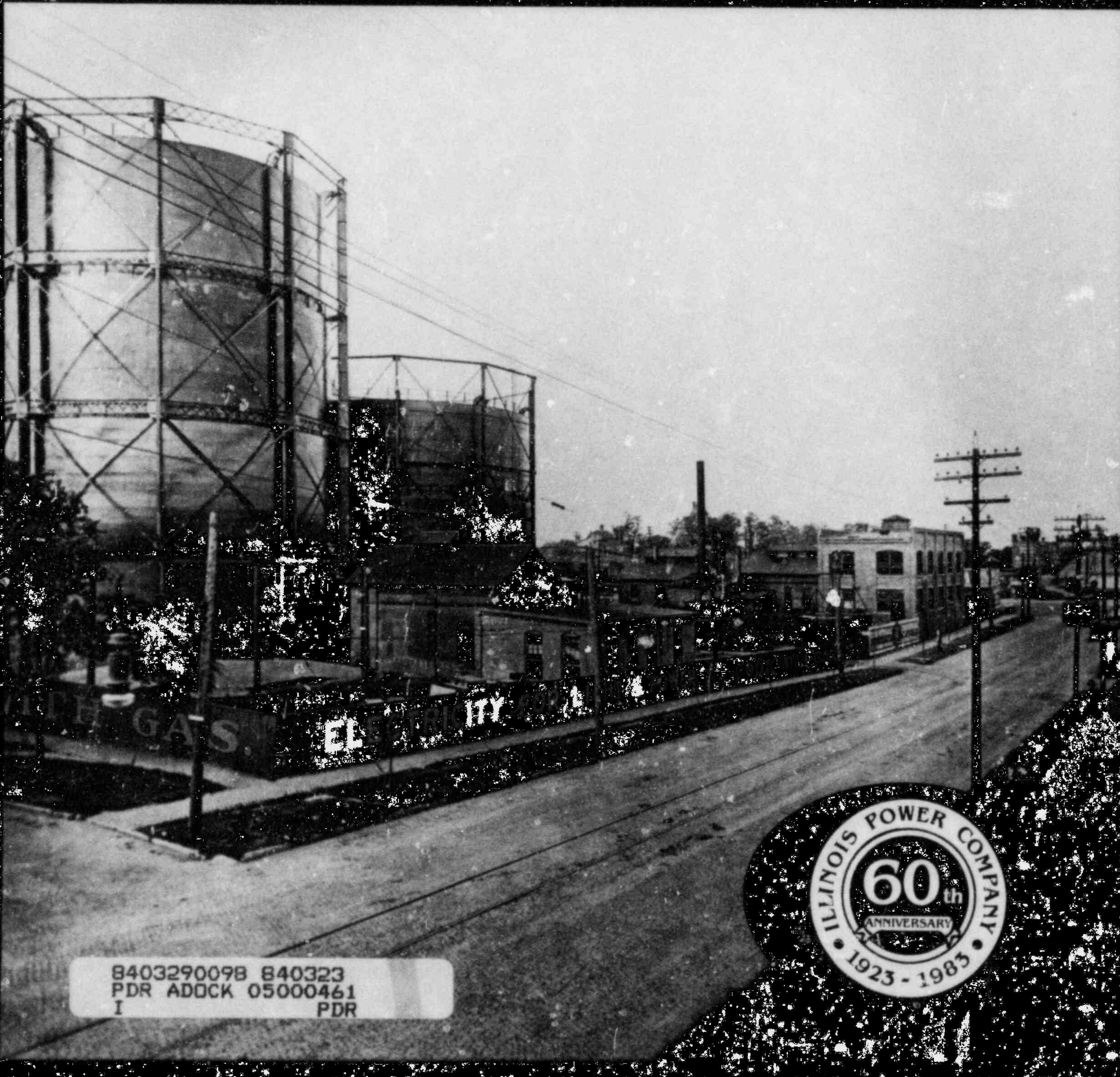
Our Annual Report for 1983

ILLINOIS POWER COMPANY



Illinois Power Company
Annual Report
1983

ILLINOIS POWER COMPANY

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

Principal Office

Monticello, Illinois 61856

Executive Office

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

Transfer Agent and Registrar

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

Stockholder Records and Dividend Disbursing Office

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

Annual Stockholders' Meeting

The annual stockholders' meeting will be held April 19, 1984, at the executive office of the Company at 10 A.M. Proxies for this meeting will be requested by the Board of Directors. A proxy statement will be mailed to stockholders about March 15, 1984.

1983 Illinois Power Company Annual Report

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Sixty Years of Service

Although our company roots, like those of many families in Illinois, go back to the time of Lincoln, the utility known today as Illinois Power Company emerged as a corporation in 1923. Sixty years ago.

It was formed when 37 small utilities were consolidated and became Illinois Power and Light Corporation, known for many years as IP&L. It operated in Illinois, Iowa, Kansas, and Nebraska as part of a large network of utilities under North American Light and Power Company. Illinois Power and Light Corporation became Illinois-Iowa Power Company in 1937. Allen Van Wyck, an attorney, became a director and vice president in 1933 and president in 1940. In 1942 he resigned as president of North American Light and Power Company to devote full time to the presidency of IP&L. In 1943, when the Iowa properties were sold, the company formally became Illinois Power Company.

On our way to becoming today's electric and gas utility serving about one and a half million people in more than 300 communities and much of the farm land between them, we have operated street cars and trains, facilitated rail traffic over the McKinley Bridge into St. Louis, and sold ice door-to-door. Water service and steam heat also were among our early endeavors. Glimpses of some of these long-ago services are included in this report of our operations and activities in 1983, our sixtieth year.

The Front Cover

This was our gas plant on Wood Street in Decatur in the 1920s, when the electricity we generated was used mainly to power street cars and electric trains.

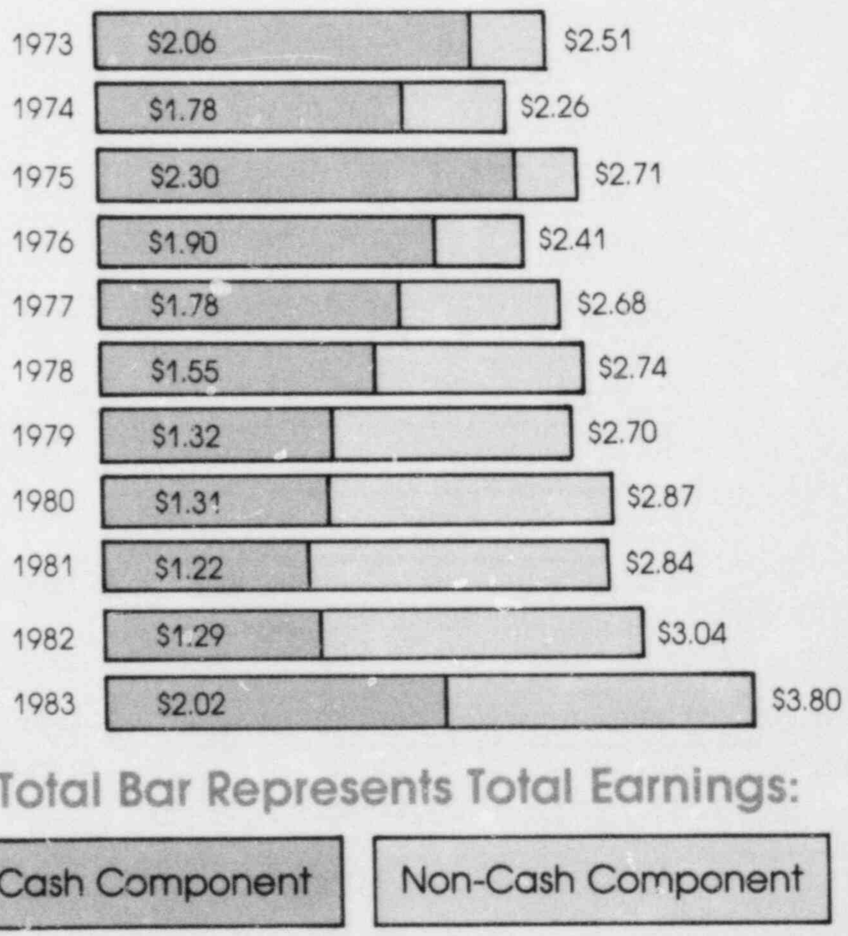
The Back Cover

This "hot line crew" kept the electric trains in power in 1925.

Highlights

	1983	1982	% Increase (Decrease)
	(Thousands of Dollars except per share amounts and statistics)		
Total operating revenues	$ **1,278,259**	$ 1,106,775	15.5
Electric	$ **790,588**	$ 685,544	15.3
Gas	$ **487,671**	$ 421,231	15.8
Total operating expenses and taxes	$ **1,067,459**	$ 946,851	12.7
Net income	$ **207,736**	$ 156,395	32.8
Average number of common shares outstanding (thousands)	**48,474**	44,840	8.1
Total earnings per common share	$ **3.80**	$ 3.04	25.0
Earnings distributed as dividends declared per common share	$ **2.52**	$ 2.48	1.6
Construction expenditures	$ **359,681**	$ 412,884	(12.9)
Sales			
Kilowatt-hour (thousands)	**14,810,856**	13,977,699	6.0
Therm (thousands)	**867,726**	1,007,780	(13.9)

CASH EARNINGS VS. TOTAL EARNINGS PER SHARE



To Our Stockholders:

The figures on the opposite page show the financial highlights of 1983 compared with the year before. Detailed figures, with explanatory notes, are presented in the last section of this annual report. Reports of our operations of the year—sales, revenues, earnings, financing, construction, etc., — along with the major factors affecting them, are presented in the section following this letter.

Our relatively good earnings of $3.80 per share of common stock in 1983 were a big factor in enabling us to increase our common stock dividend on December 7 from 62 cents a share per quarter to 66 cents — an annual rate of $2.64 per share.

However, the figures also show that only $2.02 of our earnings came to us as cash earnings, which have been in a slump for ten years. For continued financial strength, our cash earnings must be improved, and that is one of our most urgent and immediate objectives.

Perhaps the most important of our present activities is completion of the Clinton power station. With the lifting of all stop work orders and the resumption of all construction work, 1983 was a year of encouraging accomplishment in this massive construction project.

While we are concentrating our efforts on the expeditious completion of Clinton, consistent with the highest standards of nuclear safety, we are keeping a close watch on the negative political and regulatory impacts on nuclear projects in other parts of the country.

The reports that follow do not include an account of an important activity affecting our future. This is the inauguration of our formal strategic planning program which will help determine the kind of company we will become during the rest of this century.

Illinois Power Company was born, so to speak, sixty years ago. On our cover and included in the operational section of this report are nostalgic photos that give glimpses of the great changes that we have made in the nature and volume of our services during these years. In the beginning, for example, we generated electricity mainly to power urban and interurban streetcars and trains. We got the idea that we could sell surplus capacity to light homes and businesses and to power machinery. Long before household refrigeration, we sold ice door-to-door in horse-drawn wagons.

We believe that the needs and expectations of our customers in the next decade, along with advanced technology to meet them, make the need to identify and plan for change now even greater than when we saw that the automobile was going to knock us out of the streetcar business.

We are planning our Company's future on a systematic, step-by-step basis. Through a management task force, with the guidance of our Board of Directors, we are looking both inward and outward—inward at an analysis of all the strengths and weaknesses that make us what we are as a company and at what changes will make us the kind of company we must become; outwardly at our markets and what they may become. We are alert to developments leading to new sources and uses of energy. We look ahead to changing with changing times.

Though we are certain of change, we are equally certain that the fundamental principles and values that have guided our Company through all these years will not change.

We are and will remain a utility supplying energy-related services to customers founded on these values:

—To provide service at a competitive price in a safe, reliable, and courteous manner to our customers.

—To maintain financial strength while balancing the interests of customers, employees, and investors.

—To maintain an organizational climate where honesty in communication and excellence in performance provide the competitive edge.

—To advance the economic health of our service territory.

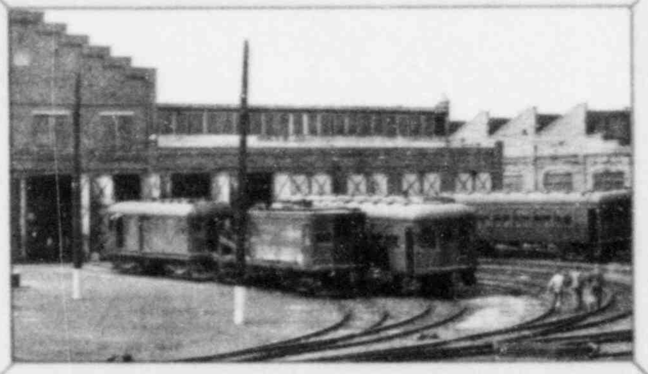
—To conduct our business in a manner that promotes integrity and social responsibility.

This set of values has served our Company well. As we continue with the completion of a large nuclear construction project and as we prepare for the next sixty years of opportunities, these values will remain our fundamental philosophy.

Sincerely yours,

Wendell J. Kelley
Chairman and President

February 22, 1984



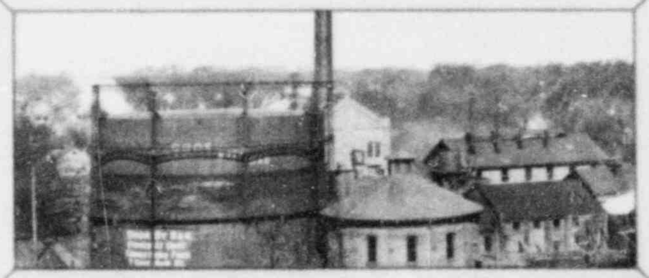
As Times Changed . . .

