilities' Indentures and Deeds of Trust, and debt maturities for 1995-1999 are as follows:

(IN THOUSANDS)	DEBT MATURITIES				
DEBT ISSUE	1995	1996	1997	1998	1999
Utilities:					
Sinking fund requirements	$ 780	$ 630	$ 550	$ 550	$ 550
Pollution control	140	140	140	140	140
Series W	50,000	—	—	—	—
Series X	50,000	—	—	—	—
Series J	—	15,000	—	—	—
6-1/8% Series	—	—	8,000	—	—
Series Z	—	—	—	—	50,000
Diversified:					
Variable rate credit facility	80,500	—	—	—	—
Other subsidiaries' debt	282	305	331	357	10,393
Total	$181,702	$16,075	$9,021	$1,047	$61,083

The Company intends to refinance the majority of the debt maturities with long-term securities.

[b] Long-Term Debt of McLeod, Inc.-Diversified has a $7.5 million investment in Class B Common Stock of McLeod, Inc. (McLeod), which represents a voting interest of less than 20%. McLeod provides local and long-distance telecommunication services to business customers and other services related to fiber optics. In 1994, Diversified entered into an agreement whereby it will guarantee $6 million under a credit facility between McLeod and its bankers. Diversified is paid an annual commitment fee and receives options to purchase additional shares of Class B Common Stock for as long as the guarantee remains outstanding. At December 31, 1994, McLeod had $3.5 million outstanding under its facility.

[c] Short-Term Debt-At December 31, 1994, the Company had bank lines of credit aggregating $77.7 million (Industries-$1.5 million, Utilities-$67.7 million, Diversified-$7.5 million and Whiting-$1.0 million). Utilities was using $37 million to support commercial paper (weighted average interest rate of 6.13%) and $7.7 million to support certain pollution control obligations. Commitment fees are paid to maintain these lines and there are no conditions which restrict the unused lines of credit. In addition to the above, Utilities has an uncommitted credit facility with a financial institution whereby it can borrow up to $40 million. Rates are set at the time of borrowing and no fees are paid to maintain this facility. At December 31, 1994, there were no borrowings under this facility. Utilities also has a letter of credit in the amount of $34 million supporting two of its variable rate pollution control obligations.

11 ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of financial instruments at December 31, 1994, and the basis upon which they were estimated are as follows:

[a] Current Assets and Current Liabilities - The carrying amount approximates fair value because of the short maturity of such financial instruments.

[b] Nuclear Decommissioning Trust Funds - The carrying amount represents the fair value of these trust funds, as reported by the trustee. On January 1, 1994, the Company adopted SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities." This standard, which applies to Utilities' nuclear decommissioning trust funds, requires that unrealized gains and losses on such investments be included in the reported balance of such investments. At December 31, 1994, the balance of the "Nuclear decommissioning trust funds" as shown in the Consolidated Balance Sheets included $0.8 million of unrealized losses on the investments held in the trust funds. The accumulated reserve for decommissioning costs was adjusted by a corresponding amount and there was no effect on net income or earnings per average common share from adopting this standard.

[c] Cumulative Preferred Stock of Utilities - The estimated fair value of this stock of $10.2 million is based upon the market yield of similar securities.

[d] Long-Term Debt - The carrying amount of long-term debt was $576 million compared to estimated fair value of $551 million. The estimated fair value of long-term debt is based upon quoted market prices.

Since Utilities is subject to regulation, any gains or losses related to the difference between the carrying amount and the fair value of financial instruments may not be realized by the Company's shareholders.

12 COMMITMENTS AND CONTINGENCIES

[a] Construction Program - The Company's construction and acquisition program anticipates expenditures of approximately $202 million for 1995, which includes $163 million at Utilities and $39 million at Diversified. In addition to the $163 million, Utilities anticipates expenditures of approximately $13 million for mandated energy efficiency programs. These expenditures will be deferred pursuant to IUB rules as discussed in Note 3[b]. Substantial commitments have been made in connection with all such expenditures.

[b] Purchase Power Contracts - In connection with the acquisition of the UE properties discussed in Note 2, Utilities is purchasing power from UE under a firm capacity contract with a 1995 requirement of 100 Mw of delivered capacity declining to 60 Mw in 1997. Utilities will also purchase an additional annual maximum interruptible capacity of up to 54 Mw of 25 Hz power, which extends through 1998 and will continue thereafter unless either party gives a three-year notice of cancellation. The costs of capacity purchases for these contracts are reflected in "Purchased power" in the Consolidated Statements of Income.

