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PUBLIC SERVICE INDIANA

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HIGHLIGHTS

	1983	1982	% Increase (Decrease)
Kilowatt-hours sold*	17 655	17 635	.1
Operating revenues*	$ 873.9	$ 809.4	8.0
Net income*	$ 255.8	$ 233.2	9.7
Common stock—			
per share			
Earnings			
From operations	$ .98	$ 1.02	(3.9)
AFUDC **	3.48	3.53	(1.4)
	$ 4.46	$ 4.55	(2.0)
Dividends paid	$ 2.82	$ 2.72	3.7
Book value	$ 27.32	$ 26.05	4.9
Market price at year-end	$ 11.63	$ 24.88	(53.3)

**Allowance For Funds Used During Construction

	1983	1982	% Increase (Decrease)
Rate of return (year-end) on—			
Net plant in service and inventories	10.1%	9.2%	
Customers at year-end	544 730	541 797	.5
Electric heating customers	102 520	98 832	3.7
Average kilowatt-hours used—domestic customers	10 479	10 411	.7
Fuel cost per million btu consumed	$ 1.40	$ 1.45	(3.4)
System peak load in megawatts			
Summer	3 771	3 517	7.2
Winter	3 583	3 683	(2.7)
Capital Expenditures			
Utility plant*	$ 87.2	$ 217.0	
Utility plant—reimbursements*	(108.6)	(107.4)	
Marble Hill nuclear project*	579.7	438.0	
Nuclear fuel owned*	6.5	15.7	
	$ 564.8	$ 563.3	.3

*millions

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PUBLIC
SERVICE
INDIANA

Public Service Indiana is an investor-owned utility serving the electric energy needs of over 544,000 customers in central and southern Indiana. Our 69-county service area embraces a widely diversified industrial, commercial and agricultural economy in a largely rural territory. We burn coal mined in Indiana, Illinois and Kentucky to produce 99 percent of our electrical output.

Our corporate offices are located at 1000 East Main Street in Plainfield, Indiana 46168. Our phone number is (Area 317) 839-9611.

TO THE SHAREHOLDERS

Without question, 1983 was the most difficult year in the Company's history. The political and financial clouds over the Company's Marble Hill nuclear project in the latter part of the year overshadowed all other developments during the period.

As a result of events beyond the Company's control during the past several months, the Board of Directors announced on January 16, 1984, that the Company was financially unable to proceed with the construction of its portion of Marble Hill. Formal cancellation of the project, however, is contingent upon the actions of the Company's partner, Wabash Valley Power Association, Inc. (WVPA).

As of December 31, 1983, the Company's investment in the project was \$2.3 billion (including \$230 million for nuclear fuel). If cancelled, the Company's 83% share of the final cost of its investment in the project is estimated to be in excess of \$2.8 billion. Additional expenditures yet to be made include payments for work performed before construction was halted, contractor and material settlements, commitments under nuclear fuel contracts and maintenance and security to preserve assets at the site. Marble Hill expenditures for 1984, excluding capital costs, are estimated at \$118 million.

Because of cash needs for these expenditures at Marble Hill and for other construction, ongoing senior capital costs, cash operating requirements and the inability to sell long-term securities, the Company's financial condition is severely strained.

Actions which have been taken to meet our short-term financial needs and to rebuild for the longer term include:

- Stringent measures have been implemented to reduce operating costs and construction expenditures to levels which provide minimum service requirements.

- A request for emergency rate relief of \$105 million on an annual basis was filed January 16, 1984 with the Public Service Commission of Indiana (Indiana Commission). Hearings were held in February. A Settlement Agreement between the Company, the Utility Consumer Counselor and certain intervenors was reached on February 29, and approved by the Indiana Commission on March 8, providing for a 5% interim emergency increase of \$37.9 million. These additional revenues will be separately accounted for and will be deducted from the Marble Hill investment to be amortized; such revenues will not affect earnings in 1984.

  Additional details of the Settlement Agreement, including regulatory principles to be applied to Marble Hill costs, are described in the "Rates" section on page 8.

- Work has begun on a request to the Indiana Commission seeking authorization to recover the Marble Hill investment through rates over a period of years. This petition is expected to be filed in late spring.

  The Company believes that the Marble Hill expenditures were prudently made on behalf of the customers and that customers should pay such costs over a reasonable time period. The Company intends to use all available avenues to defend this position and to protect shareholder interests.

- The Company will also file a request with the Federal Energy Regulatory Commission for increased rates to its wholesale customers at a later date.

- Negotiations for a credit agreement of up to \$500 million with a group of banks are in process.

Even with these steps, the Board of Directors concluded that further action was necessary to restrict cash expenditures and reduced the

quarterly dividend on the common stock from 72¢ to 25¢ per share effective with the March 1, 1984 dividend. Such action, taken with great reluctance, was considered to be essential in the long-term interests of shareholders.

As indicated in the February 6, 1984 letter to shareholders, the Allowance for Funds Used During Construction (AFUDC)—a non-cash credit to income representing the cost of capital applicable to construction—is being discontinued on accumulated Marble Hill costs as of January 1, 1984. The discontinuance of AFUDC, together with certain Marble Hill expenditures of approximately $8 million which will be chargeable to income in 1984, will result in a substantial decline in earnings for the year 1984. It is the Company's intention to include all costs of the Marble Hill project, including those incurred subsequent to December 31, 1983, in its petition to recover Marble Hill costs in rates.

The Board believes that Marble Hill will be needed to meet future power requirements in Indiana. However, support for this nuclear energy source has been severely eroded in recent months through various state government actions and the Governor's endorsement of recommendations of a special task force appointed by him.

Rebuilding the financial health of the Company is, and must be, the focus of our efforts in the next several years. It will be a difficult task—and will require regulatory, political and legislative support as well as consumer understanding.

Restoration of the common dividend to former levels will be a primary goal in rebuilding financial health. However, no assurances can be given as to timing and amounts. Inadequate rate treatment by regulatory authorities relative to the recovery of Marble Hill costs would further impair the financial integrity of the Company and severely limit the ability of the Company to continue dividend payments even at the reduced level.

Public Service Indiana serves the electric needs of over 544,000 customers in a 69-county area. This job must go on—even though quality of service levels may be endangered by inadequate financial resources. The great disappointment of 1983 relating to Marble Hill will affect both our shareholders and customers for years to come. The potential for shortages of electric power in the next decade has been increased substantially.

The employees of Public Service Indiana have demonstrated unusual cooperation and understanding during this extremely difficult period which saw over 1,700 jobs eliminated. Our employees provide dependable electric service with dedication and professionalism—they remain one of our strengths.

We cannot close without expressing our appreciation to you, our shareholders, for your support in the last several months. The impact on your investment in the Company has been extremely severe—but we pledge our maximum efforts to rebuild the Company's financial health in the years ahead.

Hugh A. Barker

HUGH A. BARKER
Chairman

Darrell V. Menscer

DARRELL V. MENSCER
President

March 8, 1984

MARBLE HILL

As 1983 began, construction at Marble Hill was proceeding toward the scheduled in-service dates of December 1986 and June 1988. The total cost of the project was estimated at $5.06 billion.

An audit of the Marble Hill project estimate and schedule by an independent engineering firm was ordered by the Indiana Commission in the Company's January 1983 rate order.

The audit report was filed with the Commission in May 1983. The report indicated that the total project cost, assuming scheduled in-service dates of December 1986 and June 1988, would be $5.5 billion. The report also indicated that the most probable in-service dates were November 1987 for Unit 1 and August 1988 for Unit 2 with a total estimated project cost of slightly less than $6 billion.

Differences between the Company's revised June 1983 estimate of $5.13 billion and the audit report findings related to additional labor costs, the impact of potential regulatory changes and additional financing costs reflecting later in-service dates. After reviews of the Company's and the independent engineering firm's estimates, the Company concluded that its cost estimate and completion schedule were achievable but would require superior performance.

RATE CONTROL PLAN

In its January 20, 1983 retail rate order, the Indiana Commission directed the Company and the Commission Staff to establish a plan which would achieve gradualism in implementing rate increases and avoid precipitous increases when the Marble Hill units were placed in service.

A proposed Rate Control Plan was filed by the Company with the Indiana Commission on July 8, 1983. The Plan provided for rate increases of 8% per year for a 6-year period. The Plan was also designed to maintain the financial integrity of the Company and avert a severe financial emergency in the 1984-1986 period by reducing outside financing requirements and enabling the attraction of capital on reasonable terms.

Hearings by the Indiana Commission on the proposed Rate Control Plan and the independent audit report of the estimated costs of Marble Hill were held August 8-12, 1983.

On August 16, 1983, the Indiana Attorney General issued an opinion to the Indiana Commission stating that the proposed Rate Control Plan was not authorized by Indiana law. The Company believes that the opinion was not based on authoritative legal analysis and reflected a lack of understanding of the proposed Plan.

SPECIAL TASK FORCE

On August 25, 1983, the Indiana Commission suspended further proceedings on the Rate Control Plan. This action was taken in response to a request by Governor Robert D. Orr that hearings be suspended while a special Task Force examined various Marble Hill matters.

The Task Force, consisting of five businessmen, was appointed by the Governor on September 9. The Task Force was to evaluate the desirability of completing Marble Hill and the timing of that completion and to examine the full range of alternative methods of financing, including any new legislation which might be needed to implement their recommendations.

The Task Force retained Arthur D. Little, a consulting firm, and Salomon Brothers, Inc., an investment banking firm, as consultants. The Task Force met for the first time on September 22.