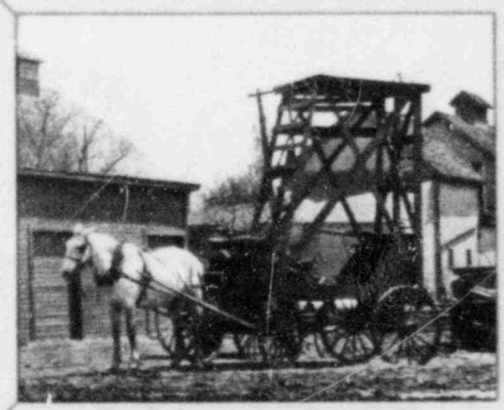
Railroads and streetcars (top, left and right) produced 43% of IP&L's revenue in 1923. They continued as part of the Company's business until the late 1940s.

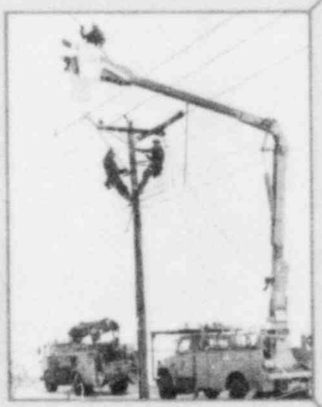
Other services (at left, top to bottom) included operation of the McKinley bridge across the Mississippi for trains, and later cars; ice delivery in DuQuoin and other cities; and distribution of manufactured and natural gas. "Ancestor" companies date back to the Galesburg Gas Light & Coke Co., organized in 1861.

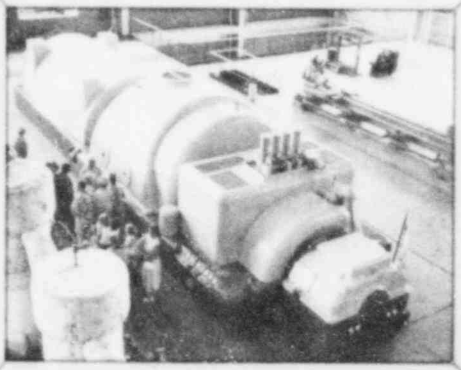
IP improved services and equipment as demand grew, including access to lines for repairs (below). In 1910 horses and a platform brought the lineman. The Nash truck added a convenient improvement — the platform moved up and down. Today, the lineman in a bucket truck soars to heights beyond the reach of his forerunner.

An era ends in 1984 when IP moves from the historic Champaign building in 1921 photo (top right).







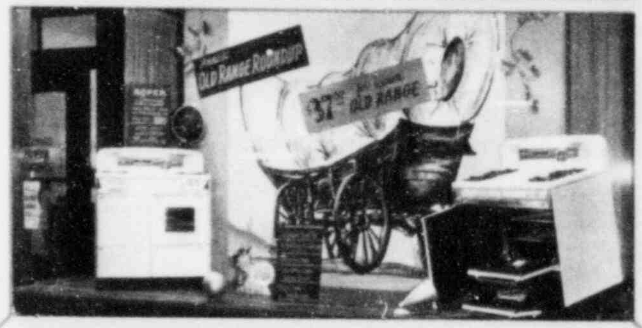


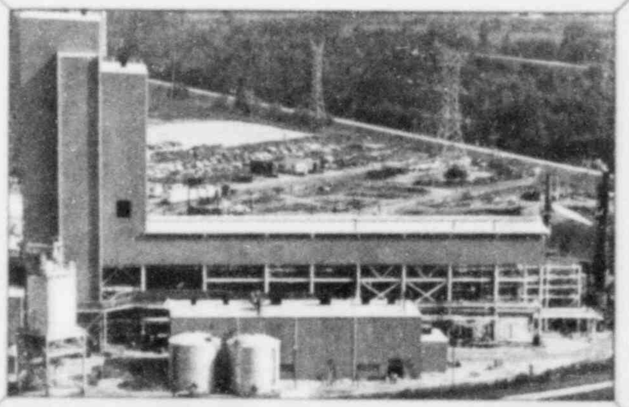
Keeping Pace with Demand . . .

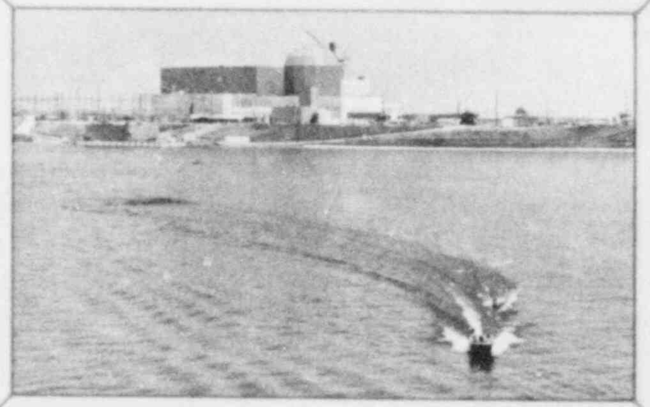
Growth in demand for electricity and natural gas service required investment in facilities (top, left to right). The third underground gas storage field, at Tilden, was ready in 1961. The third major generating station, Hennepin, was ready in 1953. The current headquarters in Decatur was occupied in 1957.

Appliance sales created demand for electricity and gas from the earliest days, and ways to sell new appliances changed with the times (right, top to bottom) until sales were phased out. In 1923 the Centralia display floor was decorated for Christmas. After World War II, salesmen went door-to-door. "Trade-in" helped customers modernize kitchens in the fifties.

IP is keeping pace with modern generating technology (below, left and right). The Kilngas system for converting coal to gas is now being demonstrated at the Wood River power plant. Construction of the Clinton nuclear power plant is nearing completion. IP took part in nuclear research with development of the pioneer Dresden plant.







Earnings and Revenues

Earnings per common share were $3.80 in 1983. This is an increase of 25 percent over the 1982 earnings of $3.04 per common share.

Operating revenues were $1.3 billion, an increase of 15.5 percent over 1982. Electric revenues increased 15.3 percent and gas revenues increased 15.8 percent in 1983.

Our 1983 earnings per common share are at a record level; however, this is not true for the cash portion of earnings. The allowance for funds used during construction (AFUDC), the "non-cash" component, was $1.78 and the "cash" component was $2.02. While 1983 earnings reflect considerable improvement in the "cash" component over recent years, they are not yet back to the levels of the "cash" component of our earnings in 1973. (See Earnings Chart on page 2.)

Several factors contributed to the 1983 earnings level.

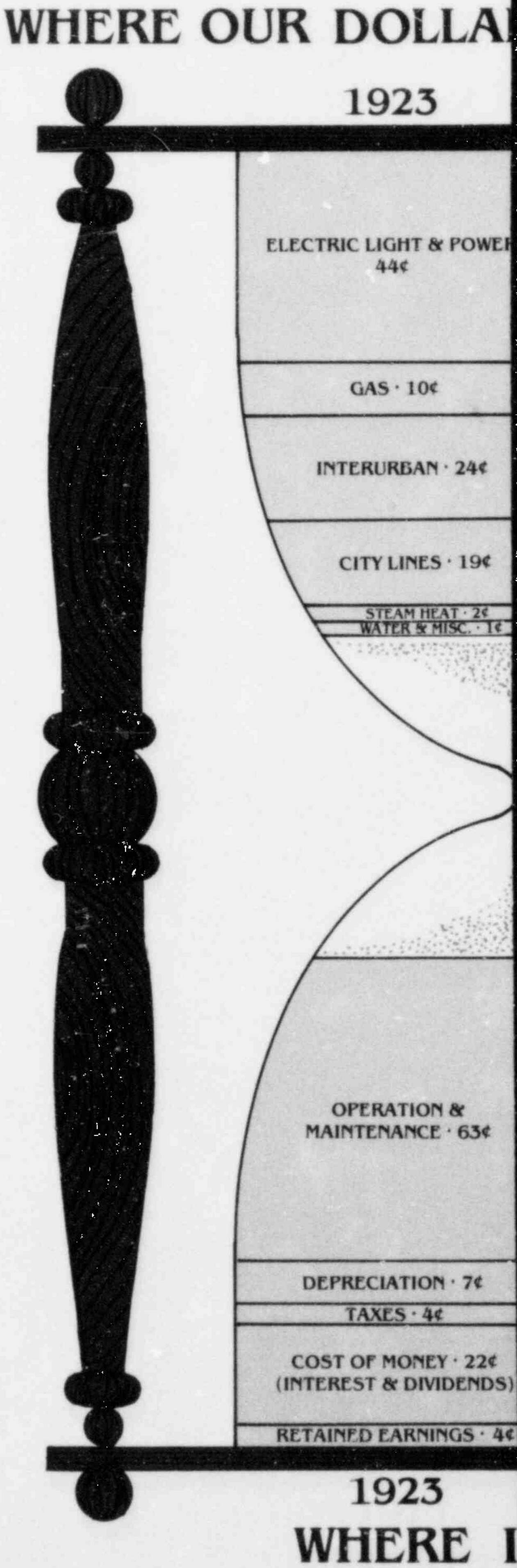
We were granted increases in electric and gas rates of 10.3 percent and 7.2 percent, respectively, effective in January, 1983. Included in this order from the Illinois Commerce Commission was approval to include a total of $625 million of construction work in progress (CWIP) in our electric rate base. In July, the Commission concluded four months of rehearing on the CWIP portion of the increase and ordered that CWIP in rate base should remain at $625 million.

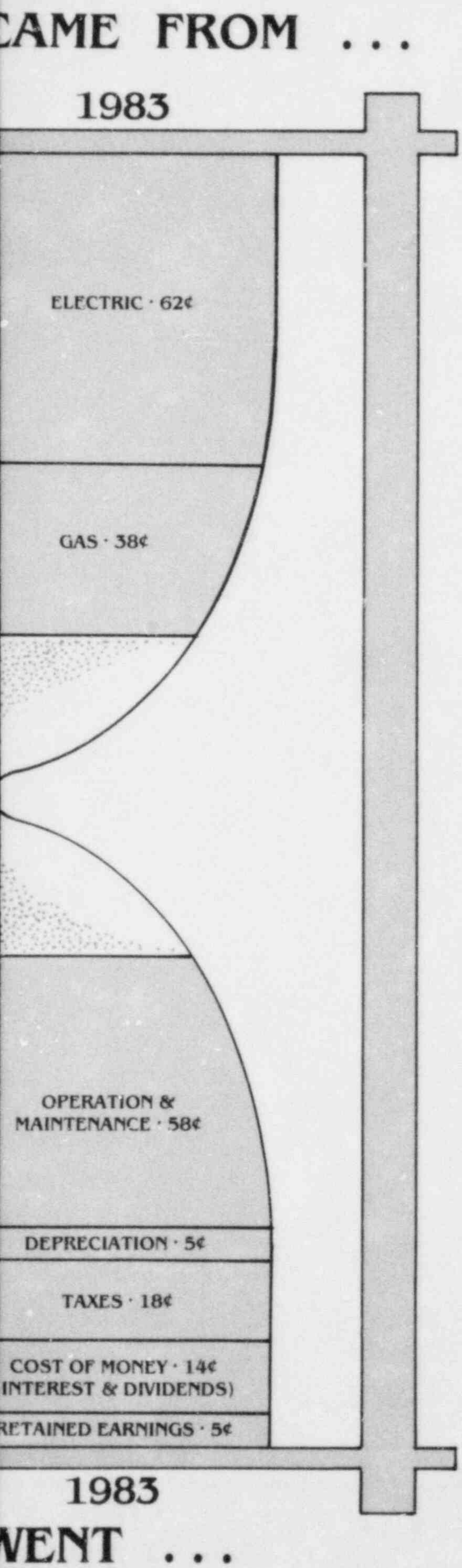
An increase in kilowatt-hour sales also increased earnings. However, earnings per common share also reflect a decrease in gas therm sales, a decrease in electric interchange sales, and the capital costs associated with the financing requirements of our ongoing construction program.

Electric revenues increased to $791 million, reflecting the rate increase, an increase in kilowatt-hour sales, and the recovery of higher fuel costs. Gas revenues were $488 million, reflecting a decrease in therm sales, the recovery of higher gas costs and the rate increase.

During the year we revised our adjustments for cost of purchased gas in compliance with a uniform, statewide system adopted by the Illinois Commerce Commission.

In December, we asked the Federal Energy Regulatory Commission (FERC) to approve an electric rate increase of 17.2 percent, effective January 1, 1984, to our wholesale municipal customers that generate a portion of their electric requirements. Our customers have agreed to that increase, and the FERC decision is pending. Farmer City, Illinois, will





become a wholesale customer when interconnection facilities are completed in 1984.

The Mt. Carmel (Illinois) Public Utility, with which we proposed in 1981 to merge, became an Illinois Power Company wholesale customer and closed its power plant. In January, we appealed the Illinois Commerce Commission's order denying our proposed merger, but in December the Circuit Court of Wabash County upheld the Commission's decision. In January, 1984 we appealed the Circuit Court's decision to the Fifth District Appellate Court.

Electric Sales

Unusually hot summer weather and economic improvement among our industrial customers contributed to a 6 percent increase in kilowatt-hour sales of electricity in 1983, compared to a 1.7 percent decrease the previous year. Sales in 1983 to residential, commercial, and industrial customers increased 8.1 percent, 3.9 percent, and 4 percent, respectively.

Net interchange sales of electricity decreased $11 million, reflecting both a weakened market for such opportunity sales to other utilities and the use of our generating units to meet our own customers' increased demand during the summer.

Hourly demand on our electric system reached a new peak of 3,296,670 kilowatts on August 19, which included service to interruptible customers. This is 8.9 percent higher than the 1982 system demand of 3,028,000 kilowatts and 4.2 percent higher than the historic peak system demand of 3,164,940 kilowatts set in 1981.

A new record for use of electrical energy in a 24-hour period was established on July 22. The 64,657,900 kilowatt-hours used that day exceeds the previous record by 3.7 percent.

These record peak demands for electricity contributed to the annual use of 7.4 million tons of coal in our power plants. Coal is our primary fuel and was used to generate 98.8 percent of the electricity we produced in 1983. Illinois mines provided 84 percent of our coal. The Havana and Wood River power stations, which have units that are subject to more strict emission regulations, burned low-sulfur coal from out of state.

Long-term contracts, with expiration options, will provide about 108 million tons of coal, 97.2 percent of which will come from Illinois mines. Based on 1983 usage, this is enough to meet our needs for about 15 years.