Utilities has a contract to purchase capacity of 50 Mw from the City of Muscatine for the period May 1, 1995, through October 31, 1995. Utilities has also entered into an agreement with Basin Electric Power Cooperative to purchase capacity of 50 Mw, 75 Mw, 100 Mw and 100 Mw during the annual six-month summer season for the years 1996 through 1999, respectively.

Total capacity charges under all existing contracts will approximate $16.3 million, $14.3 million, $12.3 million, $4.7 million and $3.4 million for the years 1995–1999, respectively.

[c] Coal Contract Commitments - Utilities has entered into coal supply contracts which expire between 1996 and 2001 for its fossil-fueled generating stations. At December 31, 1994, the contracts cover approximately $199 million of coal over the life of the contracts, which includes $50 million expected to be incurred in 1995. Utilities expects to supplement these coal contracts with spot market purchases to fulfill its future fossil fuel needs.

[d] Information Technology Services - The Company entered into an agreement, expiring in 2004, with Electronic Data Systems Corporation (EDS) for information technology services. The contract is subject to declining termination fees. The Company's anticipated expenditures under the agreement for 1995 are estimated to be approximately $9.5 million. Future costs under the agreement are variable and are dependent upon the Company's level of usage of technological services from EDS.

[e] Nuclear Insurance Programs - The Price-Anderson Amendments Act of 1988 (1988 Act) provides Utilities with the benefit of $8.9 billion of public liability coverage consisting of $200 million of insurance and $8.7 billion of potential retroactive assessments from the owners of nuclear power plants. Based upon its ownership of the DAEC, under the 1988 Act, Utilities could be assessed a maximum of $79.3 million per nuclear incident, with a maximum of $10 million per year (of which Utilities' 70% ownership portion would be approximately $55 million and $7 million, respectively) if losses relating to the incidents exceeded $200 million. These limits are subject to adjustments for inflation in future years.

Utilities is a member of Nuclear Electric Insurance Limited (NEIL), which provides insurance coverage for the cost of certain property losses at nuclear generating stations and for the cost of replacement power during certain outages. Companies insured through NEIL are subject to retroactive premium adjustments if losses exceed accumulated reserve funds. NEIL's accumulated reserve funds are currently sufficient to more than cover its exposure in the event of a single incident under the property damage or replacement power coverages. However, Utilities could be assessed annually a maximum of $8.5 million for certain property losses and $0.7 million for replacement power if NEIL's losses relating to accidents exceeded its accumulated reserve funds. Utilities is not aware of any losses that it believes are likely to result in an assessment.

[f] Environmental Liabilities - The Company has recorded environmental liabilities of approximately $44 million, including $5.4 million as current liabilities, in its Consolidated Balance Sheets at December 31, 1994. The significant items are discussed below.

Former Manufactured Gas Plant (FMGP) Sites

Utilities has been named as a Potentially Responsible Party (PRP) by either the Iowa Department of Natural Resources (IDNR), the Minnesota Pollution Control Agency (MPCA) or the United States Environmental Protection Agency (EPA) for 28 FMGP sites. Utilities believes that it is not responsible for two of the sites for which it has been designated a PRP. Utilities has another FMGP site for which it has not yet been formally designated as a PRP. Utilities is working pursuant to the requirements of the IDNR, MPCA and EPA to investigate, mitigate, prevent and remediate, where necessary, damage to property, including damage to natural resources, at and around the remaining 27 sites in order to protect public health and the environment. In addition, Utilities has recently become aware that two additional sites may exist, but it has not yet been able to determine if any liability may exist.

Utilities has completed the remediation of three sites and is in various stages of the investigation and/or remediation processes for 22 sites. The investigation process is scheduled to begin in 1995 or 1996 for the two other sites. In 1994, Utilities received updated investigation reports on a number of sites, which, at some sites, indicated a greater volume of contaminated soil, surface and ground water needing treatment, and a greater volume of substances requiring higher cost incineration, than was anticipated in prior estimates. It is possible that future cost estimates will be greater than the current estimates as the investigation process proceeds and as additional facts become known.