During the Task Force deliberations, senior management of the Company met with the Task Force and their consultants on a number of occasions as they reviewed various alternatives ranging from completion of both units to cancellation of both units. The

Company stressed the need for Marble Hill throughout these meetings, including the need for capacity to support Indiana's future economic growth, the increasing age of the Company's present coal-fired generating capacity and the potential for adverse acid rain legislation which could affect those facilities.

REVISED MARBLE HILL ESTIMATE

As a result of ongoing studies of start-up schedules, the Company announced on October 10, 1983, that the estimated start-up period for Unit 1 was being increased 6 months to a revised schedule of 24 months. The start-up period reflects the time between completion of major systems and fuel loading when sequential testing of such systems is performed to assure their safety and readiness for operation.

At the same time, the Company considered options available to finish construction more rapidly but within the stringent safety and quality constraints established for the project.

On October 28, the Company announced major changes in cost estimates and time schedules. During 1983 the project had fallen 70 working days behind schedule. This delay was largely due to structural steel modifications required to meet seismic requirements which also adversely affected the progress of electrical work. After an analysis of remaining work, optimum labor force requirements and productivity rates, and the required extension of start-up time, the construction schedule was extended 24 months. Under the revised schedule, it was estimated that Unit 1 would be placed in commercial operation December 1988 and Unit 2 in mid-1990.

The revised cost of the project was estimated at approximately $7 billion. About 74%, or $1.4 billion, of the increase was due to the additional cost of capital during the construction period (Allowance for Funds Used During Construction). The remainder of the increased cost was due to labor costs to be incurred in the two-year extension of the construction period and $150 million for construction scope changes and design modifications.

As a result of the revised estimates, the Board decided to sharply reduce current expenditures at the site, pending determination as to the availability of financing. Construction activity at the site was to continue at a minimum level consistent with the ability to complete the project. Approximately 2,500 craft workers were laid off in early November and further reductions to about 4,000 personnel were planned from October's peak employment level of almost 8,000.

TASK FORCE REPORT

On December 21, 1983, the Task Force issued a summary report to the Governor; two days later, the Governor endorsed the recommendations of the Task Force. The principal recommendation was that Marble Hill not be completed. The Task Force based its decision on its conclusion that additional generating capacity would not be needed until 1993 or later (depending on load growth and other assumptions). The Task Force also said that the costs of the plant, which they estimated at $7.7 billion, compared unfavorably with the alternative of new coal-fired plants.

The Task Force also recommended that shareholders absorb the substantial portion of all costs pertinent to Marble Hill. However, if such treatment would impair the Company's access to capital markets and result in even higher rate increases and/or deterioration of service, some portion of the cost should be assigned to customers. If the ratepayer is to pay a portion of costs, the Task Force recommended that the Marble Hill cost be written off over 20 years with a 5-year phase-in period and that the Company should not be allowed to earn a return on the unamortized balance. The Task Force indicated that rate increases during the 5-year phase-in period should average less than 3% per year.

On February 7, 1984, the full Task Force Report was released. The detailed report includes the methodology and documentation used by the Task Force in reaching their conclusions and recommendations.

Major differences between the Task Force Report and Company forecasts relate to load growth, new generating capacity requirements and reserve margins. In addition, there are other significant differences in assumptions related to off-system sales, annual increases in coal prices, retirement of existing generating equipment and estimated capital expenditures and financing requirements to meet potential acid rain legislation.

The full Task Force Report implied that no dividend should be paid on the common stock for three years and that common dividends should be limited thereafter to 35% of net income. The report noted that the Task Force's financial consultant had not recommended this particular alternative.

The Company strongly disagrees with the Task Force recommendations, including the assignment of costs to shareholders. The Marble Hill construction program was approved by the Indiana Commission as being necessary in the public interest. The Company believes that the Marble Hill expenditures were prudently made on behalf of customers and that shareholders should not be required to absorb such costs. The Company will act to defend this position as vigorously as possible.

The Company also believes that the Task Force recommendations on common dividends are unrealistic and will not meet the Task Force's stated objective of allowing the Company to have access to capital markets when capital is required.

CONSTRUCTION SUSPENDED

Pending further review of the Task Force recommendations, the Board of Directors suspended all construction activities effective January 3, 1984 resulting in the layoff of approximately 4,000 people, including 900 Company employees. Demobilization is continuing consistent with maintenance of the project site and preservation of materials, equipment and records.

LITIGATION

As indicated more fully in Note 13 of the "Notes to Financial Statements", a number of shareholder suits have been filed against the Company, certain directors and certain officers of the Company, Morgan Stanley & Co., Incorporated, Dean Witter Reynolds, Inc. and Arthur Andersen & Co. The complaints purport to be class actions against the named defendants on behalf of all persons who purchased common stock of the Company during various periods in 1982 and 1983. The Company believes it has substantial defenses to these complaints, but their outcome cannot be determined. Two stockholder derivative actions have been filed on behalf of the Company against certain officers and certain directors.

On February 10, 1984, WVPA filed suit against the Company in the U.S. District Court, Indianapolis Division, seeking $466 million plus interest and other damages to recover its share of Marble Hill. The suit charges that the Company violated federal securities law in inducing WVPA to buy a 17% ownership share in Marble Hill and alleges various misrepresentations or omission of information relating to that project. The Company believes that it has substantial defenses to this suit, but its outcome cannot be determined.

YEAR IN REVIEW

EARNINGS—DIVIDENDS

Net income in 1983 was $256 million compared with 1982's $233 million. Earnings per share of common stock declined from $4.55 to $4.46 and reflected an increase of 5.8 million average common shares outstanding.

The Allowance for Funds Used During Construction (AFUDC), principally due to Marble Hill construction, was $221 million in 1983 and $198 million in 1982. Earnings per share attributable to AFUDC, less deferred tax expense applicable to the debt portion of AFUDC, were $3.48 for 1983 and $3.53 for 1982.

Effective January 1, 1984, AFUDC applicable to Marble Hill costs was discontinued. The Company has concluded that further accrual of AFUDC, in light of the decision to discontinue further participation in the construction of Marble Hill, would not be in accordance with generally accepted accounting principles. The Company's independent public accountants concur with this conclusion and also advised the Company that expenditures on Marble Hill for maintenance of the project site, and preservation of materials, equipment and records are chargeable against current income. Such expenditures in 1984 are estimated at $8 million.

Dividends per share of common stock paid in 1983 were $2.82 and reflected a $.03 quarterly increase on September 1, 1983. As previously noted, the Board of Directors reduced the March 1, 1984 quarterly dividend on common stock from $.72 to $.25 per share.

REVENUES—KWH SALES—CUSTOMERS

Operating revenues rose $65 million, or 8%, to $874 million and reflected retail and wholesale rate increases placed in effect in early 1983. Total kilowatt-hour sales of 17.6 billion for the year were virtually the same as 1982.

Domestic and commercial kilowatt-hour sales both increased 1% for the year. Industrial sales rose 4% for the year reflecting some recovery in production levels; in 1982, industrial sales had dropped 6% compared with the prior year. Auto manufacturing and steel, aluminum and cement production were up sharply in 1983.

Wholesale sales declined 9% for the year. In December 1982 and January 1983, two wholesale groups purchased ownership of approximately half of the Company's Gibson Unit 5. Such capacity is now used to supply a portion of their kilowatt-hour requirements.

Net customer additions for the year totalled 2,933 compared with 996 last year. Space heating customers increased almost 3,700 for the year to 102,500 or 19% of all customers.

1983 INDUSTRIAL POWER USE

	Kwh (thousands)	% increase (decrease) from 1982
Chemicals & Drugs	800 110	(9.2)
Steel & Iron	559 397	14.5
Motor Vehicles & Equipment	534 746	14.5
Engines & Machinery	330 906	7.4
Coal	304 970	(13.3)
Paper Products	299 180	2.0
Aluminum	290 321	12.2
Cement	265 731	22.5
Feed & Flour	261 427	1.5
Fabricated Metal Products	216 340	5.9
Stone & Clay Products	188 157	19.2
Plastic Products	175 133	(.2)
Electric Equipment & Machinery	157 524	6.0
Bakery & Beverage Products	133 904	1.0
Household Appliances	102 092	19.1
Glass Products	98 567	19.3
Gypsum, Stone, Sand & Gravel	74 844	5.4
Rubber Products	71 821	12.0
Natural Gas & Petroleum	64 088	(10.4)
Radio & Television	52 881	(26.8)
Furniture & Fixtures	48 982	6.4
Lumber & Wood Products	42 782	7.4
Canned & Frozen Foods	42 295	(12.6)
Other Diversified Industries	743 843	4.5
	5 860 041	4.0

RATES

Because of insufficient internal cash generation, the Company filed an emergency 14% rate relief petition of $105 million on an annual basis with the Indiana Commission on January 16, 1984. As noted in the Letter to Shareholders, a Settlement Agreement which provides for a 5% increase in revenues of $37.9 million was concluded by the parties to the emergency rate case proceeding on February 29, 1984.

The Settlement Agreement also provides that the Company take further actions to conserve cash and reduce operating expenses, including deferral of all directors' fees, 15% salary reductions for the Chairman and the President and 7 1/2% for all other officers and department heads.

The Agreement also provides that the Indiana Commission's order in this case should set forth the following assurances of principles to be applied in the recovery of Marble Hill costs to the extent such costs were prudently incurred:

- The regulatory treatment should ensure the continued ability of the Company to meet its contractual and franchise obligations and assist in an orderly recovery to financial health.
- The regulatory treatment should enable the Company to regain access to capital markets to finance required capital expenditures and meet its utility and financial obligations.
- The regulatory treatment should provide for a balancing of the legitimate interests of the ratepayers and the investors.