Uranium purchased from Quivira Mining Company will fuel the Clinton power station through the late 1990s. Enrichment contracts with the Depart-

ment of Energy cover our requirements through the year 2012. A fabrication contract with General Electric Company will satisfy our currently projected requirements through the year 2002, based on our schedule for loading fuel.

Gas Sales

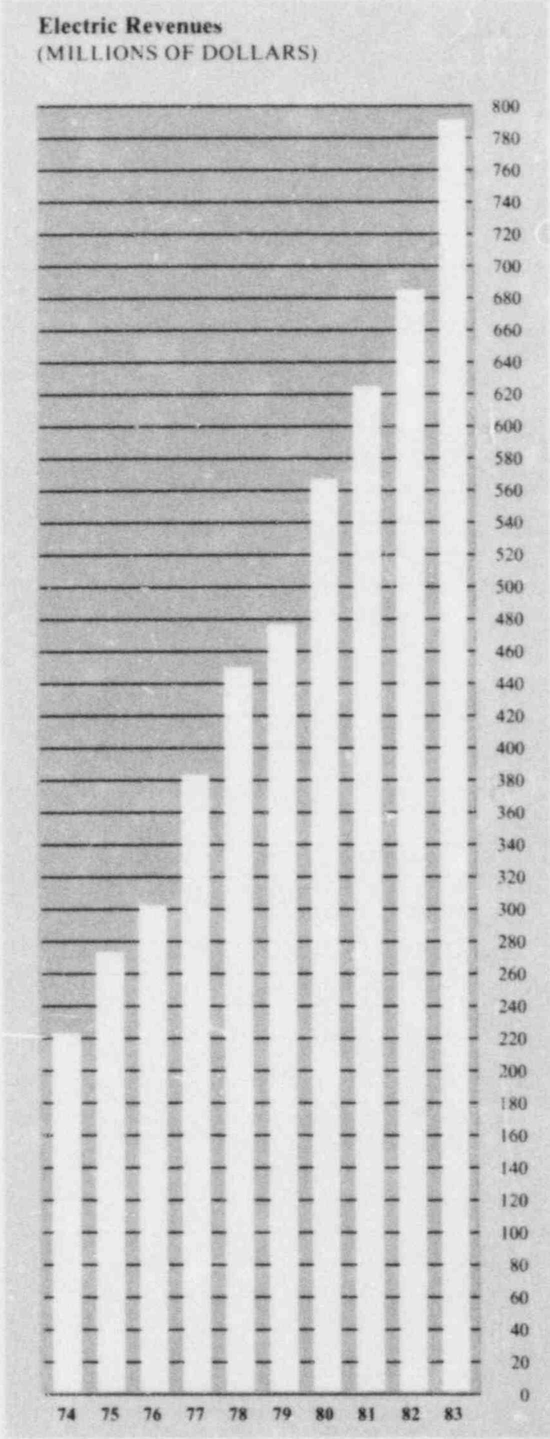
Therm sales decreased 13.9 percent in 1983, compared to a 5.8 percent increase the previous year. Therm sales in 1983 to residential, commercial, and industrial customers decreased 13.4 percent, 13.4 percent, and 14.7 percent, respectively.

The most gas sold on a single day in 1983 was 834,819,000 cubic feet on December 24. This is 2.6 percent below the historic peak sales in 1982.

The primary factors affecting the decline in therm sales were the mild 1982-83 winter weather and the impact of two large industrial customers who began purchasing gas directly from the gas producers during the fall of 1983. Under this new purchasing arrangement, referred to as "gas wheeling", these customers are charged for the transportation of gas through our system to their facilities. Our charge for gas wheeling provides us with earnings that are comparable to those obtained from making direct gas sales. This plan is available to any customer who uses more than 100 thousand cubic feet per day.

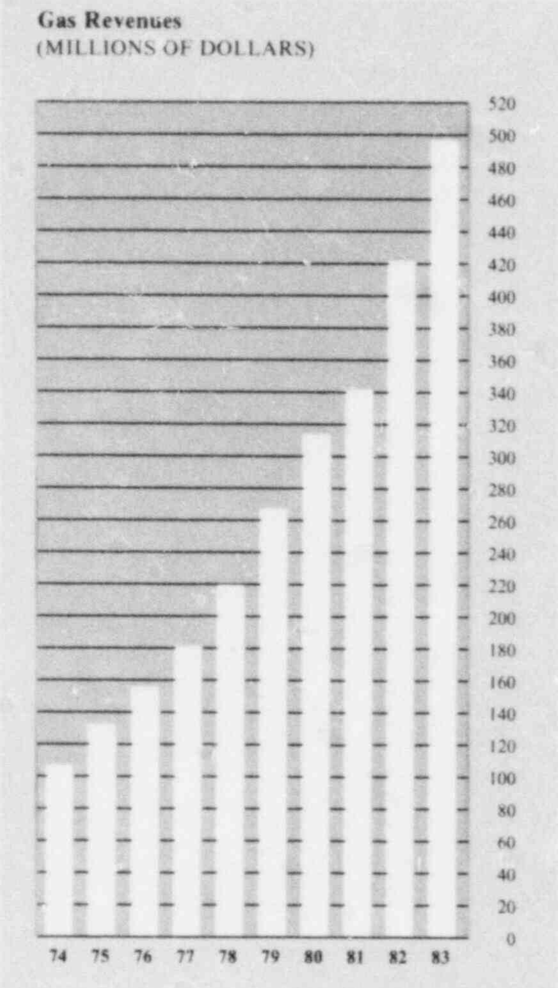
Other factors that contributed to the decline in therm sales are customer conservation and the temporary switch by certain industrial customers to alternate fuels. Through three changing conditions we regained most of the industrial gas load that was lost to alternate fuels: approval of a more favorable rate for interruptible customers, reduced prices from our pipeline suppliers, and increases in competing oil prices.

Five pipeline suppliers and an integrated delivery system provide flexibility that allowed us to respond to significantly higher prices when two pipelines began importing liquefied natural gas (LNG) from Algeria. We increased purchases from our three other pipeline suppliers and minimized gas price increases to our customers. In December, the two pipelines suspended purchases of the LNG.



Customer Services

Our special rates for interruptible electric services and off-peak use of energy helped many industries reduce costs and survive the recent recession. As the economy now improves, so do our sales to these cus-



tomers. While some companies in our territory ceased operations during the year, 59 companies built or expanded facilities in our territory in 1983, creating more than 1,100 new jobs. One of the new facilities is being constructed by Heidtman Steel, Inc. in the Northgate Industrial Park, which we own and are developing at Granite City, Illinois.

Business, government, and community leaders in Edwardsville, Collinsville, Maryville, Glen Carbon, and Troy took part in our unique community development training program. Since 1974, 52 of our communities have used this program designed to help them retain and attract employers. The McLean County Economic Development Council was created in May as a result of training we provided in 1982. We also coordinated a business retention program with the Association of Commerce and Industry in McLean County for 60 major area employers. About 50 commercial and industrial customers in Decatur and Danville attended energy management courses we offered on how to perform energy audits.

To help residential customers hold down their utility bills, we continued a program of home energy audits. We performed 1,800 such audits during the year. About 18 percent of our residential customers' homes now have been checked for energy efficiency under this program.

A demonstration program to weatherize 2,100 homes of low-income customers was begun in November. In 600 of these homes, a more extensive program includes installation of weatherization materials, which we provide, and assistance in obtaining loans for major energy conservation improvements.

The Energy Assistance Foundation, founded in 1982 with a grant of $250,000 from Illinois Power Company, made eight grants totaling $82,384 during 1983. The grants were made to organizations in Bloomington, Galesburg, Granite City, Decatur, Belleville, and East St. Louis to help our customers make their homes more energy efficient and reduce energy consumption. We will match voluntary contributions to the fund up to an additional $250,000.

Also, the State of Illinois helped 2,500 of our customers with utility bill assistance.

The number of our customers using budget billing to equalize utility payments throughout the year has increased 29 percent since 1982.

The Illinois General Assembly enacted several provisions in 1983 of interest to the utility industry. One expanded the Illinois Commerce Commission from five to seven members effective in January, 1984. Another created a Citizens Utility Board (CUB) with authority to intervene on behalf of consumers in utility rate cases. The CUB is authorized to include information in our mailings to customers; however, we are not required to handle CUB membership records or funds. One law changes our method for billing state revenue taxes to indicate on customer bills the entire 5.08 percent we collect. Another measure eliminates the use of construction work in progress (CWIP) in rate base after December 31, 1988, except for pollution control devices. Construction of our Clinton power station, for which $625 million of CWIP currently is in rate base, is scheduled to be finished in 1986.

Clinton Power Station

Ten stop work orders imposed in 1982 on specific jobs have been lifted. Construction activities accelerated at mid-year, and the number of craft workers,

support staff, and training personnel at the site has been increased. The stop work orders resulted from concerns that inspection and documentation of work were not adequately keeping pace with construction. The Nuclear Regulatory Commission (NRC) has approved our plans to recover from the causes of the stop work orders.

At year's end, construction of the power plant was 82.6 percent complete. The contractor has turned over to the operating staff 45 percent of the plant's systems for testing. A major milestone was reached in October when the turbine-generator, the equipment that produces electricity, was completely assembled and mechanically rotated. This was a manual test and did not involve the use of steam or nuclear fuel.

In May, we revised the schedule and cost estimate for completion of the power plant. Cost increases and schedule delays at Clinton have been less than the average for comparable nuclear plants under construction. Our new schedule for loading fuel is January, 1986, a delay of two years from the previous schedule. The plant is 80 percent owned by Illinois Power Company, and our share of the cost estimate is $2.4 billion, an increase of $639 million. The cost and schedule revisions are due mainly to four factors: design changes to meet NRC requirements; a more stringent quality assurance and plant operations program; additional emergency planning expenses; and additional financing.

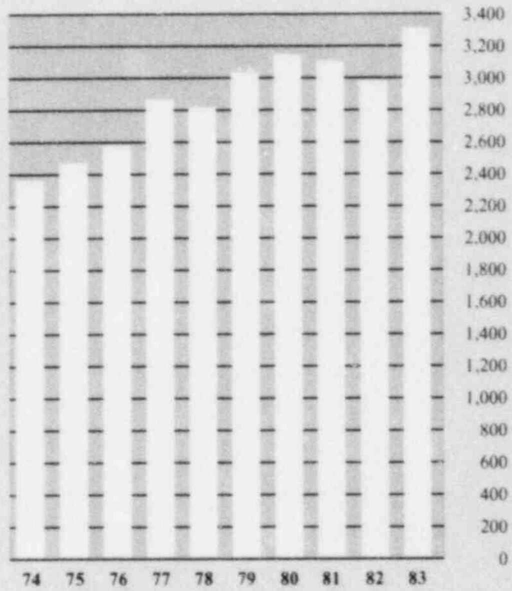
The NRC panel that assessed the status of construction at Clinton in August reported:

"On the basis of the discussions with IPC, subsequent evaluation of the supporting documentation and inspection of the site, the Panel has concluded that the applicants' estimated fuel load date of January 1986 appears to be ambitious but achievable. The Panel estimates that fuel load will take place in the first quarter of 1986. Meeting this schedule however, will require continous and aggressive management involvement by IPC and its consultants for the duration of the project."

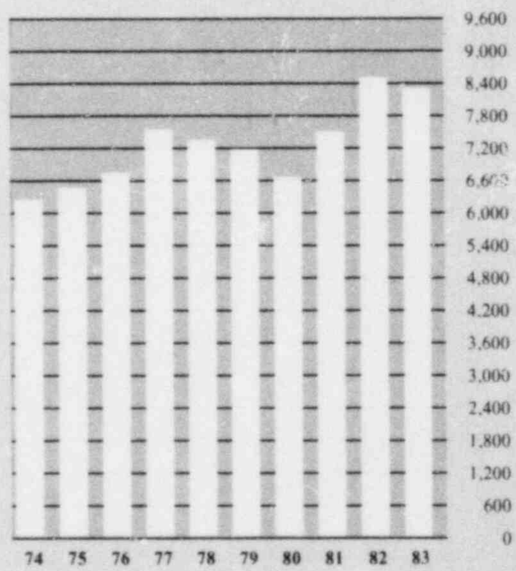
To meet part of the emergency planning requirements for nuclear power plants, we installed eight outdoor sirens at various locations within a 10-mile radius of the plant. The sirens will be used by county officials to alert the public to storms, tornadoes, or industrial accidents, including any which might occur at the power plant.

On October 14 we canceled Clinton Unit 2. Projected sales of electricity indicate that no replacement or additional generating units will be needed, after Clinton Unit 1 comes on line, until late in the 1990s. No work on Unit 2 has been performed since 1977

Electric Peak Loads
(IN THOUSANDS OF KW)



Gas Peak Loads
(IN THOUSANDS OF THERMS)



(the full construction work permit was issued in 1976). Based on net after-tax cost, we will have invested from $16 million to $22 million on Unit 2. The final amount will depend on the cost of canceling various contracts. We will seek Illinois Commerce Commission approval to recover these costs over a period of years.

Other Construction

We spent a total of $360 million for construction activities during the year: $300 million on Clinton-related work; $45 million for other electric facilities; and $15 million for gas projects.

Our customers will benefit from several improvements made to our facilities in 1983.

We ended one of our longest right-of-way proceedings when construction was completed on 35.5 miles of 345,000-volt transmission line between Sidney and Kansas, Illinois. Regulatory and court proceedings had delayed the project seven years. Construction was completed, and the facilities were put into service in October. This new line will insure more reliable and efficient energy delivery to customers in the Champaign-Urbana and Danville areas.

The electrical systems of the Belleville and LaSalle service areas also were reinforced with construction of 20 miles of new 138,000-volt transmission line.

Improvements to the natural gas system during the year included the installation of 85 miles of new and replacement gas lines.

In 1984, we expect to spend $380 million for construction activities, reflecting our continued efforts to reduce construction costs. The total includes $304 million for the Clinton power station; $59 million for other electric facilities; and $17 million for gas. Just as in 1983, expenditures in 1984 will be less than the peak in 1982 of nearly $413 million.