Utilities has recorded environmental liabilities related to the FMGP sites of $31 million (including $4.3 million as current liabilities) at December 31, 1994. These amounts are based upon Utilities' best current estimate of the amount to be incurred for investigation and remediation costs for those sites where the investigation process has been or is substantially completed. For those sites where the investigation is in its earlier stages or has not started, the liability represents the minimum of the estimated cost range. All investigations are expected to be completed by 1999 and site-specific remediations, based on recommendations from the IDNR, MPCA and EPA, are anticipated to be completed within three years after the completion of the investigations of each site. Utilities may be required to monitor these sites for a number of years upon completion of remediation, as is the case with the three sites for which remediation has been completed.

Utilities has begun pursuing coverage for investigation, mitigation, prevention, remediation and monitoring costs from its insurance carriers and is investigating the potential for third party cost sharing for FMGP investigation and clean-up costs. The amount of shared costs, if any, can not be reasonably determined and, accordingly, no potential sharing has been recorded at December 31, 1994. Regulatory assets of $31.0 million have been recorded in the Consolidated Balance Sheets, which reflect the future recovery that is being provided through Utilities' rates. Considering the rate treatment allowed by the IUB, management believes that the clean-up costs incurred by Utilities for these FMGP sites will not have a material adverse effect on its financial position or results of operations.

National Energy Policy Act of 1992

The National Energy Policy Act of 1992 requires owners of nuclear power plants to pay a special assessment into a "Uranium Enrichment Decontamination and Decommissioning Fund." The assessment is based upon prior nuclear fuel purchases and, for the DAEC, averages $1.4 million annually through 2007, of which Utilities' 70% share is $1.0 million. Utilities is recovering the costs associated with this assessment through its electric fuel adjustment clauses over the period the costs are assessed. Utilities' 70% share of the future assessment, $12.0 million payable through 2007, has been recorded as a liability in the Consolidated Balance Sheets, including $0.8 million included in "Current liabilities - Environmental liabilities," with a related regulatory asset for the unrecovered amount.

Oil and Gas Properties Dismantlement and Abandonment Costs

Whiting is responsible for certain dismantlement and abandonment costs related to various offshore oil and gas properties, the most significant of which is located off the coast of California. Whiting accrues these costs as reserves are extracted and such costs are included in "Depreciation and amortization" in the Consolidated Statements of Income. A corresponding environmental liability, $0.1 million at December 31, 1994, has been recognized in the Consolidated Balance Sheets for the cumulative amount expensed.

[g] Clean Air Act - The Clean Air Act Amendments Act of 1990 (Act) requires emission reductions of sulfur dioxide and nitrogen oxides to achieve reductions of atmospheric chemicals believed to cause acid rain. The provisions of the Act will be implemented in two phases with Phase I affecting two of Utilities' units beginning in 1995 and Phase II affecting all units beginning in the year 2000. Utilities is in the process of completing the modifications necessary to meet the Phase I requirements.

Utilities expects to meet the requirements of Phase II by switching to lower sulfur fuels and through capital expenditures primarily related to fuel burning equipment and boiler modifications. Utilities estimates capital expenditures at approximately $22.5 million, including $4.4 million in 1995, in order to meet the requirements of the Act.

[h] FERC Order No. 636-The FERC issued Order No. 636 (Order 636) in 1992. Order 636, as modified on rehearing: 1) requires Utilities' pipeline suppliers to unbundle their services so that gas supplies are obtained separately from transportation service, and transportation and storage services are operated and billed as separate and distinct services; 2) requires the pipeline suppliers to offer "no notice" transportation service under which firm transporters (such as Utilities) can receive delivery of gas up to their contractual capacity level on any day without prior scheduling; 3) allows pipelines to abandon long-term (one year or more) transportation service provided to a customer under an expiring contract whenever the customer fails to match the highest rate and longest term (up to 20 years) offered to the pipeline by other customers for the particular capacity; and 4) provides for a mechanism under which pipelines can recover prudently incurred transition costs associated with the restructuring process. Utilities has enhanced access to competitively priced gas supply and more flexible transportation services as a result of Order 636. However, under Order 636, Utilities is required to pay certain transition costs incurred and billed by its pipeline suppliers.