The Indiana Commission issued an order on March 8, 1984 approving the provisions of the Agreement.

Because of the filing of the emergency rate petition, the Company requested the Indiana Commission to terminate further hearings on its Rate Control Plan which was filed July 8, 1983.

Rate filings for authority to recover the Marble Hill investment over a period of years in rates will be made with both the Indiana Commission and the Federal Energy Regulatory Commission later in the year.

A 12% retail rate increase totalling $81.2 million annually was approved by the Indiana Commission on January 20, 1983. A negotiated 13.3% increase in rates to wholesale customers of $15.4 million annually became effective February 1, 1983.

OPERATING EXPENSES

In 1983, total generation increased 11% to 24.3 billion kilowatt-hours. Despite this increase in production, total fuel expense rose only 5%. Even with increased generation, increased customers and operating expenses for a full year on the Company's portion of the new Gibson Unit 5, placed in service in October 1982, operation and maintenance expenses increased only nominally in 1983 and reflect extremely tight control of expenditures at all operating levels.

On a unit cost basis, coal prices declined 3%. Negotiated reductions with coal suppliers were a major factor in this price decline. This decline in fuel costs benefited customers by reducing fuel adjustment charges $8 million. Fuel inventories were also reduced nearly $39 million.

Off-system power sales totalled 5.1 billion kilowatt-hours for 1983 compared with 2.9 billion kilowatt-hours in 1982; demand charges, however, for those sales were reduced in a highly competitive market.

Throughout 1983, all operating and maintenance expenses, as well as construction expenditures, were critically reviewed at all levels of the Company. "Business as usual" was not acceptable. Rigorous control will continue in 1984.

Major cost reductions which have been made are:

1 668 jobs have been eliminated since July 1982 in non-nuclear operating areas, a 14% reduction, despite a greater volume of business being served. In addition, work-

ing hours for nearly 600 workers have been reduced to four days per week.

2 Nuclear Division manning was reduced from 1,200 to 150.

3 No general salary increase will be made in 1984. Bargaining unit employees voted in January 1984 to extend their current labor contract, which was due to expire May 1, 1984, for an additional year with no change in wages or benefits.

4 Stringent controls will result in total operation and maintenance expenses in 1984 remaining at 1982 and 1983 levels.

5 Construction expenditures and maintenance programs have been cut to the point where reliability of service to customers may be impaired. Non-nuclear construction expenditures in 1983 were reduced $25 million from planned levels at the beginning of the year; the 1984 construction program has been reduced 50% from initial estimates. While construction expenditures are being reduced currently because of financial constraints, they cannot be deferred indefinitely.

PEAK DEMANDS

In August 1983, a new summer peak of 3,771 megawatts (MW) was established, exceeding the previous peak of 3,707 MW set in July 1981.

In mid-1983, the Company adjusted its long-term load projections for the 1983-1994 period. The forecast reflects an average annual increase of 3.0% for winter peak loads compared with the previous estimate of 3.7%. During the same period, summer peak loads are expected to increase 2.2% compared with the previous forecast of 2.7%. Winter peak loads are expected to continue to exceed summer peak loads. Kilowatt-hour sales growth during the twelve-year period is expected to average 2.6% compared with 3.1% in the previous estimate.

DECEMBER 24, 1983

While a new winter peak was not established on December 24, 1983, the peak load of that day depicts the impact of weather on the Company's electrical demand. On that Christmas Eve Saturday, when industry was largely shut down and the 24-hour temperature ranged from -9° to -17°, with wind chill factors of -70°, the total peak load was 3,469 MW. This peak load was within 8% of the Company's August 1983 peak load.

Because of the severe cold, frozen coal problems and scheduled and other forced outages, the Company purchased up to 200 MW of power throughout the day. A number of other major systems from the Rockies to the east coast were also purchasing power; total demand requirements pushed electrical systems to full utilization of available reserve capacity.

This Christmas Eve experience belies those critics who mistakenly assume that every MW of capacity will be available for service at any given time or that so-called "excess reserve capacity" will supply load. The potential consequences of a massive blackout, in the midst of bitter cold across the nation, would be devastating. Clearly, capacity planning for the future cannot assume that today's reserve capacities, which include increasing amounts of aging plants, are adequate.

FINANCING

In June the Company sold 2.5 million shares of common stock with net proceeds of $60.4 million. Participation in the Company's Automatic Dividend Reinvestment Plan (Plan) increased during the year from 20,000 to a high of 31,000 shareholders. Dividend reinvestment and optional cash payments totalled $52.7 million for the year.

Because of the severe price decline late in the year in the Company's common stock, the Board of Directors authorized the termination of the Plan effective January 1984. In the opinion of the Board, it is not in the best interest of the Company nor its shareholders

to issue new common shares at prices far below book value, which was $27.32 at December 31, 1983. Since 1977, 7.4 million shares of common stock aggregating $164 million had been issued under the Plan.

Proceeds of common stock issued under two employee stock plans aggregated $12.6 million in 1983. Issuance of new common stock for these plans has also been discontinued.

Construction needs for the last half of the year were met mainly from bank loans and other short-term borrowings which aggregated $198.7 million at December 31, 1983.

Because of its present inability to sell long-term securities, the Company filed a petition with the Indiana Commission to borrow, effective March 1, 1984, up to $500 million from banks or other lenders. Negotiations of such an arrangement are in process.

CAPITAL EXPENDITURES

Construction spending in 1983, excluding Gibson Unit 5 and certain transmission and distribution property reimbursements of $109 million, was $667 million, including $580 million for Marble Hill. All other construction expenditures for production plant, substations, transmission lines, distribution facilities and general property totalled $87 million.

Construction expenditures for 1984 are estimated at $42 million.

Additional expenditures to be made in 1984 at Marble Hill for work performed before construction was halted, construction demobilization and contractor and material settlements are estimated at $110 million; 1985 expenditures are estimated at $24 million.

RATING AGENCIES

Three rating agencies lowered their ratings of the Company's senior securities in 1983 because of Marble Hill developments, external financing requirements, the inability to recover financing costs applicable to construction on a current basis through rates and deterioration in coverage ratios. Current ratings of the Company's senior securities, including a further downrating by Moody's Investors Service on January 17, 1984, are as follows:

	Ratings	
	First Mortgage Bonds	Preferred Stock
Duff & Phelps	12	13
Moody's	Ba2	Ba3
Standard & Poor's	BB	B

LEGAL

On June 8, 1983, a federal grand jury in Seattle, Washington returned indictments against six major electrical contractors and certain of their executives alleging a conspiracy to fix prices in violation of antitrust laws in connection with bidding on Marble Hill and two other nuclear plant projects. There was no indication that the Company or any of its employees were connected with the alleged conspiracy.

The federal court jury trial began in November and was concluded on January 21, 1984 with a verdict of acquittal of all defendants.

DIRECTORS

Dr. Otis R. Bowen, former governor of Indiana and professor of family medicine at the Indiana University School of Medicine, and Dr. John C. Hancock, dean of engineering at Purdue University since 1972, were named to the Company's Board of Directors on June 10, 1983. Because of acceptance of employment with an out-of-state firm, Dr. Hancock will not stand for election at the annual meeting of shareholders.

Richard H. Blacklidge, a Company director since 1968, resigned in December due to his nearly full-time absence from the state. His helpful and experienced counsel has been of great value to the Company.

MANAGEMENT CHANGES

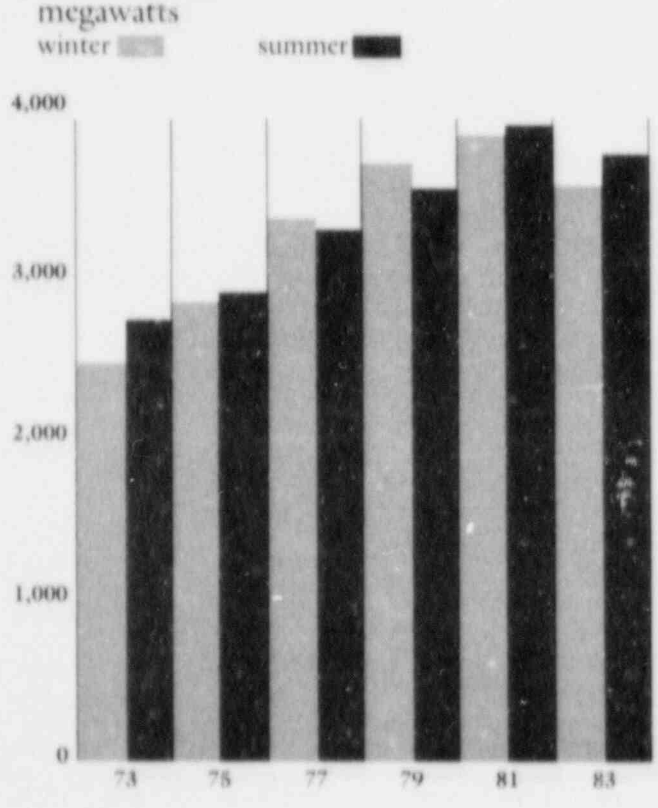
In September, the Board of Directors assigned broader administrative responsibilities to Jon D. Noland, senior vice president and general counsel. Duejean C. Garrett, senior counsel and a member of the Company's legal staff since 1969, was elected vice president and associate general counsel and will be responsible for the management of the legal department.