The five-year construction program for 1984 through 1988 reflects the continued cost reduction efforts and amounts to $1.5 billion.

Financing

We expect to fund 1984 construction expenditures with $200 million of outside financing and the remainder from internal sources.

The financing for our 1983 construction program and the refunding of $20 million of first mortgage bonds which matured on November 1 was provided by the sale of preferred stock, the sale of first mortgage bonds, the sale of stock through various reinvestment and stock purchase plans, and funds generated internally.

In March, we received approximately $49 million from the sale of one million shares of Cumulative Preferred Stock, Adjustable Rate Series A. They were offered to the public by a group of underwriters at $50 per share. The dividend rate is adjusted quarterly based on an annual rate 3.35 percentage points less than the rate for U.S. Treasury securities. This is the lowest rate of any utility adjustable rate preferred stock financing completed in 1982 and 1983. In December we sold $125 million First Mortgage Bonds (Pollution Control Series C) 10-3/4 percent Series due 2013. These tax exempt pollution control bonds were sold through the Illinois Development Finance Authority.

The Automatic Reinvestment and Stock Purchase Plan, the Employee Stock Ownership Plan, and the Tax Reduction Stock Ownership Plan and Trust provided about $65 million from the sale of 3,063,709 shares of new common stock.

Nearly 23,900 security holders are now in the Automatic Reinvestment and Stock Purchase Plan, an increase of about 80 percent since the beginning of 1982. The increase was stimulated by more liberal federal income tax provisions. Effective through 1985, these provisions allow individual stockholders who reinvest dividends in common stock to defer payment of income taxes on those dividends, up to $750 a year ($1,500 on a joint return). If these shares are held more than a year, the reinvested dividends will be taxed as a capital gain when the shares are sold.

We continued agreements with several banks which make $399 million available through revolving credit agreements. These include agreements for credit of $180 million with four Chicago banks, $44 million with banks within the territory we serve, $125 million with a New York bank and two European banks, and $50 million with a group of European banks.

Cost Control Measures

Our actual operating and maintenance costs in 1983 were about $10 million under the austere budget for the year, and construction expenditures were $30 million below budget. We have limited spending to the absolute minimum consistent with providing safe and reliable service to our customers.

As part of our continued emphasis on improving efficiencies throughout the Company, we began a new work management program for gas and electric

employees in the field. The program has improved the planning and scheduling of personnel. By mid-1984, it will be in use in all service areas. We also reduced service area storeroom inventories by $1.5 million, a 15 percent reduction. We also plan to reduce energy use in our facilities by 20 percent.

Our budget for 1984 is based upon the cost control objectives begun in 1981. Construction projects were limited to those necessary to provide safe and reliable service. Recommendations by a special budget panel of three managers, and further critical review by all officers, resulted in an operating budget for 1984 less than one percent higher than the 1983 budget.

Environmental Activities

The Kilngas coal gasification demonstration unit constructed at our Wood River power station began start-up testing in June. The project is designed to convert environmentally unacceptable high-sulfur coal into a clean-burning gas for generating electricity.

The gas produced in the initial tests exceeded expectations in quality and heating value. Two types of coal will be tested during the demonstration runs: Illinois number 6 coal, found throughout our service area, and an Appalachian coal from the eastern United States. Performance testing of the project began in late 1983 with the product gas being burned for the 50-megawatt generating Unit 3 at our Wood River station. Demonstration results should be available in mid-1984.

The $155 million demonstration program is being funded by Allis-Chalmers Corporation, developer of the Kilngas gasification concept; by Illinois Power Company and 11 other utilities; by the State of Illinois; and by the Electric Power Research Institute.

One possible addition to the Kilngas project for operation after mid-1984 is a combustion turbine program being structured by Allis-Chalmers, Sargent & Lundy Engineers, and General Electric Company. A system would be placed at Wood River to demonstrate the use of the Kilngas product gas with combustion turbine technology, an important operating mode of future commercial Kilngas plants.

Several environmental activities resulting from federal and state regulations were carried out during 1983.

We have a request before the U.S. Environmental Protection Agency (EPA) for a rule change that will allow us to continue burning Illinois coal at the Baldwin power station.

The Illinois EPA reissued a permit for the Baldwin station's water discharge system and is expected to reissue permits for our other plants in 1984.

Proposed state regulations on solid waste disposal were withdrawn in mid-year to be proposed again in 1984. These may change the way we store the ashes and other wastes produced by our coal-fired power plants.

We launched a six-year program to meet federal requirements for use of electrical equipment containing polychlorinated biphenyl (PCB). We started replacement of capacitors and transformers containing PCBs throughout our Company.

We also conducted 25 audits in 1983 to assure compliance with environmental regulations. In addition to our own facilities, we audited those of outside organizations providing us services, such as the disposal of wastes.

Congress is still considering several "acid rain" proposals that could have an impact on our operations. Many of these bills call for lower sulfur emissions from coal-fired power plants in the Midwest. However, new scientific data are beginning to show that sulfur emissions in Illinois have less effect on areas in the Northeast than previously indicated.

Two additional activities related to our power plant operations have produced good environmental results.

A biological study showed that hot water discharges into the Baldwin power station cooling lake have accelerated growth of largemouth bass.

An environmentally sound method we invented to prevent blockage of water pipes by Asiatic clams at the Baldwin power station is becoming recognized by the industry as one of the most thorough and economical methods available to solve the problem.

Research and Development

Our research and development expenditures for 1983 totaled approximately $3.5 million. A $2.4 million commitment to the Electric Power Research Institute (EPRI) was our largest expenditure. EPRI is the electric utility industry's research arm and conducts research on behalf of some 500 utilities on technology to improve the production, distribution, and utilization of electric energy. About $1.1 million was spent for local research, which includes support for the Kilngas demonstration program.

We are continuing to field test the use of compressed natural gas as a fuel for motor vehicles in 35 of our vehicles. A successful demonstration could lead to the conversion of other Company vehicles and

to the promotion of natural gas as a motor vehicle fuel for use by our commercial customers.

Projects associated with the Clinton power station include research of nuclear power operations, waste management, pipe cracking, and safety.

We completed studies of various load management techniques, including ways to control electric peak loads and shift energy usage to off-peak periods, in an effort to defer the need for future power plants. A field test was conducted to evaluate and demonstrate the control of electric water heating load during system peak.

Responsibility for Information

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

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

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

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

Company Officers

On April 1, Mr. Leonard J. Koch, vice president, retired from the Company. He was associated with the Company since 1972.

On June 8, the Board of Directors elected vice presidents Larry D. Haab and William E. Warren senior vice presidents; Jerome F. O'Grady, vice president; and Larry F. Altenbaumer, treasurer. The Board appointed Gary L. Secor assistant treasurer.

Board of Directors

The directors of the Company are elected each year by stockholders at the annual meeting. All 12 directors were re-elected at the meeting on April 21, 1983.

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

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

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

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

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

Reference is made to the Financial Statements and Electric and Gas Operating Statistics for information concerning financial condition and results of operations. The factors having significant impact upon financial condition, changes in financial condition, and results of operations since January 1, 1981 are as follows:

Liquidity and Capital Resources

Gross property additions for the years 1981 through 1983 were $1.1 billion, including approximately $200 million of allowance for funds used during construction. Funds totaling $40 million were required for bond retirements during this three-year period.

The Clinton power station continues to be our major item of construction and accounts for approximately 77% of the total construction expenditures in this three-year period. Our 80% ownership interest in the Clinton power station is estimated to cost $2.4 billion and will require capital expenditures of about $700 million prior to scheduled completion in 1986. In addition to the funds required for construction during the 1984-1988 period, estimated at $1.5 billion, approximately $158 million will be required to retire long-term debt and preferred stock redeemable during the period and for sinking fund payments on first mortgage bonds.

The estimated construction costs to complete the Clinton power station reflect $625 million of construction work in progress (CWIP) in the electric rate base as granted by the Illinois Commerce Commission (ICC) in January, 1983. The ratemaking treatment of including CWIP in rate base provides immediate cash to pay the construction financing cost on that portion of CWIP. While we capitalize an allowance for funds used during construction (AFUDC) on CWIP expenditures not included in rate base, this non-cash credit to income does not provide immediate cash.

Funds generated from operations amounting to $207.2 million for the years 1981 through 1983 provided working capital to meet operating requirements and a portion of the funds needed for the ongoing construction program. Funds from external sources during this three-year period totaled $[illegible]3.6 million. Commencing with the commercial operation of Clinton power station, we anticipate a reduction in the need for external capital.

Short-term borrowings, such as commercial paper, were utilized to meet interim cash requirements between long-term financings. There were no outstanding short-term borrowings at December 31, 1983.

Lines of credit with commercial banks are maintained to meet interim cash requirements. Our total line of credit was $399 million at December 31, 1983, including $125 million to support our commitment to IP Fuel Company.

In addition to the above lines of credit, we established a foreign financing subsidiary, IPF (Illinois Power Finance) Company N.V. in October, 1981. The purpose of this subsidiary is to provide the option of issuing lower cost debt in the European financial market. In June, 1982, IPF issued $50 million of 14-1/2% Guaranteed Debentures.

It is important that we maintain the financial strength necessary for flexible access to financial markets in order to obtain the capital necessary for our ongoing construction program. It is also important that we maintain the interest coverage ratio required by the Mortgage and Deed of Trust for the issuance of additional first mortgage bonds. Failure to meet the interest coverage ratio could result in alternative, and potentially higher cost, financing methods to provide the projected capital requirements associated with our ongoing construction program and other working capital needs. At December 31, 1983, based upon the most restrictive earnings test contained in our Mortgage and Deed of Trust, approximately $407 million of additional first mortgage bonds could be issued at an assumed interest rate of 13-1/4%.

Results of Operations

Electric Operations—For the three-year period 1981 through 1983, electric revenues increased 39.3%, the components of which are summarized as follows:

	1983	1982	1981
	(Millions of Dollars)		
Rate increases	$ 59	$ 60	$ 55
Kwh volumes	40	(9)	(13)
Fuel cost recoveries	6	14	12
Revenue increase	$105	$ 65	$ 54

Revenue growth reflects general retail increases of 19.9% effective July, 1981 and 10.3% effective January, 1983, as granted by the ICC.

While kilowatt-hour sales decreased 1.9% and 1.7%,

respectively in 1981 and 1982, sales increased 6.0% in 1983 as we experienced an unusually hot summer and an improved economy within our service territory. Sales during 1983 to residential, commercial, and industrial customer groups increased 8.1%, 3.9% and 4.0%, respectively. In contrast, sales during 1981 and 1982 were affected by the economic recession, as evidenced in part by the 1982 decline in industrial sales of 5.1%, mild summer weather, and customer conservation.

The cost of fuel for electric plants increased $5.0 million and $25.5 million in 1981 and 1983, respectively, and decreased $9.2 million in 1982. Power purchased for resale increased $12.4 million and $14.3 million in 1981 and 1982, respectively, and decreased $9.7 million in 1983. Changes in both fuel costs and power purchased for resale are affected by system load requirements, availability of generating units to meet those requirements, fuel prices, purchased power prices and volumes, and recovery of fuel costs through the fuel adjustment clause.

Kilowatt-hour generation decreased 3.8% and 8.3% in 1981 and 1982, respectively, and increased 9.6% in 1983. Coal constituted about 98.7%, 99.2%, and 98.8% of fuel used for generation for 1981 through 1983. The weighted average cost per ton of coal burned increased 6.7% in 1981 and 6.6% in 1982, and decreased 3.1% in 1983.

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

The principal factors affecting the 1982 increase in fuel cost and purchased power were higher prices paid for fuel, additional power purchased from Electric Energy, Inc., and a decrease in deliveries to our customers and interchange markets. During 1983 the aggregate increase of $15.8 million for fuel and purchased power reflects the 9.6% increase in kilowatt-hour generation, partially offset by a $9.8 million decrease in power purchased from Electric Energy, Inc.

In 1982 we implemented a new electric fuel adjustment clause, as ordered by the ICC. At December 31, 1983 and 1982, $1.1 million and $4.1 million, respectively, subject to recovery through such clause in a later period, was deferred.

Sales of interchange power fluctuate as a direct result of market demand based upon the needs of other utilities and the availability of our generating capacity to serve those needs. The credit for power interchanged-net increased about $15.2 million in 1981 and decreased about $19.7 million in 1982 and $11.0 million in 1983. The decline in 1982 and 1983 is the result of a weakened market for such opportunity sales to other utilities. Also, during 1983 our ability to make such sales was limited due to the use of our available generating units to meet the past summer's increased customer demand.

Gas Operations—Gas revenues increased 54.3% for the three-year period 1981 through 1983, the components of which are summarized as follows:

	1983	1982	1981
	(Millions of Dollars)		
Rate increases	$ 33	$ —	$ —
Therm volumes & wheeling	(51)	18	(8)
Gas cost recoveries	84	60	35
Revenue increase	$ 66	$ 78	$ 27

Revenue growth reflects the general retail rate increase of 7.2% effective January, 1983, as granted by the ICC.

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

Therm sales decreased 3.4% in 1981 and 13.9% in 1983 and increased 5.8% in 1982. The major factors affecting therm sales for the three-year period were the increase in the gas supply, changes in economic and weather conditions, and customer conservation. The 1982 increase primarily reflected the severe winter weather during the early part of the year. The decrease in 1983 was due to the mild 1982-83 winter weather, customer conservation, and the effects of "gas wheeling" contracts which began in September, 1983.

Under "gas wheeling" arrangements, our larger customers (those who use more than 100 thousand cubic feet per day) may independently contract with gas producers to supply their gas requirements. Such gas is then transported to the customer through our distri-

bution system. In 1983 "gas wheeling" provided earnings which were comparable to those which would have been obtained from making direct gas sales. The loss of therm sales through these "wheeling" transactions accounted for about 37% of the 1983 decline in sales to our customers.