Utilities' three pipeline suppliers have made filings with the FERC to begin collecting their respective transition costs, and additional filings are expected. Utilities began paying the transition costs in 1993, and, at December 31, 1994, has recorded a liability of $8.0 million for those transition costs that have been incurred by the pipelines to date, including $3.0 million expected to be billed through 1995. Utilities is currently recovering the transition costs from its customers through its Purchased Gas Adjustment Clauses as such costs are billed by the pipelines. Transition costs, in addition to the recorded liability, that may ultimately be charged to Utilities could approximate $10 million. The ultimate level of costs to be billed to Utilities depends on the pipelines' filings with the FERC and other future events, including the market price of natural gas. However, Utilities believes any transition costs that the FERC would allow the pipelines to collect from Utilities would be recovered from its customers, based upon regulatory treatment of these costs currently and similar past costs by the IUB. Accordingly, regulatory assets, in amounts corresponding to the recorded liabilities, have been recorded to reflect the anticipated recovery.

13 JOINTLY-OWNED ELECTRIC UTILITY PLANT

Under joint ownership agreements with other Iowa utilities, Utilities has undivided ownership interests in jointly-owned electric generating stations and related transmission facilities. Each of the respective owners is responsible for the financing of its portion of the construction costs. Kilowatt-hour generation and operating expenses are divided on the same basis as ownership with each owner reflecting its respective costs in its Statements of Income. Information relative to Utilities' ownership interest in these facilities at December 31, 1994 is as follows:

(DOLLARS IN MILLIONS)	DAEC	OTTUMWA UNIT 1	NEAL UNIT 3
Utility plant in service	$490.8	$187.9	$55.5
Accumulated depreciation	$242.4	$ 80.6	$25.7
Construction work in progress	$ 5.3	$ —	$ 1.3
Plant capacity–Mw	515	716	515
Percent ownership	70%	48%	28%
In-service date	1974	1981	1975

14 SEGMENTS OF BUSINESS

The principal business segments of Industries are the generation, transmission, distribution and sale of electric energy by Utilities and the purchase, distribution and sale of natural gas by Utilities and Industrial Energy Applications, Inc., a wholly-owned subsidiary of Diversified. Certain financial information relating to Industries' significant segments of business is presented below:

(IN THOUSANDS)	YEAR ENDED DECEMBER 31 1994	1993	1992
Operating results:			
Revenues:			
Electric	**$ 537,327**	$ 550,521	$ 462,999
Gas	**165,569**	181,923	167,082
Operating income:			
Electric	**125,487**	128,994	90,891
Gas	**8,762**	13,673	9,164
Other information:			
Depreciation and amortization:			
Electric	**68,640**	63,832	59,707
Gas	**6,214**	5,186	4,024
Construction and acquisition expenditures:			
Electric	**99,543**	84,720	154,902
Gas	**12,719**	12,582	17,323
Assets:			
Identifiable assets			
Electric	**1,347,024**	1,288,505	1,226,614
Gas	**192,397**	168,800	147,395
	1,539,421	1,457,305	1,374,009
Other corporate assets	**304,568**	242,514	220,373
Total consolidated assets	**$1,843,989**	$1,699,819	$1,594,382