SHAREHOLDERS

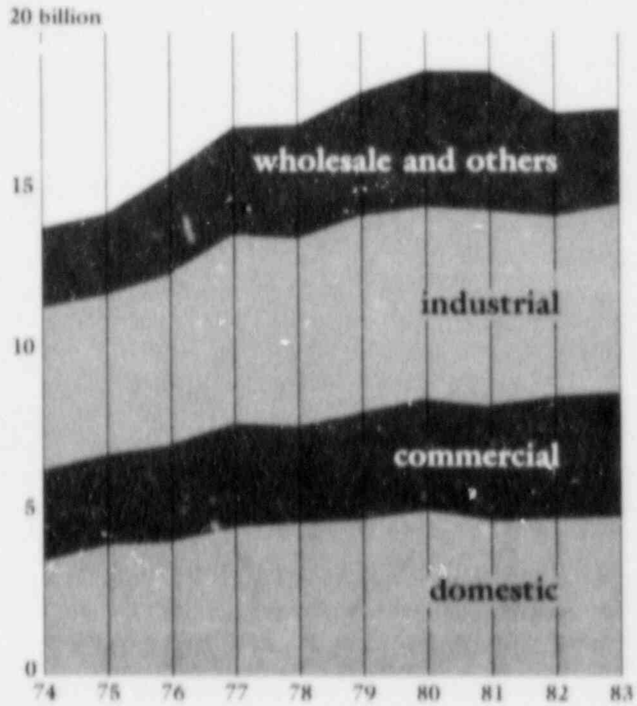
The Company's 53.8 million shares of common stock outstanding at year-end were held by 71,994 shareholders, an increase of 7,406 from the previous year. Preferred stock was held by 4,691 investors. More than 95% of all shareholders are either individuals or family groups and approximately 39% reside in Indiana or adjacent states. No shareholder owned more than 3% of outstanding common shares.

We would be pleased to provide any shareholder with additional information about the Company, including the annual 10-K report to the Securities and Exchange Commission, or the electric utility industry. All requests for information should be directed to Investor Services, Public Service Indiana, 1000 East Main Street, Plainfield, IN 46168.

PEAK LOAD
megawatts



KILOWATT-HOUR SALES BY CLASS OF SERVICE



AUDITORS' REPORT

To the Board of Directors
of Public Service Company of Indiana, Inc.:

We have examined the balance sheets of Public Service Company of Indiana, Inc. (an Indiana corporation) as of December 31, 1983 and 1982, and the related statements of income, earnings invested in the business, and sources of funds used for capital expenditures for each of the three years in the period ended December 31, 1983. Our examinations 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.

As more fully discussed in Note 1 to the financial statements, on January 16, 1984, the Board of Directors announced that the Company was financially unable to participate in further construction of the Marble Hill nuclear project (Marble Hill). The Company's 83% share of costs incurred through December 31, 1983, totalled $2.3 billion, including $230 million for nuclear fuel. Wabash Valley Power Association, Inc. (WVPA), the Company's 17% partner in the project, has not announced a final decision regarding further construction. The Company will incur additional costs under existing construction and nuclear fuel contracts of approximately $481 million for its 83% share. The Company intends to seek full recovery of all costs associated with Marble Hill from its customers through rates, but there can be no assurance that the recovery of all costs will be granted.

The Company has filed a petition with the Public Service Commission of Indiana (Commission) for emergency rate relief and for authority to enter into a short-term credit arrangement of up to $500 million as more fully discussed in Notes 4 and 10 to the financial statements. The Company has entered into a Settlement Agreement and received an Order from the Commission for emergency rate relief. The Company's ability to obtain a credit arrangement is contingent upon potential lenders' acceptance of the terms of the Settlement Agreement as being adequate to support extension of additional credit and the Commission's approval of such arrangement. There can be no assurance that the Company will be able to obtain a credit arrangement.

The factors described in the preceding two paragraphs, which include the uncertainties of the recovery of all costs associated with Marble Hill and the obtaining of continuing satisfactory short-term credit arrangements, among others, indicate that the Company may be unable to continue in existence. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

As more fully discussed in Note 2 to the financial statements, WVPA filed a suit against the Company for $466 million to recover its share of Marble Hill costs, charging federal securities law violations in inducing WVPA to purchase 17% of Marble Hill. The eventual outcome of this litigation cannot presently be determined.

As more fully discussed in Note 13, several purported class action suits have been filed against the Company and others on behalf of purchasers of common stock during 1982 and 1983. The suits seek unspecified monetary damages. The eventual outcome of the litigation cannot presently be determined.

The litigation referred to in the preceding two paragraphs has been filed against the Company subsequent to the date of our report on the 1982 and 1981 financial statements. These actions claim substantial damages, in part, as a result of the Company's actions in prior years. As noted above, the Company is presently unable to determine the eventual outcome of this litigation. In our report dated January 26, 1983, our opinion on the 1982 and 1981 financial statements was unqualified; however, in view of the litigation referred to above, our present opinion on the 1982 and 1981 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, subject to the effects on the 1983 financial statements of such adjustments, if any, as might have been required if the outcome were now known of the uncertainties referred to in the preceding paragraphs about (a) the recoverability of costs associated with Marble Hill, (b) the recoverability and classification of recorded asset amounts and the amounts and classification of liabilities should the Company be unable to continue in existence and (c) the litigation, and subject to the effects on the 1982 and 1981 financial statements of such adjustments, if any, as might have been required if the outcome were now known of the litigation referred to in the preceding paragraph, the financial statements referred to above present fairly the financial position of Public Service Company of Indiana, Inc. as of December 31, 1983 and 1982, and the results of its operations and the sources of its funds used for capital expenditures for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Arthur Andersen & Co.

Indianapolis, Indiana,
March 8, 1984.

STATEMENTS OF INCOME

	1983	1982 (thousands)	1981
Electric Operating Revenues	**$873 925**	$809 394	$720 126
Operating Expenses			
Fuel	**344 878**	327 366	295 160
Purchased power	**(65 528)**	(76 660)	(63 234)
	279 350	250 706	231 926
Taxes (page 18)	**153 497**	143 562	110 980
Other operation	**114 009**	107 438	93 523
Maintenance	**59 117**	62 040	56 924
Depreciation	**82 314**	75 993	70 402
	688 287	639 739	563 755
Operating Income	**185 638**	169 655	156 371
Other Income—Net			
Allowance for equity funds used during construction	**130 123**	117 629	63 768
Other	**551**	1 485	3 762
	130 674	119 114	67 530
Income Before Interest Charges	**316 312**	288 769	223 901
Interest Charges			
Long-term debt	**144 078**	128 843	111 069
Other interest	**7 719**	7 106	7 403
Allowance for debt funds used during construction	**(91 332)**	(80 412)	(46 199)
	60 465	55 537	72 273
Net Income	**255 847**	233 232	151 628
Dividends on Preferred Stock	**28 540**	28 010	22 600
Common Stock			
Income Available	**$227 307**	$205 222	$129 028
Average Shares Outstanding	**50 951**	45 142	37 777
Earnings Per Share	**$4.46**	$4.55	$3.42

STATEMENTS OF EARNINGS INVESTED IN THE BUSINESS

	1983	1982 (thousands)	1981
Balance January 1	**$324 822**	$248 071	$223 080
Net Income	**255 847**	233 232	151 628
	580 669	481 303	374 708
Deduct			
Cash dividends			
Preferred stock	**28 540**	27 529	22 577
Common stock (1983—$2.82; 1982—$2.72; 1981—$2.57 per share)	**143 190**	123 567	97 267
Capital stock issuance expenses	**4 343**	5 385	6 793
	176 073	156 481	126 637
Balance December 31	**$404 596**	$324 822	$248 071

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS
ASSETS

	December 31 1983	1982
	(thousands)	
Electric Utility Plant—original cost		
In Service		
Production	**$1 372 891**	$1 428 943
Transmission	**443 247**	409 080
Distribution	**550 905**	526 592
General	**79 898**	76 286
	2 446 941	2 440 901
Accumulated depreciation	**712 011**	639 594
	1 734 930	1 801 307
Construction work in progress		
Marble Hill Unit 1		987 105
Marble Hill Unit 2		496 843
Other	**26 414**	63 273
	26 414	1 547 221
Nuclear fuel		
Owned		135 831
PIN energy trust		55 635
		191 466
Total Electric Utility Plant	**1 761 344**	3 539 994
Marble Hill Nuclear Project (Note 1)		
Unit 1	**1 413 623**	
Unit 2	**650 002**	
Nuclear fuel—owned	**142 381**	
Nuclear fuel—PIN energy trust	**87 595**	
	2 293 601	
Current Assets		
Cash	**6 220**	2 819
Temporary cash investments	**20 050**	10 800
Funds on deposit to retire Series K Bonds	**25 000**	
Pollution control construction fund		4 738
Accounts receivable		
Utility	**60 377**	47 353
Joint ownership reimbursements	**31 467**	23 008
Deferred fuel	**4 438**	4 607
Fossil fuel—at average cost	**69 369**	108 145
Materials and supplies—at average cost	**30 105**	33 150
Other	**5 987**	6 103
	253 013	240 723
Other	**36 802**	32 481
	$4 344 760	$3 813 198

The accompanying notes are an integral part of these financial statements.