The cost of gas purchased for resale increased $38.4 million, $56.4 million, and $31.9 million in 1981, 1982, and 1983, respectively. The annual cost increases are primarily attributable to higher prices paid for gas. The average cost per therm delivered to our customers increased 22.8%, 15.9%, and 24.3% in 1981, 1982, and 1983, respectively. Gas purchased for resale in 1983 was also impacted by the deferral of $10.8 million subject to recovery in a later billing period in accordance with the provisions of the new uniform purchased gas adjustment clause (UGAC) implemented during the year. In addition, as a result of implementing UGAC, 1983 gas purchased for resale includes $3.6 million of gas storage costs which previously would have been classified as other operating expenses.

Other Expenses and Taxes—A comparison of increases (decreases) in other expenses and taxes for the last three years is presented in the following table:

	1983	1982	1981
	(Thousands of Dollars)		
Other operating expenses	$ (5,871)	$ 7,696	$ 9,567
Maintenance	264	264	4,549
Depreciation	5,504	1,490	2,196
General taxes	9,679	10,155	6,348

The changes in other operating and maintenance expenses reflect the impact of inflation, increased employee wages and benefits, the continued efforts of our internal Cost Reduction Task Force and, during 1983, the reclassification of gas storage costs as described above.

The rate of inflation, as measured by the Consumer Price Index, was about 10.4% in 1981, 6.1% in 1982, and 3.2% in 1983. During the period, through both the timing and scope of our rate requests, we have attempted to reduce the financial impact of inflation.

The increases in depreciation resulted from increases in depreciable property, as well as a change in depreciation rates for gas property as allowed in the 1983 rate order.

The most significant change in general taxes during each of the three years is due to increases in state and municipal utility taxes resulting from the growth in operating revenues.

The Company's combined federal and state effective income tax rate was 34.4%, 34.2%, and 38.3% in 1981, 1982, and 1983, respectively. For a detailed analysis of income tax components, see Note 5 of the "Notes to Financial Statements".

Other Income—Total AFUDC increased $10.2 million in 1981, $17.0 million in 1982, and $8.0 million in 1983. Increases in AFUDC relate to changes in the AFUDC effective after-tax rate and the amount of CWIP subject to AFUDC which is not included in rate base.

The following table shows the amount of CWIP included in rate base related to the Clinton power station, as approved by the ICC, and the AFUDC after-tax rate:

Time Period	CWIP Included in Rate Base*	AFUDC Effective After-Tax Rate
January - June, 1981	$ 97.1	7.75%
July, 1981 - December, 1982	375.0	8.75
January - December, 1983	625.0	9.25

*Millions of Dollars

Interest Charges—Interest charges increased $10.4 million, $16.0 million, and $11.8 million in 1981, 1982, and 1983, respectively. These increases primarily reflect the $342 million of long-term debt issued during the period at a weighted average interest rate of 12.4%. During this period we retired $40 million of long-term debt with a weighted average interest rate of 3.5%.

Earnings per Common Share—The increases in net income applicable to common stock in 1981 through 1983 resulted from the interaction of all the factors discussed herein, including the issuance of additional preferred stock in 1983. Changes in earnings per common share also reflect the increased number of common shares outstanding in each year. (See Notes 10, 11, and 12 in "Notes to Financial Statements").

Inflation

Inflation has an impact on our reported earnings, shareholders equity, and other financial information that is not measured by traditional accounting methods. For supplementary information to disclose the effects of changing prices, see pages 31 and 32.

Balance Sheets

December 31,	1983	1982
	(Thousands of Dollars)	
ASSETS		
Utility Plant, at original cost		
Electric (includes construction work in progress of $1,755,956,000 and $1,469,018,000, respectively)	$ 3,445,645	$ 3,136,774
Gas (includes construction work in progress of $5,466,000 and $6,431,000, respectively)	366,651	357,106
	3,812,296	3,493,880
Less—Accumulated depreciation	764,175	709,329
	3,048,121	2,784,551
Nuclear fuel	54,022	48,717
Acquisition adjustment (less amortization of $2,416,000 and $2,171,000, respectively)	1,516	1,761
	3,103,659	2,835,029
Investments and Other Assets	23,586	25,616
Current Assets		
Cash	16,491	8,983
Temporary cash investments, at cost, which approximates market	39,954	8,000
Accounts receivable (less allowance for doubtful accounts of $5,500,000 and $4,000,000, respectively)	85,794	74,808
Materials and supplies, at average cost		
Fuel	34,598	54,487
Gas in underground storage	29,414	24,039
Operating materials	23,930	22,442
Prepayments, miscellaneous accounts receivable, and other	38,835	32,188
	269,016	224,947
Deferred Charges		
Unamortized deferred abandonment cost	30,513	—
Unamortized debt expense	8,863	5,647
Other	1,300	1,283
	40,676	6,930
	$ 3,436,937	$ 3,092,522

CAPITAL AND LIABILITIES		
Capitalization		
Common stock—		
No par value, 60,000,000 shares authorized; 49,922,166 and 46,858,457 shares outstanding, respectively, stated at	$ 863,999	$ 798,706
Retained earnings	280,814	220,288
Less—Capital stock expense	7,143	5,532
Total common stock equity	1,137,670	1,013,462
Preferred and preference stock	265,171	215,171
Redeemable preferred stock	36,000	36,000
Long-term debt	1,291,555	1,166,980
Total capitalization	2,730,396	2,431,613
Current Liabilities		
Accounts payable	126,914	105,495
Long-term debt maturing within one year	—	20,000
Dividends payable	39,147	34,162
Income taxes accrued	3,199	16,966
General taxes accrued	27,957	31,623
Interest accrued	39,936	39,492
Other	24,349	21,387
	261,502	269,125
Other		
Accumulated deferred income taxes	251,206	214,811
Accumulated deferred investment tax credits	193,833	176,973
	445,039	391,784
Commitments (Note 7)		
	$ 3,436,937	$ 3,092,522

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

Statements of Income

For the Years Ended December 31,	1983	1982	1981
Operating Revenues*			
Electric	$ 790,588	$ 685,544	$ 620,968
Gas	487,671	421,231	343,324
Total	1,278,259	1,106,775	964,292
Operating Expenses and Taxes			
Fuel for electric plants	262,002	236,460	245,626
Power purchased for resale	23,612	33,314	18,970
Power interchanged—net	(24,946)	(35,989)	(55,684)
Gas purchased for resale	345,721	313,788	257,427
Other operating expenses	97,020	102,891	95,195
Maintenance	45,259	44,995	44,731
Depreciation	67,025	61,521	60,031
General taxes	98,571	88,892	78,737
State income taxes—current	15,895	11,257	8,014
deferred (net)	6,728	2,384	3,239
Federal income taxes—current	76,012	50,909	32,215
deferred (net)	37,700	14,202	17,594
Investment tax credit—deferred (net)	16,860	22,227	21,419
Total	1,067,459	946,851	827,514
Operating income	210,800	159,924	136,778
Other Income			
Allowance for funds used during construction—			
All funds—prior to January 1, 1977	—	—	—
Equity funds—after December 31, 1976	64,217	57,841	45,101
Miscellaneous—net	25,812	21,498	16,651
Total	90,029	79,339	61,752
Income before interest charges	300,829	239,263	198,530
Interest Charges			
Interest on long-term debt	110,260	93,599	82,318
Other interest charges	5,003	9,837	5,109
Allowance for borrowed funds used during construction—after December 31, 1976	(22,170)	(20,568)	(16,310)
Total	93,093	82,868	71,117
Net income	207,736	156,395	127,413
Preferred dividend requirements	23,640	19,897	19,897
Net income applicable to common stock	$ 184,096	$ 136,498	$ 107,516
Weighted average number of common shares outstanding during the period	48,473,770	44,839,807	37,843,513
Earnings per common share	$3.80	$3.04	$2.84
Cash dividends declared per common share	$2.52	$2.48	$2.405

Includes revenue related taxes added to customer billings in each of the years 1974 through 1983. In 1983, 1982, and 1981 these revenue related taxes were $67,191,000, $59,381,000, and $51,048,000, respectively.

Retained Earnings

For the Years Ended December 31,	1983	1982	1981
		(Thousands of Dollars)	
Balance at Beginning of Year	$ 220,288	$ 197,762	$ 183,060
Net Income	207,736	156,395	127,413
	428,024	354,157	310,473
Less—			
Cash dividends—			
Preferred stock	23,990	19,897	19,897
Common stock	123,220	113,972	92,814
	147,210	133,869	112,711
Balance at End of Year	$ 280,814	$ 220,288	$ 197,762

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

1980	1979	1978	1977	1976	1975	1974
	(Thousands of Dollars)					
$ 567,356	$ 479,052	$ 452,207	$ 383,567	$ 303,066	$ 275,809	$ 221,126
316,014	272,770	219,807	183,820	158,595	133,142	108,789
883,370	751,822	672,014	567,387	461,661	408,951	329,915
240,601	225,621	207,082	148,553	123,782	88,725	63,013
6,527	6,171	5,505	8,664	7,092	5,591	4,727
(40,452)	(58,498)	(47,078)	(30,855)	(51,484)	(29,522)	(18,321)
218,998	191,296	145,486	117,812	91,476	71,288	56,539
85,628	73,531	70,463	59,827	53,295	49,631	41,083
40,182	37,763	33,954	28,919	25,726	19,506	17,584
57,835	55,967	51,569	47,188	45,556	42,911	39,282
72,389	55,225	54,325	46,974	40,368	37,036	31,210
7,983	4,820	2,697	3,188	2,444	2,381	1,717
3,169	2,090	1,846	980	1,199	1,166	817
27,210	14,231	6,812	15,760	16,001	11,575	15,831
15,683	15,329	18,638	9,053	11,433	11,681	7,367
23,071	21,958	22,793	19,573	10,994	15,034	1,706
758,824	645,504	574,092	475,636	377,882	327,003	262,555
124,546	106,318	97,922	91,751	83,779	81,948	67,360
—	—	—	—	10,503	7,459	7,960
36,567	27,520	21,321	15,137	—	—	—
14,798	10,043	9,402	5,709	3,174	1,967	2,231
51,365	37,563	30,723	20,846	13,677	9,426	10,191
175,911	143,881	128,645	112,597	97,456	91,374	77,551
72,952	62,005	52,453	42,091	35,927	33,144	28,779
4,050	1,752	1,439	1,888	1,744	1,508	4,122
(14,653)	(11,211)	(7,608)	(5,046)	—	—	—
62,349	52,546	46,284	38,933	37,671	34,652	32,901
113,562	91,335	82,361	73,664	59,785	56,722	44,650
19,069	15,699	15,699	13,257	10,606	7,229	7,229
$ 94,493	$ 75,636	$ 66,662	$ 60,407	$ 49,179	$ 49,493	$ 37,421
32,906,017	27,979,606	24,302,139	22,521,013	20,369,958	18,277,397	16,544,110
$2.87	$2.70	$2.74	$2.68	$2.41	$2.71	$2.26
$2.355	$2.28	$2.28	$2.22	$2.20	$2.20	$2.20

REPORT OF INDEPENDENT ACCOUNTANTS

Price Waterhouse

ONE CENTERRE PLAZA
ST. LOUIS, MISSOURI 63101
314 425-0500

To the Board of Directors of Illinois Power Company

In our opinion, the accompanying balance sheets and the related statements of income, of retained earnings and of sources of funds provided for gross property additions present fairly the financial position of Illinois Power Company at December 31, 1983 and 1982, and the results of its operations and the sources of funds provided for gross property additions for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles consistently applied. Also, in our opinion, the statements of income and of sources of funds provided for gross property additions for each of the seven years in the period ended December 31, 1980, which have been prepared from the applicable statements covered by our reports on each of those years, present fairly the financial information included therein. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

February 2, 1984

Price Waterhouse

Statements of Sources of Funds Provided for Gross Property Additions

For the Years Ended December 31,	1983	1982	1981
Funds Provided from Operations			
Net income	**$ 207,736**	$ 156,395	$ 127,413
Items not requiring working capital—			
Depreciation and amortization	**69,971**	64,520	62,659
Deferred income taxes—net	**36,395**	21,350	20,240
Deferred investment tax credit—net	**16,860**	22,227	21,419
Allowance for funds used during construction	**(86,387)**	(78,409)	(61,411)
Total funds provided from operations	**244,575**	186,083	170,320
Dividends on—Preferred stock	**(23,990)**	(19,897)	(19,897)
Common stock	**(123,220)**	(113,972)	(92,814)
Net funds provideu from operations	**97,365**	52,214	57,609
Funds Obtained from External Sources			
Proceeds from sales of—Common stock	**65,293**	132,785	93,236
Preferred stock	**50,000**	—	—
Capital stock expense	**(1,611)**	(465)	(427)
Proceeds from sales of bonds	**125,000**	150,000	—
Proceeds from sale of debentures	**—**	50,000	—
Proceeds from sale of nuclear fuel	**—**	—	39,810
Proceeds from sale of ownership interests in the Clinton power station	**—**	—	—
Net increase (decrease) in notes payable	**—**	(70,500)	70,500
Retirement of bonds	**(20,000)**	(20,000)	—
Total funds obtained from external sources	**218,682**	241,820	203,119
Other Funds Provided (Used)			
Net decrease (increase) in working capital*	**(31,692)**	43,325	23,565
Miscellaneous—net	**(11,061)**	(2,884)	3,811
Total other funds provided (used)	**(42,753)**	40,441	27,376
Total Funds from Above Sources	**273,294**	334,475	288,104
Allowance for funds used during construction	**86,387**	78,409	61,411
Gross Property Additions	**$ 359,681**	$ 412,884	$ 349,515
Decrease (Increase) in Components of Working Capital*			
Cash and temporary investments	**$ (39,462)**	$ (3,913)	$ 3,371
Accounts receivable	**(10,986)**	(2,286)	(8,656)
Materials and supplies	**13,026**	4,707	2,200
Accounts payable	**21,419**	19,389	21,092
Dividends payable	**4,985**	4,215	4,299
Accrued taxes	**(17,433)**	12,257	1,612
Interest accrued	**444**	10,745	31
Other—net	**(3,685)**	(1,789)	(384)
	$ (31,692)	$ 43,325	$ 23,565