	1994	1993	1992	1991	1990	1989
Income statement data (000's):						
Operating revenue	**$ 785,864**	$ 801,266	$ 678,296	$ 661,538	$ 624,214	$ 599,838
Operating income	**147,933**	151,269	109,024	103,357	98,043	106,592
Net income	**66,818**	67,938	48,711	44,657	80,330*	53,565
Common stock data (per share except percentages):						
Earnings	**$ 2.34**	$ 2.45	$ 1.92	$ 1.85	$ 3.37*	$ 2.27
Dividends declared	**2.10**	2.10	2.10	2.03	1.82	1.77
Return on average common equity	**11.5%**	12.4%	10.3%	9.7%	18.4%	13.2%
Market price at year-end	**$ 25.25**	$ 31.25	$ 29.50	$ 27.25	$ 27.75	$ 27.63
Book value at year-end	**20.56**	20.21	18.89	19.07	19.15	17.52
Ratio of market price to book value at year-end	**123%**	155%	156%	143%	145%	158%
Capitalization:						
Common equity	**50%**	51%	48%	50%	53%	49%
Preferred and preference stock	**2**	2	2	3	3	4
Long-term debt	**48**	47	50	47	44	47
	100%	100%	100%	100%	100%	100%
Other selected financial data:						
Total assets (000's)	**$1,843,989**	$1,699,819	$1,594,382	$1,448,492	$1,400,802	$1,342,615
Non-utility assets (000's)	**198,621**	152,841	155,144	145,283	141,739	127,684
Long-term obligations (000's)	**626,011**	577,611	553,257	507,921	462,798	472,760
Construction and acquisition expenditures (000's)	**201,552**	163,644	191,834**	119,821	103,154	87,381
Times interest earned before income taxes	**3.38**	3.38	2.63	2.69	4.45	3.10
Selected financial data for IES Utilities Inc.:						
Utility plant in service (000's)	**$2,042,179**	$1,932,558	$1,852,733	$1,680,108	$1,587,886	$1,475,550
Accumulated depreciation (000's)	**880,888**	813,312	759,754	691,015	639,211	579,160
Construction and acquisition expenditures (000's)	**148,062*****	113,212	171,013**	105,009	95,075	79,919
Times interest earned before income taxes	**3.39**	3.64	2.67	2.93	3.04	3.36
Electric Kwh sales (excluding off-system) (000's)	**9,291,575**	8,905,522	7,132,671	7,244,209	6,880,136	6,671,474
Gas Dth sales (including transported volumes) (000's)	**37,975**	39,006	37,035	37,129	36,486	40,050

** Includes the effects of a $66 million pre-tax gain on sale of Telecom ★ USA stock.*
*** Includes $61 million for the acquisition of the Iowa service territory from Union Electric Company.*
**** Includes $9.2 million of acquisitions from affiliated companies.*

	1994	1993	1992	1991	1990	1989	FIVE-YEAR COMPOUND RATE OF GROWTH(1)
Operating revenue (000's):							
Residential and Rural	**$200,629**	$206,561	$177,625	$189,194	$185,302	$175,899	
Commercial	**146,086**	145,898	124,829	124,320	119,908	112,662	
Industrial	**143,944**	137,595	103,886	100,733	97,788	94,222	
Street lighting and public authorities	**6,504**	6,098	5,410	6,332	6,478	6,282	
Total from ultimate consumers	**497,163**	496,152	411,750	420,579	409,476	389,065	
Sales for resale	**19,195**	20,254	18,602	19,745	19,582	18,214	
Off-system	**18,077**	29,400	28,304	36,596	31,144	28,281	
Other	**2,892**	4,715	4,343	5,658	3,047	2,973	
	$537,327	$550,521	$462,999	$482,578	$463,249	$438,533	
Energy sales (000's Kwh):							
Residential and Rural	**2,493,702**	2,528,220	2,158,768	2,367,979	2,254,913	2,222,152	2.3%
Commercial	**2,148,302**	2,078,635	1,771,357	1,764,495	1,686,132	1,626,046	5.7%
Industrial	**4,014,821**	3,674,217	2,612,803	2,467,533	2,312,109	2,236,388	12.4%
Street lighting and public authorities	**67,029**	63,174	60,991	87,022	88,305	86,635	-5.0%
Total to ultimate consumers	**8,723,854**	8,344,246	6,603,919	6,687,029	6,341,459	6,171,221	7.2%
Sales for resale	**567,721**	561,276	528,752	557,180	538,677	500,253	2.6%
Sales of electricity to customers	**9,291,575**	8,905,522	7,132,671	7,244,209	6,880,136	6,671,474	6.8%
Off-system	**1,137,219**	2,068,015	2,275,616	2,738,159	2,282,204	1,959,828	-10.3%
	10,428,794	10,973,537	9,408,287	9,982,368	9,162,340	8,631,302	3.9%
Sources of electric energy (000's Kwh):							
Generation:							
Fossil, primarily coal	**5,522,966**	5,356,930	4,317,154	4,758,720	4,354,697	4,063,974	
Nuclear (2)	**2,875,867**	2,264,507	2,402,501	2,902,768	2,108,100	2,228,068	
Hydro	**8,205**	7,201	7,579	6,547	4,195	1,902	
	8,407,038	7,628,638	6,727,234	7,668,035	6,466,992	6,293,944	
Purchases	**2,646,673**	3,949,296	3,322,182	2,994,216	3,282,886	2,891,808	
	11,053,711	11,577,934	10,049,416	10,662,251	9,749,878	9,185,752	
Net capability at time of peak load (Kw):							
Generating capability	**1,741,100**	1,733,700	1,718,600	1,719,150	1,684,700	1,633,000	
Purchase capability	**280,000**	248,000	207,000	227,000	179,000	170,000	
Capacity credits (3)	—	—	—	—	18,960	20,650	
	2,021,100	1,981,700	1,925,600	1,946,150	1,882,660	1,823,650	2.1%
Net peak load (Kw) (4)	**1,779,627**	1,716,380	1,425,441	1,607,606	1,547,826	1,486,243	3.7%
Number of customers at year-end	**330,405**	327,265	325,172	305,663	304,265	302,632	1.8%
Revenue per Kwh (excluding off-system) in cents	**5.59**	5.85	6.09	6.16	6.28	6.15	-1.9%