CAPITALIZATION AND LIABILITIES

	December 31 1983	1982
	(thousands)	
Common Stock Equity		
Common stock—without par value—authorized 60,000,000 shares—outstanding 53,809,113 shares in 1983 and 48,472,129 shares in 1982	$1 065 492	$ 938 025
Earnings invested in the business	404 596	324 822
Total common stock equity	1 470 088	1 262 847
Cumulative Preferred Stock (page 17)		
Not subject to mandatory redemption	235 000	235 000
Subject to mandatory redemption	95 000	95 000
Long-Term Debt (page 17)	1 337 778	1 362 621
Total capitalization	3 137 866	2 955 468
PIN Energy Trust Obligations	87 595	55 635
Current Liabilities		
Long-term debt due January 1, 1984	25 000	
Notes payable		
Trust demand		10 000
Bank loans	149 400	
Other	49 288	
Accounts payable	139 673	141 501
Accrued taxes	31 553	30 456
Accrued interest	47 312	44 862
Customers' deposits	1 964	1 699
	444 190	228 518
Other		
Deferred income taxes	424 059	352 327
Unamortized investment tax credits	233 044	207 749
Miscellaneous	18 006	13 501
	675 109	573 577
	$4 344 760	$3 813 198

STATEMENTS OF SOURCES OF FUNDS USED FOR CAPITAL EXPENDITURES

	1983	1982 (thousands)	1981
Funds Generated Internally			
Reinvested earnings			
Net income	$255 847	$233 232	$151 628
Less cash dividends	171 730	151 096	119 844
	84 117	82 136	31 784
Depreciation	82 314	75 993	70 402
Deferred income taxes—net	75 181	66 606	42 853
Investment tax credit—net	30 934	32 319	26 772
Allowance for equity funds used during construction	(130 123)	(117 629)	(63 768)
	142 423	139 425	108 043
Funds from Financing and Other Sources			
Common stock			
Public offerings	60 438	98 083	129 196
Automatic dividend reinvestment and stock purchase plan	50 350	40 388	24 124
Employee stock purchase plans	6 123	4 211	3 756
Preferred stock		24 000	21 000
First mortgage bonds		115 000	250 000
Retirement of first mortgage bonds		(25 000)	(75 000)
Pollution control note		45 000	
Net change in working capital and other items			
Temporary cash investments	(9 250)	(239)	(10 561)
Pollution control construction fund	4 738	(4 738)	
Accounts receivable	(21 314)	26 595	(37 653)
Federal income tax refunds			18 650
Fuel and materials and supplies	41 821	(29 783)	28 306
Notes payable	188 688	43	(40 251)
Accounts payable	(2 478)	10 214	20 555
Other items—net	(26 875)	2 473	4 136
	292 241	306 247	336 258
Allowance for equity funds used during construction	130 123	117 629	63 768
	$564 787	$563 301	$508 069
Capital Expenditures			
Utility plant	$ 87 153	$217 000	$221 315
Utility plant—reimbursements	(108 593)	(107 435)	(35 001)
Marble Hill nuclear project	579 677	438 029	278 396
Nuclear fuel owned	6 550	15 707	43 359
Total Capital Expenditures	$564 787	$563 301	$508 069

The accompanying notes are an integral part of these financial statements.

CUMULATIVE PREFERRED STOCK

	December 31 1983	1982
	(thousands)	
Not subject to mandatory redemption		
Par value $25 per share—authorized 5,000,000 shares—outstanding		
800,000 shares, 4.32% Series	$ 20 000	$ 20 000
600,000 shares, 4.16% Series	15 000	15 000
Par value $100 per share—authorized 5,000,000 shares—outstanding		
150,000 shares, 3 1/2% Series	15 000	15 000
300,000 shares, 7.15% Series	30 000	30 000
350,000 shares, 9.44% Series	35 000	35 000
400,000 shares, 8.52% Series	40 000	40 000
450,000 shares, 8.38% Series	45 000	45 000
350,000 shares, 8.96% Series	35 000	35 000
	$ 235 000	$ 235 000
Subject to mandatory redemption		
500,000 shares, 9.60% Series	$ 50 000	$ 50 000
450,000 shares, 13.25% Series	45 000	45 000
	$ 95 000	$ 95 000

LONG-TERM DEBT

	December 31 1983	1982
	(thousands)	
First Mortgage Bonds (Excluding amounts due within one year)		
Series K, 3 3/8%, due January 1, 1984	$	$ 25 000
Series L, 4 7/8%, due October 1, 1987	35 000	35 000
Series M, 4 3/8%, due February 1, 1989	25 000	25 000
Series N, 4 3/4%, due August 1, 1990	30 000	30 000
Series P, 7 1/8%, due January 1, 1999	40 000	40 000
Series R, 7 5/8%, due January 1, 2001	50 000	50 000
Series S, 7%, due January 1, 2002	50 000	50 000
Series T, 8%, due February 1, 2004	50 000	50 000
Series W, 9.60%, due August 1, 2005	80 000	80 000
Series Y, 7 5/8%, due January 1, 2007	85 000	85 000
Series Z, 8 1/8%, due October 1, 2007	85 000	85 000
Series AA, 8 7/8%, due October 1, 2008	100 000	100 000
Series BB, 6 5/8%, due March 1, 2004 (Pollution Control)	5 000	5 000
Series CC, 9 1/2%, due May 1, 1985	50 000	50 000
Series DD, 14%, due March 1, 1987	100 000	100 000
Series EE, 12 1/8%, due September 1, 1990	125 000	125 000
Series FF, 14 3/4%, due February 1, 2011	125 000	125 000
Series GG, 15 3/8%, due serially August 1, 1986-1989	50 000	50 000
Series HH, 15 3/4%, due December 1, 2011	75 000	75 000
Series JJ, 12 7/8%, due December 1, 2012	115 000	115 000
Total first mortgage bonds	1 275 000	1 300 000
Pollution Control Notes		
5 3/4%, due December 15, 1989 to 2003	22 000	22 000
12 3/8%, due April 1, 1990	10 000	10 000
12 3/4%, due April 1, 1992	35 000	35 000
Unamortized premium and discount—net	(4 222)	(4 379)
Total	$1 337 778	$1 362 621

TAXES CHARGED TO OPERATING EXPENSES

	1983	1982 (thousands)	1981
Federal and State Income			
Currently payable	$ 9 780	$ 6 999	$ 7 100
Deferred—net	75 181	66 606	42 853
Investment tax credit—net	30 934	32 319	26 772
	115 895	105 924	76 725
State, Local and Other			
Real estate and personal property	17 441	16 597	16 239
Indiana gross income	12 273	11 679	10 600
Social security	6 857	8 661	6 773
Other	1 031	701	643
	37 602	37 638	34 255
Total taxes charged to operating expenses	$153 497	$143 562	$110 980
Taxes per dollar of operating revenue	17.6¢	17.7¢	15.4¢

NOTES TO FINANCIAL STATEMENTS—ANNUAL REPORT 1983

1. **Marble Hill Nuclear Project.** On January 16, 1984, the Board of Directors announced the Company was financially unable to participate in further construction of the Marble Hill nuclear project. Marble Hill's two 1130 megawatt (MW) nuclear units were scheduled to go in service in 1988 and 1990 at a total estimated cost of $7 billion.

The Company's 83% share of costs incurred through December 31, 1983 totalled $2.3 billion, including $230 million for nuclear fuel. Wabash Valley Power Association, Inc. (WVPA), the Company's 17% partner in the project, has not announced a final decision regarding further construction (see Note 2).

The Company's decision to discontinue participation in further construction was based on its inability to obtain the financing and rate relief required for completion of the project. The decision was brought about by a series of state government and regulatory actions beginning with the August 25, 1983 suspension of hearings on the Company's proposed Rate Control Plan to increase retail electric rates by 8% per year for a six-year period beginning in 1984.

This plan, filed in July 1983 at the request of the Public Service Commission of Indiana (Indiana Commission), was designed to allow the Company to reasonably finance the project and to mitigate the impact of higher rates when the Marble Hill units were placed in service. The Commission's suspension of hearings on this plan, made at the request of Indiana Governor Robert D. Orr, was to allow time for a review of the project by a five member task force appointed by the Governor on September 9, 1983.

On October 28, 1983, after a review of the status of construction at the project, the Company announced a two-year extension in the estimated completion dates for both units to late 1988 for Unit 1 and mid-1990 for Unit 2. The estimate of total project costs was increased from $5.1 billion to $7 billion of which the Company's 83% share was $5.8 billion. Approximately 74%, or $1.4 billion, of the increase represented the additional cost of capital to be incurred during the construction period. In connection with the announcement of increases in cost and schedule, current expenditures at Marble Hill were sharply reduced, pending resolution of the Company's ability to finance its participation in completing construction of the project.

On December 21, 1983, the Governor's Task Force released its recommendations on Marble Hill. The principal recommendation was that Marble Hill not be completed because of lack of need for additional generating capacity until 1993 or later. The Task Force also stated the costs of the project, which they estimated at $7.7 billion, compared unfavorably with the alternative of new coal-fired plants.

With respect to the economic impact, the Task Force recommended:

"•PSI and its shareholders absorb the substantial portion of all costs pertinent to Marble Hill.

•PSI and its shareholders should not be required to absorb the entire cost if such treatment impairs PSI's access to capital markets which would result in even higher rate increases and/or deterioration of service for customers of PSI.

- PSI should be required to demonstrate that it has exercised all other financial remedies, including reassessing its dividend policy, prior to seeking ratepayer participation.
- If the ratepayer participates, the total cost pertinent to Marble Hill should be amortized over a twenty-year period and PSI should not be allowed to earn a return on its investment in Marble Hill.
- To further minimize the impact on the ratepayer, any necessary rate increase should be phased in over a five-year period."