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

Gross Property Additions and Retirements

For the Years Ended December 31,	1983	1982	1981
Additions —Electric	**$ 344,430**	$ 396,233	$ 330,470
Gas	**15,251**	16,651	19,045
	$ 359,681	$ 412,884	$ 349,515
Retirements—Electric	**$ 8,765**	$ 12,027	$ 7,420
Gas	**5,520**	2,869	3,139
	$ 14,285	$ 14,896	$ 10,559

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

1980	1979	1978	1977	1976	1975	1974
	(Thousands of Dollars)					
$ 113,562	$ 91,335	$ 82,361	$ 73,664	$ 59,785	$ 56,722	$ 44,650
59,967	57,653	53,003	49,761	49,845	44,810	41,216
19,922	18,635	20,275	14,099	12,632	12,847	8,184
23,071	21,958	22,793	19,573	10,994	15,034	1,706
(51,220)	(38,731)	(28,929)	(20,183)	(10,503)	(7,459)	(7,960)
165,302	150,850	149,503	136,914	122,753	121,954	87,796
(19,419)	(15,699)	(15,699)	(13,590)	(10,979)	(7,229)	(7,229)
(79,636)	(64,615)	(56,252)	(50,051)	(45,226)	(41,338)	(36,993)
66,247	70,536	77,552	73,273	66,548	73,387	43,574
82,146	85,451	67,870	3,788	63,712	47,256	27,894
36,000	—	—	50,450	50,100	—	—
(845)	(368)	(379)	(275)	(525)	(186)	(139)
125,000	100,000	100,000	118,700	100,000	—	58,500
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	33,926	42,855	27,199	—	—
(34,145)	24,145	10,000	—	(10,000)	(12,000)	19,000
(10,000)	(15,000)	(15,000)	—	(45,000)	—	—
198,156	194,228	196,417	215,518	185,486	35,070	105,255
414	(11,048)	7,345	(23,480)	(13,177)	7,378	(27,781)
(474)	(835)	2,185	(1,628)	965	(407)	(1,238)
(60)	(11,883)	9,530	(25,108)	(12,212)	6,971	(29,019)
264,343	252,881	283,499	263,683	239,822	115,428	119,810
51,220	38,731	28,929	20,183	10,503	7,459	7,960
$ 315,563	$ 291,612	$ 312,428	$ 283,866	$ 250,325	$ 122,887	$ 127,770
$ (3,406)	$ (5,146)	$ 22,231	$ (534)	$ (17,997)	$ 1,996	$ (3,873)
4,328	(11,673)	(10,466)	(3,632)	(8,313)	12,749	(25,792)
1,707	(19,228)	(14,253)	(24,868)	(11,149)	(9,134)	(11,944)
(22,799)	27,781	10,884	9,832	6,429	6,983	3,186
4,825	2,365	1,650	1,528	2,533	1,210	962
12,148	(3,455)	178	(4,466)	5,529	(6,330)	5,101
7,202	3,286	3,711	692	6,520	(402)	2,827
(3,591)	(4,978)	(6,590)	(2,032)	3,271	306	1,752
$ 414	$ (11,048)	$ 7,345	$ (23,480)	$ (13,177)	$ 7,378	$ (27,781)

1980	1979	1978	1977	1976	1975	1974
	(Thousands of Dollars)					
$ 297,157	$ 270,806	$ 296,597	$ 272,462	$ 239,936	$ 112,234	$ 116,637
18,406	20,806	15,831	11,404	10,389	10,653	11,133
$ 315,563	$ 291,612	$ 312,428	$ 283,866	$ 250,325	$ 122,887	$ 127,770
$ 5,607	$ 5,748	$ 6,247	$ 5,040	$ 8,010	$ 7,420	$ 6,264
2,943	2,218	2,280	1,746	2,034	1,695	2,014
$ 8,550	$ 7,966	$ 8,527	$ 6,786	$ 10,044	$ 9,115	$ 8,278

Notes To Financial Statements

Note 1—Summary of Significant Accounting Policies:

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

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

Depreciation—For financial statement purposes, depreciation is provided over the estimated lives of the various classes of depreciable property by applying composite rates on a straight-line basis. Provisions for depreciation of electric utility plant in 1983, 1982, and 1981 were equivalent to 3.4% of the average depreciable cost. Provisions for depreciation of gas utility plant, as a percentage of the average depreciable cost, were equivalent to 4.0% in 1983, 3.0% in 1982, and 2.9% in 1981.

Revenue and Energy Cost—The Company records revenues as billed to its customers on a monthly cycle billing basis. At the end of each month there is an undetermined amount of unbilled electric and gas service which has been rendered from the latest date of each cycle billing to the month end.

The uniform electric fuel adjustment clause implemented in 1982 and the uniform purchased gas adjustment clause implemented in 1983 provide that changes in allowable energy costs from the Company's filed tariffs are passed on to customers. Accordingly, allowable energy costs which are to be passed on to customers in a subsequent billing period are deferred, net of related income taxes.

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

The rate used in computing AFUDC, which is an after-tax rate compounded semi-annually, was 7-3/4% from January through June, 1981, 8-3/4% from July, 1981 through December, 1982, and 9-1/4% throughout 1983.

In accordance with ICC rate orders, the Company excluded $97,064,000 of electric plant construction work in progress (CWIP) from the base on which AFUDC is computed for the Clinton power station Unit 1 from January, 1981 through June, 1981, $375,000,000 from July, 1981 through December, 1982, and $625,000,000 from that date through December, 1983. Since these orders authorized the inclusion of such expenditures in the rate base upon which the Company realized revenues, there was no material effect on net income.

Income Taxes—The Company normalizes the income tax effects of transactions giving rise to timing differences between inclusion in financial statement and taxable income. Provisions for deferred income taxes are computed based on the statutory income tax rates in effect during the period that the timing differences originate. Deferred income taxes are amortized to income as the underlying timing differences reverse.

Principal sources of timing differences giving rise to deferred taxes are:
- Use of the most liberalized depreciable lives and methods allowed by the Internal Revenue Code,
- Capitalization of certain construction overheads, dismantling, and other costs for book purposes which are claimed as current deductions for income tax purposes, and
- Revenues and energy costs recognized in different periods for financial statement purposes than for income tax purposes.

For income tax return purposes, net depreciable utility plant does not include the allowance for funds used during construction which is capitalized, net of tax, for financial statement purposes.

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

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

Note 2—Investments:

Included in the financial statements are $17,440,000 of Guaranteed Floating Rate Bank Notes owned by IPF (Illinois Power Finance) Company N.V. (IPF), the Company's wholly-owned financing subsidiary. These bank notes, maturing in 1994, earn interest at a rate which varies with the London interbank and Euro-dollar rates. IPF, organized under the laws of the Netherlands Antilles, was established for the purpose of borrowing funds outside of the United States (see "Note 13—Long-term Debt"). The accounts of IPF are consolidated in the financial statements, and all intercompany balances and transactions have been eliminated.

IP Gas Supply Company, a wholly-owned subsidiary, was organized for the purpose of exploration to increase available natural gas supplies through one of the Company's pipeline suppliers. In accordance with an order from the ICC, the accounts of the subsidiary are accounted for as an investment on the equity accounting method. The Company's investment at December 31, 1983 and 1982 was $1,813,000 and $3,990,000, respectively.

Note 3—Short-Term Loans and Compensating Balances:

The Company had total lines of credit represented by bank commitments amounting to $399 million at December 31, 1983. These bank commitments support the amount of commercial paper outstanding at any time and are available to support other company activities.

On October 10, 1983 the Company replaced its $50 million loan agreement with a new $50 million revolving loan commitment through December 7, 1987. No borrowings were made under either of these agreements during 1983. The new agreement is on a fee basis of 3/16% for the unused line of credit and 5/16% on any portions of the line of credit that are used. In addition, the interest rate under this agreement on funds borrowed is based upon the borrowing rate of

key banks in the London interbank market.

The Company has a $180 million three-year revolving loan agreement which has a provision for conversion to a three-year term loan. No borrowings were made under this agreement during 1983. For the unused portion of the commitment, the Company pays an annual fee of 1/4%, partially offset by a credit related to average balances maintained at the banks. The interest rate on borrowings under this agreement is, at the Company's option, based upon the lending banks' prime rate, their 90-day Certificate of Deposit rate, or the borrowing rate of key banks in the London interbank market.

In addition, the Company has a credit agreement which provides for a revolving loan commitment of $125 million through December 31, 1985. The Company established this agreement to support its commitment to Illinois Power Fuel Company (Fuel Company). See "Note 7—Commitments". Fees for this agreement are primarily based on 1/4% of the loan commitment. Interest rates on borrowings are, at the Company's option, based upon the banks' prime rate or the borrowing rate at key banks in the London interbank market. At December 31, 1983 and 1982, Fuel Company had commercial paper outstanding of $106 million and $96 million, respectively.

The Company also has lines of credit totaling approximately $44 million with commercial banks for short-term bank borrowings. Bank borrowings under such commitments have a maximum 360-day maturity from the time of issuance and carry an interest rate equivalent to the prime rate in effect at the time of issuance, adjusted to the prime rate in effect on the first day of each calendar quarter thereafter. Borrowings of $33 million were made in 1983 for a 30-day period under this agreement.

There were no outstanding notes payable at December 31, 1983 and 1982. At December 31, 1981 notes payable consisted of $70.5 million in commercial paper bearing interest at an average rate of 12.6% and maturing between January 4, 1982 and January 29, 1982.

The maximum aggregate amount of short-term borrowings at any month's end during 1983, 1982, and 1981 was $49.0 million, $105.0 million, and $70.5 million, respectively. The average daily short-term borrowings during these periods approximated $28.8 million, $56.4 million, and $2[illegible] million, respectively (calculated as an average of the daily borrowings outstanding), with a weighted average interest rate of 9.3%, 13.3%, and 15.6%, respectively (calculated by dividing the interest expense during the period for such borrowings by the average short-term borrowings indicated above).

Note 4—Jointly Owned Facilities:

Pursuant to agreements entered into in August, 1976, Soyland Power Cooperative, Inc. and Western Illinois Power Cooperative, Inc. have a 10.5% and a 9.5% interest, respectively, in the Clinton power station. Each party is responsible for its portion of financing and construction expenditures. The Company's 80% interest in the Clinton power station including land, nuclear fuel, and allowance for funds used during construction applicable to the Company's interest at December 31, 1983 and 1982 was $1.8 billion and $1.5 billion, respectively. The agreements include the provisions that the Company has control over construction and operation of the generating station, the parties will share electricity generated in proportion to their interests, and the Company will have certain obligations to provide replacement power to the Cooperatives when the units are out of service.

Note 5—Income Taxes:

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

	Year Ended December 31,		
	1983	**1982**	**1981**
	(Thousands of Dollars)		
Current taxes—			
Included in Operating Expenses and Taxes	**$ 91,907**	$ 62,166	$ 40,229
Included in Other Income—Miscellaneous—net	**(24,174)**	(19,522)	(15,648
Total current taxes	**67,733**	42,644	24,581
Deferred taxes—			
Book-tax depreciation differences—net	**10,713**	13,284	10,673
Certain overhead, dismantling and other costs capitalized—net	**11,556**	7,480	9,144
Book-tax revenue and energy cost recognition differences	**8,198**	(4,178)	1,016
Clinton Unit 2 abandonment	**13,961**	—	—
Total deferred taxes	**44,428**	16,586	20,833
Deferred investment tax credit—net	**16,860**	22,227	21,419
	$129,021	$ 81,457	$ 66,833

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

	Year Ended December 31,		
	1983	1982	1981
	(Thousands of Dollars)		
Computed tax expense at statutory federal and state income tax rates	$167,965	$117,632	$ 96,066
Reductions (increases) in income taxes resulting from—			
Allowance for funds used during construction	43,087	38,778	30,371
Other—net	(4,143)	(2,603)	(1,138)
Total income taxes	$129,021	$ 81,457	$ 66,833

Note 6—Pension Costs:

The Company has pension plans covering all officers and employees. Pension costs, which are funded as accrued, include current service costs plus unfunded prior service costs which are being amortized over a period of about 25 years. Actuarial assumptions were revised in 1981 upon recommendations by the Company's independent actuary to reflect both actual plan experience and actuarial projections resulting in a decrease of approximately $8,600,000 in unfunded prior service costs. The cost of the pension plans was $8,150,000, $7,332,000, and $5,808,000 during 1983, 1982, and 1981, respectively.

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

	1983	1982
	(Thousands of Dollars)	
Actuarial present value of accumulated plan benefits—		
Vested	$ 88,256	$ 79,923
Non-vested	10,978	10,178
	$ 99,234	$ 90,101
Net assets available for benefits	$146,967	$123,244

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

Note 7—Commitments:

Illinois Power Fuel Company, which is 50% owned by the Company, was formed in January, 1981 for the purpose of financing a portion of the nuclear fuel requirements of the Clinton power station. The Company entered into a lease agreement with the Fuel Company under which the Company will lease nuclear fuel. Lease payments, which will be equal to the Fuel Company's cost of fuel as consumed, will begin when the Clinton power station commences pre-commercial operation. The Company is obligated to make subordinated loans to the Fuel Company at any time the obligations of the Fuel Company which are due and payable exceed the funds available to the Fuel Company. The Company's investment of $50,000 is accounted for under the equity method, and the lease is accounted for as an operating lease in accordance with an ICC order. Had the Company accounted for the nuclear fuel lease as a capital lease, both total assets and liabilities would have been increased by approximately $107 million and $97 million at December 31, 1983 and 1982, respectively.

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

Note 8—Cancelation of Clinton Unit 2:

On October 14, 1983 the Company announced the cancelation of Unit 2 at the Clinton power station. At December 31, 1983, approximately $30.5 million of construction costs and cancelation charges have been deferred and classified as unamortized deferred abandonment costs on the balance sheet. The Company will seek approval from the ICC to recover these costs in its electric rates.