(1) The five-year compound growth rates include the effect of the acquisition of the Iowa service territory from Union Electric Company on December 31, 1992
(2) Represents IES Utilities' 70% undivided interest in the Duane Arnold Energy Center, which is operated by IES Utilities Inc.
(3) Represents capacity credits from municipals served by IES Utilities Inc.
(4) 60 minutes integrated.

GAS OPERATING COMPARISON

	1994	1993	1992	1991	1990	1989	FIVE-YEAR COMPOUND RATE OF GROWTH
Operating revenue (000's):							
IES Utilities Inc.:							
Residential	**$ 82,795**	$ 90,462	$ 78,685	$ 74,114	$ 66,513	$ 68,751	
Commercial	**40,912**	45,528	39,780	37,613	35,378	38,035	
Industrial	**12,515**	15,593	18,649	17,383	21,500	25,172	
	136,222	151,583	137,114	129,110	123,391	131,958	
Other	**2,811**	2,735	2,341	1,908	1,884	1,923	
Total revenues	**139,033**	154,318	139,455	131,018	125,275	133,881	
Industrial Energy Applications, Inc.	**26,536**	27,605	27,627	15,219	6,808	1,049	
	$165,569	$181,923	$167,082	$146,237	$132,083	$134,930	
Energy sales (000's dekatherms):							
IES Utilities Inc.:							
Residential	**15,766**	16,971	15,098	15,571	14,315	15,878	-0.1%
Commercial	**9,298**	10,133	8,479	9,389	8,798	9,854	-1.2%
Industrial	**4,010**	4,618	6,175	5,980	6,640	7,409	-11.6%
	29,074	31,722	29,752	30,940	29,753	33,141	-2.6%
Industrial–transported volumes	**8,901**	7,284	7,283	6,189	6,733	6,909	5.2%
Total volumes delivered	**37,975**	39,006	37,035	37,129	36,486	40,050	-1.1%
Industrial Energy Applications, Inc.	**14,443**	12,493	14,830	7,666	4,465	624	87.5%
	52,418	51,499	51,865	44,795	40,951	40,674	5.2%
Operating statistics for IES Utilities Inc.:							
Cost per dekatherm of gas purchased for resale	**$ 3.31**	$ 3.49	$ 3.36	$ 3.10	$ 3.23	$ 2.95	
Peak daily sendout in dekatherms	**288,352**	268,419	254,989	266,344	272,089	311,600	-1.5%
Number of customers at year-end	**172,829**	170,719	16[illegible]	[illegible]78	161,794	160,792	1.5%
Revenue per dekatherm sold for IES Utilities Inc. (excluding transported volumes)	**$ 4.69**	$ 4.78	$ 4.[illegible]	$ 4.17	$ 4.15	$ 3.98	3.3%

SHAREHOLDER INFORMATION

ANNUAL MEETING

The annual meeting of the shareholders will be held at 2:00 p.m., Central Daylight Time on Tuesday, May 16, 1995, at the Collins Plaza Hotel, 1200 Collins Road N.E. in Cedar Rapids, Iowa. A proxy statement with respect to this meeting will be mailed on or about March 20, 1995. All common shareholders are cordially invited to attend. However, those who are unable to attend in person are urged to promptly sign and return their proxy.

STOCK EXCHANGE LISTING

IES Industries Inc. common stock is listed on the New York Stock Exchange under the symbol IES. Newspaper listings often use the symbol IES IND.