In its full report, released February 7, 1984, the Task Force also implied that no dividends should be paid on the common stock for three years and that common dividends should be limited thereafter to 35% of net income.

The Governor endorsed these recommendations on December 23, 1983 and asked the Indiana Commission to reopen the proceedings on the Company's Rate Control Plan. On January 16, 1984, the Company filed a motion to terminate these proceedings.

On December 30, 1983, the Board of Directors suspended all construction activity on the Marble Hill project, pending further review of the Task Force's recommendations and consideration of alternatives available to the Company regarding the project.

In reaching its decision announced on January 16, 1984, the Board of Directors concluded that the Company's access to capital markets, for purposes of continuing participation in construction of the project, had been eliminated by the series of state government actions described above.

In addition to the $2.3 billion of costs incurred by the Company as of December 31, 1983, the Company will incur additional costs for which it is contractually liable under existing construction and nuclear fuel contracts. These costs, which are estimated to be $134 million for construction contracts and $347 million for nuclear fuel contracts, will be charged to a deferred asset account pending regulatory decision as to recoverability through rates. Existing nuclear fuel contracts provide for the termination payments, referred to above, to be made over a period of years ending in 1993 with the largest annual payment being $174 million in 1992. Costs of Company personnel and other costs incidental to maintenance of the project site and preservation of materials, equipment and records, which are estimated to be $18 million, will be charged to expense as incurred. The Company discontinued capitalization of Allowance for Funds Used During Construction (AFUDC) on Marble Hill effective January 1, 1984. For a discussion of WVPA's expenditures see Note 2.

It is the Company's intention to seek full recovery of all costs associated with Marble Hill from its customers. The Company expects to file a retail rate case with the Indiana Commission in the spring of 1984 and a wholesale case thereafter, but the period of recovery to be requested has not been determined. There has been one previous rate case in Indiana where a utility requested recovery of costs associated with a cancelled nuclear generating plant. In that case, the Indiana Commission granted recovery of the total costs ($191 million) over a 15-year period. However, an appeal of that decision by certain intervenors is currently pending before the Court of Appeals of Indiana Second District. There can be no assurance that the recovery of costs incurred by the Company will be granted, in whole or in part, or that the Indiana Commission will follow treatment similar to the case discussed above.

To the extent recovery of Marble Hill costs is not granted, such costs would be charged, net of tax benefits, against net income. This action could, depending on the amount of nonrecovery, result in a reduction of common stock equity to a level below 25% of total capitalization, which would restrict the level of common stock dividends which could be paid (see Note 5); or could result in an elimination of common stock equity in the event no recovery of costs is granted. Depending on the amount of nonrecovery, the Company's financial integrity could be further damaged and the Company's ability to raise needed capital on any reasonable basis, repay existing debt, or continue to pay dividends to its common shareholders could be virtually eliminated.

2. **Marble Hill Purchase and Ownership Participation Agreement.** The rights and responsibilities of the Company and WVPA are described in the Marble Hill Nuclear Plant Purchase and Ownership Participation Agreement (Agreement). This Agreement provides that in the event the Company is financially unable to complete construction of the project, WVPA may invest additional funds to complete the project and acquire an additional ownership interest in the project. Under the terms of the Agreement, WVPA would have the option to retain its additional ownership interest. If WVPA does not exercise this option within five years after the date of commercial operation of Unit 2, then the Company is obligated to purchase WVPA's ownership interest resulting from the additional investment.

Additionally, until such time as WVPA would exercise its option to retain additional ownership, the Company would be required to purchase, at WVPA's option, capacity and energy entitlements from WVPA related to its additional investment in the project.

NOTES TO FINANCIAL STATEMENTS—CONTINUED

Among other things, the Agreement further provides that:

- each party shall be responsible for its ownership share of all costs, obligations and liabilities incurred by the Company for the construction and/or termination of the project.

- in the event of default, by either party, the other party has the right to complete or cancel the project. Should WVPA choose not to cancel the project in the event of default by the Company, then WVPA would have the right to continue the project under the terms described in the preceding paragraphs.

- neither party shall be responsible for any delay or inability to perform if such delay or inability results from force majeure, including, among other things, an order or absence of necessary orders from the State of Indiana or any agency thereof.

- payments between the Company and WVPA cannot be withheld or delayed on the basis of disputes between the two parties as to the operations of the Agreement.

- disputes relating to the Agreement shall be submitted to binding arbitration at the request of either party. The findings and award of arbitration would be subject to appeal in accordance with Indiana law.

The Company has not received notification from WVPA of its decision regarding completion or cancellation of the project. However, on February 10, 1984, WVPA discontinued payments to the Company for their 17% share of the Marble Hill project. On February 24, 1984 the Company notified WVPA that the nonpayment on February 10, 1984 constituted a default under the terms of the Agreement. WVPA has 180 days to remedy the default by paying all amounts due plus interest. Until paid, amounts due the Company constitute a lien against WVPA's ownership interest in the project. WVPA's portion of Marble Hill expenditures are estimated to be $26 million in 1984, of which approximately $10 million has been paid, $11 million in 1985 and $65 million for the 1986-1993 period.

Also on February 10, 1984, WVPA filed a suit against the Company in the U.S. District Court, Indianapolis Division, seeking $466 million plus interest and other damages to recover its share of Marble Hill. The suit charges that the Company violated federal securities law in inducing WVPA to buy a 17% ownership share in Marble Hill. The Company believes that it has substantial defenses to this complaint, but its outcome cannot be determined.

Following WVPA's actions on February 10, 1984, the Company notified WVPA on February 17, 1984 that the remaining construction contracts would be terminated unless WVPA makes other arrangements within 10 days to maintain such contracts. Such notice was given by the Company on February 28, 1984.

The Company believes its actions are in accordance with the terms of the Agreement and that WVPA continues to be liable for its ownership share of costs associated with construction and/or termination of the Marble Hill project.

3. Summary of Significant Accounting Policies:

(a) Depreciation and Maintenance

The Company's provision for depreciation is determined by using the straight-line method applied to the cost of depreciable plant in service. The composite depreciation rate was 3.5% for 1983, 1982 and 1981.

Maintenance and repairs of property units and renewals of minor items of property are charged to maintenance expense accounts except repairs of an insignificant amount charged to clearing accounts. The costs of renewals and betterments of units of property are charged to utility plant accounts and the original cost of depreciable units retired and cost of removal, less salvage recovered, are charged to accumulated depreciation.

(b) Allowance for Funds Used During Construction (AFUDC)

Effective April 1, 1983, the Company adopted an AFUDC pretax rate of 12.0% with semi-annual compounding. The rate is based on the Company's cost of capital determined by the Indiana Commission in its rate order of January 20, 1983. The previous AFUDC pretax rate of 12.5% with semi-annual compounding had been in effect since January 1, 1982. The related income tax effects applicable to the capitalized interest component are recorded as deferred income tax expense.

(c) Federal and State Income Taxes

Income tax timing differences, due primarily to accelerated tax depreciation and deduction of certain utility plant costs capitalized per books, receive comprehensive income tax allocation treatment in determining the provision for taxes.

The Company is deferring investment tax credits utilized and amortizing the accumulated balance over the useful life of the property which gave rise to such credits. The Company for 1982 and 1981 generated an additional 1 1/2% investment tax credit for the Investment Tax Credit Employee Stock Ownership Plan (ESOP). For 1983, the additional 1 1/2% investment tax credit was replaced by a 1/2% payroll based ESOP. The election of credits applicable to ESOP will not be determined until the 1983 Federal Corporate Net Income Tax Return is filed.

(d) Unamortized Debt Discount, Premium and Expense

Debt discount, premium and expense on outstanding long-term debt is being amortized over the lives of the respective issues.

(e) Operating Revenues and Fuel Costs

The Company records revenues as billed to its customers on a cycle billing basis. Revenue is not recorded for energy delivered and unbilled at the end of each fiscal period.

Fuel cost charge factors, applicable to all of the Company's metered kwh sales, are based on estimated costs of fuel; as actual costs of fuel are determined, any differences are deferred and billed in subsequent months.

4. **Rates.** On January 20, 1983, the Indiana Commission granted the Company a 12% increase in retail rates; the approved rates were designed to produce additional annual revenues of $81.2 million. The state appointed Utility Consumer Counselor has appealed the January 20, 1983 order. To the extent that the rates authorized by the Commission are not sustained, the Company could be subject to refund requirements. The Company believes the 1983 order will be upheld.

In February 1983, the Federal Energy Regulatory Commission (FERC) approved an increase in wholesale rates, negotiated by the Company with its wholesale customers, designed to produce additional annual revenues of approximately $15.4 million effective February 1, 1983.

On March 1, 1983, the Court of Appeals of Indiana affirmed the Indiana Commission's order of June 10, 1981, which granted the Company a $112.7 million increase in retail rates.

On January 16, 1984, the Company filed a petition for emergency rate relief with the Indiana Commission requesting an increase in retail rates of 14% or additional revenues of $105 million on an annual basis. Hearings on this petition commenced February 14, 1984. On February 29, 1984, a Settlement Agreement between the Company, the Utility Consumer Counselor and certain intervenors was submitted to the Indiana Commission for approval.

The Agreement provides for an emergency rate increase of 5% or additional revenues of $37.9 million on an annual basis. The amounts received from this rate increase will be separately accounted for and will be deducted from the Marble Hill investment to be amortized; such revenues would not affect earnings in 1984.