Note 9—Quarterly Financial Information (Unaudited):

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	1983	1982	1983	1982	1983	1982	1983	1982
	(Thousands of Dollars Except Earnings Per Common Share)							
Operating revenues	**$350,659**	$340,855	**$283,418**	$245,517	**$352,636**	$245,119	**$291,546**	$275,284
Operating income	**48,012**	49,775	**41,097**	37,913	**78,456**	43,365	**43,235**	28,871
Net income	**46,071**	47,012	**38,824**	37,003	**78,001**	43,226	**44,840**	29,154
Net income applicable to common stock	**40,704**	42,038	**32,631**	32,029	**71,937**	38,252	**38,824**	24,179
Earnings per common share	**86¢**	$1.01	**68¢**	71¢	**$1.47**	83¢	**78¢**	52¢

Quarterly earnings per common share are based on weighted average number of shares outstanding during the quarter and the sum of the quarters may not equal annual earnings per common share. The financial results for the fourth quarter of 1983 compared to 1982 reflect the operation of the uniform purchased gas adjustment clause implemented under order of the Illinois Commerce Commission during 1983 (see "Revenue and Energy Cost" section of Note 1 on page 22).

Note 10—Common Stock and Retained Earnings:

The Company has an Automatic Reinvestment and Stock Purchase Plan and an Employees Stock Ownership Plan (ESOP) for which at December 31, 1983, 2,954,228 and 55,195 shares, respectively, of common stock were designated for issuance.

The Company also has a Tax Reduction Act Stock Ownership Plan (TRASOP), permitting the Company a maximum additional investment tax credit of 1% provided common stock of the Company equal in value to the additional credit is contributed to the Trust. The TRASOP allows an additional investment tax credit up to ½%, provided that such amount is matched by employee contributions and that common stock of the Company equal in value to the additional credit and the employee contributions is contributed to the Trust. Under this plan, 558,411 shares of common stock were designated for issuance at December 31, 1983. The Company's contributions of common stock to the TRASOP for years after 1983 will be based on a percentage of payroll costs in accordance with changes in federal income tax laws.

Changes in common stock during 1983, 1982, and 1981 were as follows:

	1983		1982		1981	
	Shares	Amount*	Shares	Amount*	Shares	Amount*
Balance beginning of year	**46,858,457**	**$798,706**	40,087,688	$665,921	34,507,851	$572,685
Public offerings	**—**	**—**	4,000,000	78,120	3,000,000	48,165
Automatic Reinvestment and Stock Purchase Plan	**2,666,757**	**56,432**	2,375,662	46,162	2,222,506	38,399
ESOP	**34,781**	**764**	33,014	667	33,020	595
TRASOP	**362,171**	**8,097**	362,093	7,836	324,311	6,077
Balance end of year	**49,922,166**	**$863,999**	46,858,457	$798,706	40,087,688	$665,921

* Thousands of dollars

None of the Company's retained earnings at December 31, 1983 was restricted with respect to the declaration or payment of dividends.

Note 11—Preferred and Preference Stock:

The following tabulation shows preferred and preference stock, issued and outstanding at December 31, 1983, 1982, and 1981, and the redemption prices (exclusive of accrued dividends) applicable to each series.

Serial preferred stock, cumulative, $50 par value*—

Authorized and outstanding 5,000,000 shares (including 720,000 shares of redeemable preferred stock—see Note 12):

Series	Shares	Redemption prices	1983	1982	1981
			(Thousands of Dollars)		
4.08%	300,000	$51.50	**$ 15,000**	$ 15,000	$ 15,000
4.26%	150,000	51.50	**7,500**	7,500	7,500
4.70%	200,000	51.50	**10,000**	10,000	10,000
4.42%	150,000	51.50	**7,500**	7,500	7,500
4.20%	180,000	52.00	**9,000**	9,000	9,000
8.24%	600,000	52.93 prior to August 1, 1986 51.90 thereafter	**30,000**	30,000	30,000
7.56%	700,000	52.63 prior to July 1, 1987 51.685 thereafter	**35,000**	35,000	35,000
8.94%	1,000,000	54.25 prior to March 1, 1986 52.90 thereafter and prior to March 1, 1991 51.60 thereafter	**50,000**	50,000	50,000
8.00%	1,000,000	54.29 prior to August 1, 1987 53.29 thereafter and prior to August 1, 1992 52.29 thereafter	**50,000**	50,000	50,000
Premium on preferred stock			**1,171**	1,171	1,171

Serial preferred stock, cumulative, without par value—

Authorized 5,000,000 shares; 1,000,000 shares outstanding

Series	Shares	Redemption prices	1983	1982	1981
A**	1,000,000	$51.50 after February 1, 1988 and prior to February 1, 1993 50.00 thereafter	**50,000**	—	—
Total preferred stock			**265,171**	215,171	215,171
Preference stock, cumulative, without par value— Authorized 5,000,000 shares; none outstanding			**—**	—	—
Total preferred and preference stock			**$265,171**	$215,171	$215,171

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

**Adjustable Rate Series A issued on February 24, 1983. Quarterly dividend rates are determined based on market interest rates of certain U.S. Treasury securities. See "Two-Year Dividends and Stock Prices by Quarters" on page 30 for the 1983 quarterly dividend rates. The dividend rate for any dividend period will not be less than 6% per annum nor greater than 12% per annum applied to the liquidation preference value of $50 per share.

Note 12—Redeemable Preferred Stock:

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

Note 13—Long-Term Debt:

Long-term debt was represented by:

	December 31, 1983	December 31, 1982
	(Thousands of Dollars)	
First mortgage bonds—		
3½% series due 1983	$ —	$ 20,000
3¾% series due 1986	20,000	20,000
11⅜% series due 1987	75,000	75,000
4% series due 1988	25,000	25,000
14½% series due 1990	75,000	75,000
4¼% series due 1993	35,000	35,000
5.85% series due 1996	40,000	40,000
6⅜% series due 1998	25,000	25,000
6¾% series due 1998	45,000	45,000
8.35% series due 1999	35,000	35,000
9% series due 2000	35,000	35,000
7.60% series due 2001	35,000	35,000
7⅝% series due 2003	60,000	60,000
6.60% series due 2004 (Pollution Control Series A)	8,500	8,500
9⅞% series due 2004	100,000	100,000
10½% series due 2004	50,000	50,000
8⅝% series due 2006	100,000	100,000
6% series due 2007 (Pollution Control Series B)	18,700	18,700
8¼% series due 2007	100,000	100,000
8⅞% series due 2008	100,000	100,000
12⅝% series due 2010	50,000	50,000
12% series due 2012	75,000	75,000
10¾% series due 2013 (Pollution Control Series C)	125,000	—
Total first mortgage bonds	1,232,200	1,127,200
14½% debentures due 1989*	50,000	50,000
Long-term bank notes due 1987**	17,000	17,000
Total long-term debt	1,299,200	1,194,200
Unamortized premium and discount on debt	(7,645)	(7,220)
	1,291,555	1,186,980
Less first mortgage bonds maturing within one year	—	20,000
	$1,291,555	$1,166,980

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

***Interest rate, which is based upon the borrowing rate of key banks in the London interbank market plus a margin of ⅜%, is adjusted quarterly and was 10⅝% at December 31, 1983.*

Certain supplemental indentures to the Mortgage and Deed of Trust require that the Company, beginning in 1985, deposit annually in cash as a sinking and property fund, $5,000,000 for the 9⅞% series due 2004 and $100,000, and increasing $25,000 every two years, for the 6.60% series due 2004 (Pollution Control Series A), which amounts are not subject to reduction. Certain other supplemental indentures require that the Company deposit annually in cash as a sinking and property fund amounts not to exceed $3,550,000 in 1984, $4,050,000 in 1985, $3,850,000 in 1986, $4,850,000 in 1987, and $5,600,000 in 1988, which amounts are subject to reduction in accordance with certain terms of the mortgage. Historically these requirements have been met by pledging property additions.

The above bonds are secured by a first mortgage lien on substantially all of the fixed property, franchises and rights of the Company with certain minor exceptions expressly provided in the mortgage securing the bonds. The remaining balance of net bondable additions at December 31, 1983 was approximately $1,002,000,000.

Note 14—Segments of Business:

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

	1983			1982			1981		
	Electric	Gas	Total Company	Electric	Gas	Total Company	Electric	Gas	Total Company
	(Thousands of Dollars)			(Thousands of Dollars)			(Thousands of Dollars)		
Operating information—									
Operating revenues	$ 790,588	$487,671	$1,278,259	$ 685,544	$421,231	$1,106,775	$ 620,968	$343,324	$ 964,292
Operating expenses, excluding provision for income taxes	488,930	425,334	914,264	456,179	389,693	845,872	419,079	325,954	745,033
Pre-tax operating income	301,658	62,337	363,995	229,365	31,538	260,903	201,889	17,370	219,259
Allowance for funds used during construction (AFUDC)	86,231	156	86,387	78,216	193	78,409	61,356	55	61,411
Pre-tax operating income, including AFUDC	$ 387,889	$ 62,493	450,382	$ 307,581	$ 31,731	339,312	$ 263,245	$ 17,425	280,670
Other (income) and deductions			(25,812)			(21,498)			(16,651)
Interest charges			115,263			103,436			87,427
Provision for income taxes			153,195			100,979			82,481
Net income			$ 207,736			$ 156,395			$ 127,413
Other information—									
Depreciation	$ 52,957	$ 14,068	$ 67,025	$ 51,581	$ 9,940	$ 61,521	$ 50,522	$ 9,509	$ 60,031
Capital expenditures	$ 344,430	$ 15,251	$ 359,681	$ 396,233	$ 16,651	$ 412,884	$ 330,470	$ 19,045	$ 349,515
Investment information—									
Identifiable assets*	$2,931,106	$302,840	$3,233,946	$2,651,015	$284,929	$2,935,944	$2,307,598	$285,489	$2,593,087
Nonutility plant and other investments			23,586			25,616			8,651
Assets utilized for overall Company operations			179,405			130,962			120,757
Total assets			$3,436,937			$3,092,522			$2,722,495

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

Two-Year Dividends and Stock Prices by Quarters

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

		1983 Stock Prices								1982 Stock Prices							
		1		2		3		4		1		2		3		4	
	Dividends*	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low
Common	**	24⅛	22⅜	23⅝	21½	23¾	20	23⅜	19⅜	22	18⅝	21⅞	19⅝	22⅞	18⅞	23⅞	20⅝
4.08% Pfd.	$ .51	18½	16¾	18½	17	18¼	16	18	16	14¾	13½	16	14	16½	13¾	18	15¾
4.26% Pfd.	.53¼	20⅛	18	20¼	18	19¼	17	17¾	16	16½	13½	16	13¾	18	14½	20	16¼
4.70% Pfd.	.58¾	21⅛	19	21⅜	18¾	19¾	18¼	19⅝	17⅜	17¼	14½	17⅝	16	18½	16	20½	18¾
4.42% Pfd.	.55¼	19¾	18⅛	19⅞	18¼	18¾	17¼	18¾	17	17¼	14	16½	15⅜	18	15	19¾	16¼
4.20% Pfd.	.52½	19⅝	17½	20	18	18¾	17	18½	16½	15¾	13½	17	15	18	14½	19⅝	17¾
8.24% Pfd.	1.03	37¾	34⅛	37½	33⅞	36¾	33	35	31	29¾	24¼	32½	28¾	34	28	37	31¼
7.56% Pfd.	.94½	37	31	34½	31½	32	29½	32	29	27⅜	24⅛	29½	25⅝	31	25¾	33¾	29
8.94% Pfd.	1.11¾	40¼	36⅞	40⅝	36	38	35	37½	33½	32	28½	33¾	30	36½	31	39¾	35
8.00% Pfd.	1.00	38	33	36⅜	34½	34½	32	33	31	28½	25½	30¼	27⅜	32¾	27	35½	30⅜
11.66% Pfd.	1.45¾	54	52⅛	54¾	51	53½	51½	52⅛	49	45	43¾	49	42⅜	48	45⅝	54½	49
Adj. Rate Pfd.	***	—	—	42½	39½	46	41½	46	41¾	—	—	—	—	—	—	—	—

**The amount declared in each quarter during 1982 and 1983.*

****$.62 per common share per quarter for 1982 through third quarter 1983 and $.66 in fourth quarter 1983.*

******Dividend rate changes quarterly. Rates for dividends declared in 1983 were $.80, $1.21875, $1.025, and $1.05 in the first, second, third, and fourth quarters, respectively.*

There were 81,163 registered record holders of common stock at January 10, 1984.

Selected Financial Data*

	1983	1982	1981	1980	1979
Total operating revenues	**$1,278,259**	$1,106,775	$ 964,292	$ 883,370	$ 751,822
Net income	**$ 207,736**	$ 156,395	$ 127,413	$ 113,562	$ 91,335
Net income applicable to common stock	**$ 184,096**	$ 136,498	$ 107,516	$ 94,493	$ 75,636
Earnings per common share	**$ 3.80**	$ 3.04	$ 2.84	$ 2.87	$ 2.70
Cash dividends declared per common share	**$ 2.52**	$ 2.48	$ 2.405	$ 2.355	$ 2.28
Total assets	**$3,436,937**	$3,092,522	$2,722,495	$2,467,191	$2,214,652
Long-term debt	**$1,291,555**	$1,166,980	$ 971,639	$ 991,402	$ 866,747
Redeemable preferred stock	**$ 36,000**	$ 36,000	$ 36,000	$ 36,000	—
Ratio of earnings to fixed charges**	**3.56**	3.04	3.16	3.25	3.15

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

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

Supplementary Information to Disclose the Effects of Changing Prices

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

Utility Plant and Depreciation

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

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

The increase in depreciation expense on utility plant, restated for the effects of changing prices, represents the excess of depreciation expense in terms of constant dollars and current cost over historical depreciation expense ($67.0 million) used for financial statement purposes.

Reduction to Net Recoverable Cost

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

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

Gain from the Decline in Purchasing Power of Net Amounts Owed

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

Inventories and Taxes

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

As prescribed in the Statement of Financial Accounting Standards No. 33, income taxes were not adjusted. Present income tax laws ignore the effects of inflation in measuring taxable income. Higher depreciation expense under constant dollar and current cost accounting is not tax deductible. Therefore, the Company's effective federal and state income tax rate, when adjusted for inflation, is 54.0% under constant dollar and 57.9% under current cost for 1983 each of which exceeds the reported effective tax rate of 38.3% and the statutory federal and state rate of 49.9%.