GENERAL INQUIRIES

Shareholder inquires, including the replacement of dividend checks, address changes, transfer or reissuance of stock certificates, and requests from the general public for any financial publications may be directed to:
IES Industries Inc. Attn: Shareholder Services
P.O. Box 351 Cedar Rapids, Iowa 52406
1-800-247-9785 or 319-398-7755

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

The Company has a Dividend Reinvestment and Stock Purchase Plan which allows shareholders to automatically reinvest their cash dividends in additional shares of common stock. IES Industries Inc., Shareholder Services, P.O. Box 351, Cedar Rapids, Iowa 52406 acts as the Plan Administrator. A prospectus describing the Dividend Reinvestment and Stock Purchase Plan can be obtained by writing to Shareholder Services.

Safekeeping

Safekeeping is a convenient feature of the Dividend Reinvestment and Stock Purchase Plan designed for shareholders who prefer to have their shares held on account rather than receive a stock certificate. You do not have to reinvest your dividends to take advantage of Safekeeping. When you sign up for Safekeeping, you will receive a Safekeeping receipt in place of your certificate. Contact Shareholder Services for a Safekeeping form and additional information.

WHERE TO BUY AND SELL STOCK

Common stock may be purchased and sold privately or on the open market through a brokerage firm. A shareholder enrolled in the Company's Dividend Reinvestment and Stock Purchase Plan can purchase additional common stock with no brokerage fees through the optional cash feature of the Plan.

Shares held in the Dividend Reinvestment and Stock Purchase Plan can be sold through the Plan Administrator upon written request of the shareholder, who will receive all proceeds of the sales less any brokerage commission.

If you are an IES Utilities Inc. customer you may purchase stock directly from the Company and be enrolled in the Dividend Reinvestment and Stock Purchase Plan. Contact Shareholder Services to receive a Direct Purchase form.

DUPLICATE ACCOUNTS AND MAILINGS

Shareholders sometimes receive more than one Annual Report because shares owned by one shareholder may be registered with slight variations in names. The Company is required to mail an Annual Report to each name on the shareholders list unless the shareholder requests that duplicates can be eliminated. To eliminate duplicate mailings, please send a written request to Shareholder Services.

1994 FORM 10-K AVAILABLE ON REQUEST

The Company files annually with the Securities and Exchange Commission an Annual Report Form 10-K. This required report contains certain other information not made a part of this report. The Company will be happy to send you a copy of our 1994 Form 10-K without charge. Requests should be made to Shareholder Services, P.O. Box 351, Cedar Rapids, Iowa 52406.

DIVIDEND PAYMENT DATES

Scheduled Dividend Payment and Record Dates for 1995 are: Record Dates March 10, 1995; June 9, 1995; September 8, 1995; and December 8, 1995. Payment Dates April 1, 1995; July 1, 1995; and October 1, 1995. January 1, 1996, is the first payment date in 1996.

Dividends paid on common stock in 1994 were fully taxable for federal income tax purposes.

DIVIDEND DIRECT DEPOSIT

We can send your dividend electronically to your financial institution for deposit. Contact Shareholder Services to receive a Dividend Deposit Form.

TRANSFER AGENT & REGISTRAR

IES Industries Inc. Stock Transfer Dept.
200 First Street SE, Cedar Rapids, Iowa 52401
1-800-247-9785 or 319-398-7755
IES Industries Inc.–Common Stock
IES Utilities Inc. –Preferred Stock

STOCK HELD IN BROKERAGE ACCOUNTS – "STREET NAME"

When you purchase your stock and it is held for you by your broker, it is listed with the Company in the broker's name, or "street name." IES Industries Inc. does not know the identity of individual shareholders who hold their shares in this manner–we simply know that a broker holds a certain number of shares which may be for any number of customers.

Accounts held in street name are not eligible to participate in IES Industries Inc. Dividend Reinvestment and Stock Purchase Plan. Also, you receive all dividend payments, annual reports and proxy materials through your broker. Other financial reports may be obtained directly from the Company by contacting Shareholder Services, P.O. Box 351, Cedar Rapids, Iowa 52406.