Among other things, the Agreement requires the Company to continue negotiations for the arrangement of a revolving credit agreement and to negotiate prepayments from major customers and defer payments to contractors and suppliers, where possible.

The Agreement further provides for Indiana Commission assurances of the regulatory principles to be applied in the recovery of Marble Hill costs, to the extent such costs were prudently incurred. These principles are: insuring the continued ability of the Company to meet its contractual and franchise obligations and assist in an orderly recovery by the Company to financial health; regaining access to capital markets to finance required capital expenditures and meet its utility and financial obligations; and providing for a balancing of the legitimate interests of the ratepayers and the investors.

The Agreement also provides that this proceeding may be reopened for further hearings if external credit sources are not available to the Company. The Indiana Commission approved the Settlement Agreement in an order dated March 8, 1984.

5. **Capital Stock.** The Automatic Dividend Reinvestment And Stock Purchase Plan (ADR) was terminated effective January 2, 1984.

The Employee Stock Purchase Plan (ESPP) and ESOP were amended effective January 1984. With the amendment, the issuance of new common stock for these plans has been discontinued.

At December 31, 1983, the Company had reserved 740,291 shares of common stock for issuance under the ADR, ESPP and ESOP.

NOTES TO FINANCIAL STATEMENTS—CONTINUED

The changes in common stock for 1983, 1982 and 1981 were as follows:

	Shares Issued			Amount		
	1983	1982	1981	**1983**	1982	1981
			(millions)			
Public Offerings	**2.5**	4.0	6.7	**$ 62.2**	$100.8	$134.2
ADR	**2.3**	1.8	1.3	**52.7**	42.3	25.3
ESPP and ESOP	**.5**	.4	.3	**12.6**	8.7	5.4
	5.3	6.2	8.3	**$127.5**	$151.8	$164.9

Charter provisions limit dividends on common stock to 75% of net income available if the ratio of common stock equity to total capitalization of the Company is less than 25%, or to 50% of such net income if such ratio is less than 20%. As of December 31, 1983, the ratio of common stock equity to total capitalization was 47%.

The Mortgage Indenture provides that, so long as any bonds are outstanding under the Indenture, the Company shall not declare or pay cash dividends on shares of its capital stock (other than on preferred stock) except out of earned surplus or net profits of the Company.

6. **Long-Term Debt.** The sinking fund requirements with respect to first mortgage bonds of the Company outstanding at December 31, 1983, aggregated (exclusive of redemption premium) $8.3 million in 1984, 1985, 1986, 1987 and $8.0 million in 1988. Additionally under the Indenture, the Company is required annually to expend the greater of 15% of gross operating revenues as defined by the Indenture or 2 1/4% of depreciable property as of January 1 of such year for maintenance and repair of mortgage property, the construction or acquisition of bondable property, or the retirement of bonds issued under the Indenture. For 1984, the maintenance and renewal fund requirements are estimated to be $48.1 million. While the Company has met sinking fund and maintenance and renewal requirements by certifying bondable property additions in the past, the present lack of bondable property additions is expected to require cash payments or purchase of outstanding bonds to meet sinking fund and maintenance and renewal requirements in 1984.

   First mortgage bond maturities are $25 million in 1984, $50 million in 1985, $12.5 million in 1986, $147.5 million in 1987 and $12.5 million in 1988. The Series K, $25 million, First Mortgage Bonds, due January 1, 1984, were retired on that date.

7. **Preferred Stock with Mandatory Redemption.** Holders of the 9.60% Cumulative Preferred Stock, $100 par value, and the 13.25% Cumulative Preferred Stock, $100 par value, are entitled to the same rights and preferences as other $100 par value cumulative preferred shareholders as stated in the Amended Articles of Consolidation of the Company except with respect to redemption prices and sinking fund requirements.

   Optional right of redemption for preferred stock with mandatory redemption will not be cumulative and will not reduce the mandatory sinking fund requirement in any subsequent year. The sinking fund requirement may be satisfied in whole or part by crediting shares acquired by the Company. To the extent the Company does not satisfy its mandatory sinking fund obligation in any year, such obligation must be satisfied in succeeding years. If the Company is in arrears in the redemption of the shares pursuant to the mandatory sinking fund requirement, the Company shall not purchase or otherwise acquire for value or pay dividends on Common Stock.

   The mandatory sinking fund for the 9.60% Cumulative Preferred Stock requires the Company to acquire by redemption 13,750 shares on December 1, 1987, and on each December 1 thereafter to and including December 1, 2018, and 60,000 shares, or such lesser number of shares as shall be then outstanding, on December 1, 2019.

   The mandatory sinking fund for the 13.25% Cumulative Preferred Stock requires the Company to acquire by redemption 30,000 shares on March 1, 1988, and on each March 1 thereafter to and including March 1, 2002.

   The aggregate amount of the sinking fund requirements for cumulative preferred stock outstanding at December 31, 1983 totalled $1.4 million for 1987 and $4.4 million for 1988.

8. **Preferred Stock.** If dividends on all Cumulative Preferred Stock outstanding are in arrears in an amount equivalent to four or more quarters, the recordholders of the Cumulative Preferred Stock shall elect a majority of the Board of Directors at each meeting of shareholders at which directors are elected until such time as all of the dividends in arrears are paid.

9. **Pension Plan.** The Company's non-contributory pension plan covers all employees meeting certain minimum age and service requirements. The unfunded actuarial liability of $3.1 million at January 1, 1983 is being funded over a period of 25 years. The Company's policy is to fund pension costs accrued, which amounted to $6.8 million in 1983, $6.1 million in

1982 and $6.0 million in 1981. However, the Company will elect to fund its pension costs for 1983 at a minimum funding level of $5.0 million as prescribed by tax laws. The actuarial calculations include interest assumptions of 7.5% for 1983 and 1982 and 6.0% for 1981. Accumulated plan benefits and assets are presented below:

	January 1 1983	1982	1981
		(millions)	
Actuarial present value of accumulated plan benefits			
Vested	**$62.3**	$52.3	$54.2
Non-vested	**.7**	.5	.6
	$63.0	$52.8	$54.8
Plan assets available for benefits	**$90.5**	$79.9	$71.1

10. Short-Term Borrowings and Compensating Balances. At December 31, 1983, the Company had bank lines of credit aggregating $138.4 million, (excluding lines of credit totalling $8.1 million which expired December 31, 1983 and were not renewed) of which $36.0 million required compensating balances; $43.0 million had commitment fees for the lines and compensating balances for any borrowings; $56.5 million had commitment fees only and $2.9 million was available without compensating balances or commitment fees. Bank loans under these lines are at the bank's prime lending rate. The sale of the Company's commercial paper is supported by a portion of these lines of credit. During 1983, three banks cancelled the Company's lines of credit totalling $26.5 million. Subsequent to December 31, 1983, a fourth bank advised the Company that $1.5 million remaining unborrowed under their commitment would not be available to the Company.

The Company has a nuclear fuel leasing and credit arrangement (see Note 15), which also permits the Company to issue promissory notes for general corporate borrowing; $58.4 million was available at December 31, 1983, of which $49.3 million was utilized.

On January 9, 1984, the Company filed a petition with the Indiana Commission requesting authority to enter into a short-term credit arrangement of up to $500 million. Current authorization by the Indiana Commission provides for short-term credit of up to $275 million. The Company is currently negotiating with a group of banks to arrange such credit facility.

The Company's ability to obtain a credit arrangement is contingent upon potential lenders' acceptance of the terms of the Settlement Agreement described in Note 4 as being adequate to support extension of additional credit. Without access to additional credit, maintaining the Company's short-term financial viability would require arrangements with contractors and suppliers for deferral of payments and further cuts in operations, which would adversely affect quality of service. The Company's ability to continue payments of dividends to common shareholders could also be adversely affected. There can be no assurance that a credit agreement can be obtained. Long-term financial viability will depend on adequate and timely recovery of Marble Hill costs as discussed in Note 1.

For the years 1983 and 1982, the Company had short-term borrowings outstanding at various times as follows:

	Balance at Dec. 31*	Weighted Average Interest Rate at Dec. 31	Maximum Amount Outstanding at any Month End*	Average Amount Outstanding during the Year*	Weighted Average Interest Rate during the Year
1983					
Bank Loans	**$149.4**	**11.0%**	**$149.4**	**$32.2**	**10.2%**
Commercial Paper			**10.0**	**.9**	**9.7**
Trust Demand Note			**10.0**	**4.5**	**9.0**
Other	**49.3**	**9.9**	**49.3**	**7.6**	**10.2**
1982					
Bank Loans			$117.8	$34.6	10.6%
Commercial Paper			60.7	7.6	10.6
Trust Demand Note	$10.0	8.8%	10.0	10.0	12.3
Other			15.0	5.2	12.3

*millions

11. Income Tax Expense. Deferred income taxes (net) are due to timing differences between book and income tax deductions. Deferred income taxes arising from the debt component of AFUDC were $43.3 million for 1983, $38.1 million for 1982 and $21.5 million for 1981; deferred taxes due to accelerated tax depreciation were $20.6 million for 1983, $20.2 million for

1982 and $15.3 million for 1981; and deferred taxes due to the capitalization of certain administrative costs were $4.3 million in 1983, $7.7 million in 1982 and $5.8 million in 1981.