Statement of Income Adjusted for Changing Prices

	For the Year Ended December 31, 1983	
	Constant Dollar Average 1983 Dollars	Current Cost Average 1983 Dollars
	(Thousands of Dollars)	
Net income, as reported	$ 207,736	$ 207,736
Increase in depreciation expense on utility plant as restated for the effects of changing prices	97,936	113,846
Net income (excluding reduction to net recoverable cost)	$ 109,800*	$ 93,890
Increase in specific prices (current cost) of utility plant held during the year**		$ 172,018
Less increase in cost of utility plant adjusted for changes in general price level		172,244
Excess of increase in general price level over increase in specific prices		(226)
Reduction to net recoverable cost	$ (35,262)	(19,126)
		(19,352)
Gain from decline in purchasing power of net amounts owed	64,325	64,325
Net price level adjustment	$ 29,063	$ 44,973

*Including the reduction to net recoverable cost, the net gain on a constant dollar basis would have been approximately $75 million for 1983.

**At December 31, 1983, current cost of utility plant, net of accumulated depreciation, was approximately $4.8 billion, while net historical cost recoverable through depreciation was approximately $3.1 billion.

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

	For the Years Ended December 31,				
	1983	1982	1981	1980	1979
Operating revenues—					
Historical costs	**$ 1,278,259**	$ 1,106,775	$ 964,292	$ 883,370	$ 751,822
Adjusted for general inflation	**1,278,259**	1,142,379	1,056,332	1,068,061	1,031,940
Historical cost information adjusted for general inflation					
Income from operations (excluding reduction to net recoverable cost)	**109,800**	75,345	56,719	54,810	51,673
Income per common share (after preferred stock dividend requirements and excluding reduction to net recoverable cost)	**1.78**	1.22	.92	.96	1.07
Net assets at year end at net recoverable cost	**1,119,704**	1,035,453	911,405	867,376	847,688
Current cost information					
Income from operations (excluding reduction to net recoverable cost)	**93,890**	61,266	43,277	35,577	27,982
Income per common share (after preferred stock dividend requirements and excluding reduction to net recoverable cost)	**1.45**	.91	.57	.37	.23
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost	**19,352**	4,688	174,409	184,307	240,942
Net assets at year end at net recoverable cost	**1,119,704**	1,035,453	911,405	867,376	847,688
General information					
Gain from decline in purchasing power of net amounts owed	**64,325**	60,580	133,694	174,071	211,150
Cash dividends declared per common share—					
Historical cost	**2.52**	2.48	2.405	2.355	2.28
Adjusted for general inflation	**2.52**	2.56	2.63	2.85	3.14
Market price per common share at year end—					
Historical cost	**20.00**	23.75	20.625	17.88	19.13
Adjusted for general inflation	**19.66**	24.24	21.86	20.65	24.83
Average consumer price index	**298.4**	289.1	272.4	246.8	217.4
Year-end consumer price index	**303.5**	292.4	281.5	258.4	229.9

*In thousands of average 1983 dollars except per share data and indices.

Electric Operating Statistics

	1983	1982	1981	1980	1979
Revenue (Thousands of Dollars)					
Residential	$ 289,224	$ 232,066	$ 209,310	$ 199,124	$ 160,355
Commercial	173,925	151,167	134,968	123,463	105,262
Industrial	263,455	243,016	223,950	198,177	174,315
Other	15,365	13,587	11,430	9,897	8,137
Revenues—ultimate consumers	741,969	639,836	579,658	530,661	448,069
Rural cooperatives and municipal utilities	43,926	40,648	35,826	33,236	27,790
Other electric utilities	3,563	66	47	68	59
Miscellaneous	1,130	4,994	5,437	3,391	3,134
	$ 790,588	$ 685,544	$ 620,968	$ 567,356	$ 479,052
Customers at End of Year					
Residential	473,021	470,318	469,452	466,546	461,966
Commercial	55,476	54,873	54,895	54,546	53,804
Industrial	312	348	361	359	374
Other	716	712	718	715	714
	529,525	526,251	525,426	522,166	516,858
Sales in KWH (Thousands)					
Residential	4,076,726	3,772,690	3,741,175	4,003,563	3,737,245
Commercial	2,575,710	2,479,246	2,449,342	2,492,930	2,408,131
Industrial	6,466,919	6,218,009	6,555,190	6,507,468	6,738,321
Other	302,631	304,168	295,922	290,851	282,848
Sales—ultimate consumers	13,421,986	12,774,113	13,041,629	13,294,812	13,166,545
Rural cooperatives and municipal utilities	1,274,747	1,201,814	1,169,153	1,189,702	1,057,113
Other electric utilities	114,123	1,772	1,758	1,961	1,874
	14,810,856	13,977,699	14,212,550	14,486,475	14,225,532
Generated and Purchased in KWH (Thousands)					
Generated—					
Steam	15,816,814	14,431,747	15,710,540	16,306,993	16,840,214
Hydro and internal combustion	12,497	10,122	35,447	61,914	55,241
Total generated	15,829,311	14,441,869	15,745,987	16,368,907	16,895,455
Purchased and interchanged—net	146,608	452,761	(616,437)	(838,615)	(1,666,889)
Total output	15,975,919	14,894,630	15,129,550	15,530,292	15,228,566
Less—used and unaccounted for	1,165,063	916,931	917,000	1,043,817	1,003,034
	14,810,856	13,977,699	14,212,550	14,486,475	14,225,532
System Peak Demand in KW (Thousands)	3,297	3,028	3,165	3,150	3,046
Firm Peak Demand (native load) in KW (Thousands)	3,215	2,951	3,100	3,150	3,019
Net Generating Capability in KW (Thousands)	3,806	3,806	3,815	3,815	3,815

Gas Operating Statistics

	1983	1982	1981	1980	1979
Revenues (Thousands of Dollars)					
Residential —without space heating	$ 2,609	$ 2,347	$ 2,372	$ 2,201	$ 2,056
with space heating	225,289	189,389	156,378	142,050	124,354
Commercial—without space heating	2,876	4,160	4,040	2,265	2,858
with space heating	85,092	73,055	57,602	52,976	46,010
Industrial —non-interruptible	137,961	147,446	114,944	76,743	43,714
interruptible	28,522	3,516	6,803	31,951	51,354
Revenues —ultimate consumers	482,349	419,913	342,139	308,186	270,346
Interdepartmental revenues—interruptible	479	281	1,074	1,825	2,365
Miscellaneous	4,843	1,037	111	6,003	59
	$ 487,671	$ 421,231	$ 343,324	$ 316,014	$ 272,770
Customers at End of Year					
Residential —without space heating	11,829	12,480	13,470	16,040	18,251
with space heating	337,270	337,011	336,504	332,695	326,816
Commercial—without space heating	1,498	1,556	1,624	1,891	2,048
with space heating	31,394	31,567	31,387	30,725	30,032
Industrial —non-interruptible	458	477	482	474	480
interruptible	27	6	7	24	58
	382,476	383,097	383,474	381,849	377,685
Sales in Therms (Thousands)					
Residential —without space heating	2,808	3,848	4,487	5,165	6,231
with space heating	358,947	414,062	386,282	414,405	459,329
Commercial—without space heating	5,082	8,742	10,792	6,749	10,586
with space heating	155,837	176,976	161,720	168,563	182,212
Industrial —non-interruptible	281,825	394,635	363,633	280,471	194,310
interruptible	62,167	8,716	21,183	101,935	186,264
Sales —ultimate consumers	866,666	1,006,979	948,097	977,288	1,038,932
Interdepartmental sales—interruptible	1,060	801	4,360	8,853	13,141
	867,726	1,007,780	952,457	986,141	1,052,073
Purchased and Produced—Therms (Thousands)					
Purchased	956,132	994,815	1,040,091	980,426	1,118,246
Storage—net of (injected) and withdrawn	(12,628)	48,400	(48,047)	55,525	(30,203)
Purchased gas delivered	943,504	1,043,215	992,044	1,035,951	1,088,043
Produced	692	279	21	99	69
Total	944,196	1,043,494	992,065	1,036,050	1,088,112
Less—used and unaccounted for	76,470	35,714	39,608	49,909	36,039
	867,726	1,007,780	952,457	986,141	1,052,073

Board of Directors

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

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

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

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

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

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

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

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

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

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

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

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

Officers

Wendell J. Kelley
Chairman and President

William C. Gerstner
Executive Vice
President

Charles W. Wells
Executive Vice
President

Larry D. Haab
Senior Vice
President

William E. Warren
Senior Vice
President

Arthur E. Gray
Vice President and
Secretary

Donald P. Hall
Vice President

James O. McHood
Vice President

Jerome P. O'Grady
Vice President

Porter J. Womeldorff
Vice President

Larry F. Altenbaumer
Treasurer

John B. Burdick
Assistant Secretary

Gary L. Secor
Assistant Treasurer

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

The Continuity of Leadership

Allen Van Wyck
President, 1940 to 1966
Chairman of the Board, 1966 to 1971

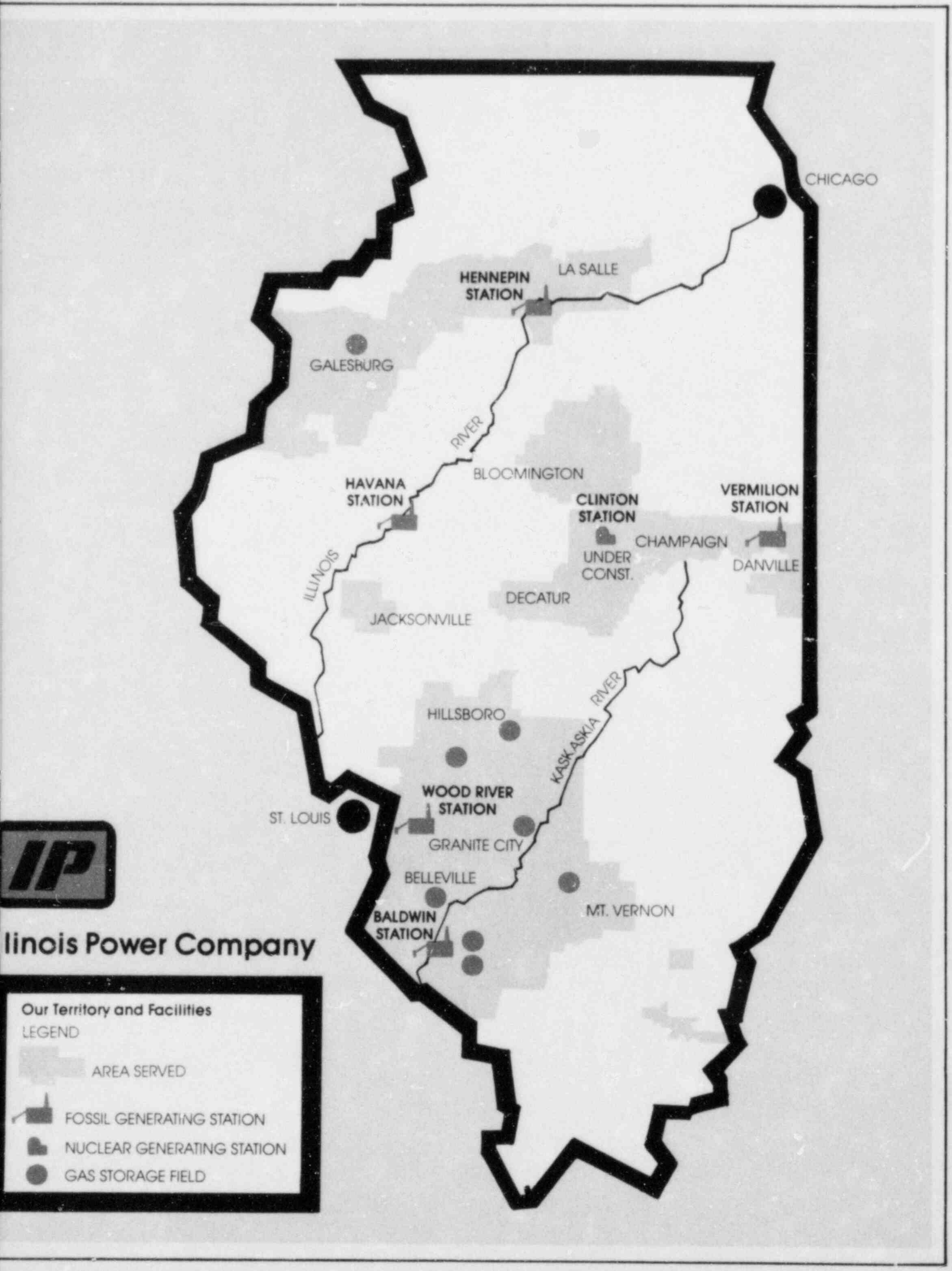
Wendell J. Kelley
President, 1966 to 1976
Chairman and President, since 1976

Allen Van Wyck, an attorney, began his association with Illinois Power predecessor companies in 1933. He led the foundling enterprise to a sound financial condition, facilitating the sale of securities to start construction of the Company's first major electrical generating station in 1945 at Havana, Illinois.

He guided the corporation in the complex divestiture of its numerous outside holdings, and shaped the Company to become a supplier of electricity and natural gas as its only business.

Wendell J. Kelley joined the Company as an engineer immediately following graduation from the University of Illinois in 1949. He served in various capacities with the Company prior to becoming president. Under his leadership the Company's total assets have increased from $540 million in 1966 to $3.4 billion in 1983 and its revenues from $166 million to almost $1.3 billion.

During his presidency the number of stockholders has increased from 27,000 to in excess of 85,000. The Company also has continued its dividend payment record, begun in 1947, with the 146th consecutive dividend paid on February 1, 1984.



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Our Territory and Facilities
LEGEND
AREA SERVED
FOSSIL GENERATING STATION
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