TRUSTEE

The First National Bank of Chicago, Chicago, Illinois
IES Utilities Inc.
Iowa Electric Light and Power Company–
Mortgage and Deed of Trust – dated August 1, 1940
Mortgage and Deed of Trust – dated September 1, 1993
Iowa Southern Utilities Company-Deed of Trust

SPECIAL NOTICE

In June 1995, the period allowed for the settlement of most stock transactions will be reduced to three days from the current five days. As a result, many brokers are now urging customers to move their securities from registered ownership to street name ownership.

There is no requirement that securities be held in street name ownership by a broker. As an investor, you will retain the power to choose the form of ownership best suited to your needs after the new settlement rules take effect. The choice is still yours. We encourage you to keep your IES Industries Inc. Common Stock registered with the Company. If you have questions or concerns call IES Industries Inc. Shareholder Services at 1-800-247-9785 or 319-398-7755.

BOARD OF DIRECTORS

IES INDUSTRIES INC.

C.R.S. Anderson • •
Retired Chairman of the Board of the Company,
Sanibel, Florida

J. Wayne Bevis •
Vice Chairman & Chief Executive Officer,
Pella Corporation (Window and Door Manufacturing),
Pella, Iowa

Dr. George Daly •
Dean, Leonard Stern School of Business, New York University,
New York, New York

Blake O. Fisher, Jr.
Executive Vice President & Chief Financial Officer of the Company

G. Sharp Lannom, IV •
President & Chief Executive Officer, DeLong Sportswear, Inc. (Sportswear Manufacturing),
Grinnell, Iowa

Lee Liu •
Chairman of the Board, President & Chief Executive Officer of the Company

Jack R. Newman •
Partner, Morgan, Lewis & Bockius (Law Firm),
Washington, DC

Robert D. Ray •
President and Chief Executive Officer, IASD Health Services Inc.,
Des Moines, Iowa

David Q. Reed •
Attorney and Counselor at Law,
Kansas City, Missouri

Henry Royer • •
President and Chief Executive Officer, River City Bank,
Sacramento, California

Robert W. Schlutz •
President, Schlutz Enterprises (Diversified Farming and Retailing),
Columbus Junction, Iowa

Anthony R. Weiler
Senior Vice President, Merchandising,
Heilig-Meyers Furniture (Furniture Merchandising),
Richmond, Virginia

DIRECTORS EMERITUS

Robert F. Brewer
Retired Chairman of the Board & Chief Executive Officer,
Iowa Southern Utilities Company,
Centerville, Iowa

Dr. Salomon Levy
Chairman & Chief Executive Officer, Levy & Associates,
San Jose, California

• *Member Executive Committee*
• *Member Audit Committee*
• *Member Compensation Committee*
Member Nominating Committee

OFFICERS*

IES INDUSTRIES INC.

Lee Liu (61, 37)
Chairman of the Board, President & Chief Executive Officer

Blake O. Fisher, Jr. (50, 4)
Executive Vice President & Chief Financial Officer

Larry D. Root (58, 24)
Executive Vice President

Dr. Robert J. Latham (52, 11)
Senior Vice President, Finance

Stephen W. Southwick (48, 19)
Vice President, General Counsel & Secretary

Thomas R. Seldon (56, 7)
Vice President, Human Resources

Dean E. Ekstrom (47, 9)
Vice President, Management Systems

Peter W. Dietrich (55, 7)
Vice President, Corporate Development

Richard A. Gabbianelli (38, 12)
Controller & Chief Accounting Officer

Dennis B. Vass (45, 4)
Treasurer

IES UTILITIES INC.

Lee Liu (61, 37)
Chairman of the Board & Chief Executive Officer

Blake O. Fisher, Jr. (50, 4)
President, Chief Operating Officer & Chief Financial Officer

René H. Malès (62, 4)
Executive Vice President

Dr. Robert J. Latham (52, 11)
Senior Vice President, Finance

Stephen W. Southwick (48, 19)
Vice President, General Counsel & Secretary

John F. Franz, Jr. (55, 3)
Vice President, Nuclear

Philip D. Ward (54, 21)
Vice President, Engineering & Generation

Harold W. Rehrauer (57, 22)
Vice President, Field Operations

Richard A. Gabbianelli (38, 12)
Controller & Chief Accounting Officer

Dennis B. Vass (45, 4)
Treasurer

Figures in parenthesis represent age and years of service

** Effective February 7, 1995*

IES INDUSTRIES

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Cedar Rapids, Iowa 52401