The computation of combined federal and state income taxes, including amounts in other income-net, is as follows:

	1983	1982 (millions)	1981
Book net income	**$255.8**	$233.2	$151.6
Income tax expense	**116.4**	107.2	80.0
Pretax income	**372.2**	340.4	231.6
Less:			
AFUDC—nontaxable equity component	**130.1**	117.6	63.8
Other	**.4**	.2	(.1)
Taxable income	**241.7**	222.6	167.9
Federal and state income taxes at statutory rates of 48.16% for 1983 and 1982, and 47.62% for 1981	**$116.4**	$107.2	$ 80.0

Investment tax credits generated during the years 1983, 1982 and 1981 have been in excess of the investment tax credit limitations established by law. For the year 1983, up to $38.8 million of unused investment tax credits will be carried forward to offset future years' tax liabilities as permitted by law. Prior year carryforwards were utilized in 1983 and 1982, respectively.

If the Marble Hill project were to be written off for tax purposes by the Company, related investment tax credits would be recaptured.

12. **Other Construction Commitments.** The Company estimates that $108 million will be expended for construction during the 1984-1985 period.

13. **Other Contingencies.** On January 9, 1984, two Complaints were filed in the United States District Court for the Southern District of Indiana by shareholders against the Company, certain directors, certain officers of the Company, Morgan Stanley & Co. Incorporated, Dean Witter Reynolds Inc. (as a class consisting of 92 other underwriters) and Arthur Andersen & Co. Each Complaint purports to be a class action against the named defendants on behalf of all shareholders who purchased Common Stock of the Company in the open market from January 28, 1983 through December 22, 1983, including persons who purchased shares of stock through a public offering commenced on or about June 22, 1983.

Each Complaint alleges that the defendants violated the Securities Act of 1933, the Exchange Act of 1934, rules promulgated thereunder, and the common law in issuing or causing to be issued untrue statements of material facts or omissions of material facts in the 1982 Annual Report to Shareholders and other communications to shareholders and other documents filed with the Securities and Exchange Commission, including the Prospectus dated June 22, 1983, with respect to the Marble Hill project, its estimated cost, in-service dates, its need, the financial condition of the Company and the consequences of cancellation or termination.

Each Complaint also charges the defendants with fraud and deceit in the making of materially false and misleading statements, and with negligence in the permitting of making materially false and misleading statements.

The Complaints seek unspecified monetary damages, with interest, costs and fees assessed against the defendants. Specifically, the Complaints charge that the plaintiffs were misled by representations of continuing dividend growth, the need for Marble Hill, the estimates of cost and scheduling of Marble Hill, the failure to mention cost overruns, cost control failures, the possibility of termination or cancellation, the ultimate cost at which the project would be uneconomical, and the failure to disclose the effects of cancellation on the financial viability of the Company.

As of February 29, 1984, a total of thirteen Complaints have been filed by shareholders against the Company and others. The Complaints purport to be class actions against the named defendants on behalf of all persons who purchased Common Stock of the Company during various periods in 1982 and 1983. The basis and allegations of all Complaints are similar to those described above.

The Company is uninsured with respect to these actions, except to the extent that it is required or permitted to indemnify directors and officers for their losses pursuant to statutory or common law or pursuant to duly effective Charter or By-law provisions. The policy limits are $55 million with a $100,000 deductible applicable to the Company.

Based on the events and circumstances resulting in the above Complaints, it is reasonably likely that other claims will be asserted by shareholders. The amount and basis of any such claims cannot now be determined.

The Company believes it has substantial defenses to these Complaints, but their outcome cannot be determined.

As of March 5, 1984, two stockholder derivative actions had been filed on behalf of the Company against certain officers and certain directors.

14. **Jointly Owned Plant.** The Company has joint ownership agreements with WVPA and Indiana Municipal Power Agency (IMPA) for Gibson Unit 5. The Company's investment in such Unit was $198 million at December 31, 1983, which represents the Company's 50.05% ownership interest. Proportionate operating expenses are billed currently and are reflected as a reduction in the applicable operating expenses on the Statements of Income.

15. **Leases.** The Company has a nuclear fuel lease arrangement with the PIN Energy Trust which has a borrowing capability of up to $150 million for the acquisition of nuclear fuel. At December 31, 1983, nuclear fuel lease obligations totalled $87.6 million (see Note 10).

Rentals incurred under financing leases not capitalized and operating leases are less than one percent of electric operating revenues. The effect on the financial statements, if all financing leases had been capitalized, is not material.

16. **1983 and 1982 Quarterly Financial Data** (Unaudited).

Quarter Ended	Operating Revenues*	Operating Income*	Net Income*	Earnings Per Share
1983				
March 31	**$219.8**	**$ 43.5**	**$ 57.8**	**$1.04**
June 30	**208.0**	**42.9**	**59.6**	**1.07**
September 30	**233.9**	**53.2**	**72.0**	**1.24**
December 31	**212.2**	**46.0**	**66.4**	**1.11**
Total	**$873.9**	**$185.6**	**$255.8**	**$4.46**
1982				
March 31	$222.8	$ 50.1	$ 64.2	$1.36
June 30	191.1	40.1	58.9	1.16
September 30	205.2	43.6	62.5	1.20
December 31	190.3	35.9	47.6	.83
Total	$809.4	$169.7	$233.2	$4.55

*millions

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

CAPITAL RESOURCES AND LIQUIDITY

The Company continued to experience inadequate levels of internal cash generation in 1983. The Company's inability to recover the cost of capital associated with the Marble Hill construction program through rates continued to be the primary factor for continued reliance on external capital markets.

The Company's proposed Rate Control Plan would have increased internal cash generation and reduced the requirements for capital from external sources for the Marble Hill construction program.

The series of state government and regulatory actions beginning with the suspension of hearings on the Company's Rate Control Plan and culminating with the Task Force recommendations to cancel Marble Hill, and the Governor's endorsement of those recommendations, have resulted in an elimination of the Company's ability to access long-term capital markets. As a result, on January 16, 1984, the Board of Directors announced that the Company was financially unable to proceed with its portion of the Marble Hill construction program.

Expenditures for construction have been significant in the last several years. In 1983 capital expenditures totalled $674 million, compared with $670 million in 1982 and $543 million in 1981. These amounts exclude reimbursements in connection with the transfer of 49.95% of Gibson Unit 5 and certain transmission and distribution property in the amounts of $109 million, $107 million and $35 million, respectively, to other parties. Marble Hill expenditures, included above, were $587 million in 1983, $453 million in 1982 and $322 million in 1981. A portion of the construction needs for 1983 were met through short-term borrowings which aggregated $198.7 million at December 31, 1983.

A sharply reduced construction program is planned for the next several years. The Company's construction expenditures are estimated at $42 million for 1984 and $66 million for 1985. Expenditures for Marble Hill are estimated at $110 million for 1984 and $24 million for 1985. Expenditures for nuclear fuel and commitments under nuclear fuel contracts are estimated at $6 million for 1984 and $341 million for the 1985 -1993 period. WVPA has indicated it is discontinuing its Marble Hill and nuclear fuel payments (See Note 2). This could require the Company to make additional expenditures of $16 million in 1984, $11 million in 1985 and $65 million during the 1986 -1993 period.

The Company has taken action to maintain short-term financial viability including reductions in operating expenditures and a reduction of the quarterly dividend on its common stock, payable March 1, 1984, from 72¢ to 25¢ per share. Also on January 16, 1984, the Company filed a petition with the Indiana Commission for emergency rate relief amounting to $105 million on an annual basis. On March 8, 1984, a Settlement Agreement between the Company, the Utility Consumer Counselor and certain intervenors was approved by the Indiana Commission. The Agreement provides for an emergency rate increase of 5% or additional revenues of $37.9 million on an annual basis. The Agreement provides that these additional revenues will be accounted for separately and will be deducted from the Marble Hill investment to be amortized; such revenues will not affect earnings in 1984. Additionally, the Company has petitioned the Indiana Commission for authority to arrange a credit facility of up to $500 million with a number of banks. The ability to obtain a credit arrangement is contingent upon potential lenders' acceptance of the terms of the Agreement as being adequate to support extension of additional credit. Without access to additional credit, maintaining the Company's short-term financial viability would require arrangements with contractors and suppliers for deferral of payments and further cuts in operations, which would adversely affect quality of service. The Company's ability to continue payment of dividends to common shareholders could also be adversely affected. There can be no assurance that a credit arrangement can be obtained.

The Company believes that in order to rebuild long-term financial stability, it must be allowed to recover its Marble Hill investment through rates. The Company intends to seek such authority by filing a retail rate case in the spring of 1984 and a wholesale rate case thereafter.

RESULTS OF OPERATIONS

kwh sales and revenues

Total kwh sales increased .1% in 1983 compared with a decrease of 6.1% in 1982 and a .6% decrease in 1981. Increased economic activity and the above normal temperatures during the summer of 1983 attributed to the increased kwh sales. Increases in retail sales were offset by a decrease in sales for resale resulting from the previous transfer of a portion of Gibson Generating Station Unit 5 to WVPA. Sales data for the periods were as follows:

	increase (decrease) from prior year		
	1983	1982	1981
Kwh Sales			
Domestic	**1.1%**	1.1%	(3.5)%
Commercial	**1.1**	4.2	1.7
Industrial	**4.0**	(6.1)	(.5)
Total Retail	**2.2**	(1.2)	(1.0)
Sales for Resale	**(8.8)**	(22.6)	1.0
Total Sales	**.1%**	(6.1)%	(.6)%
Operating Revenues	**8.0%**	12.4%	11.5%

Increases in operating revenues for the 1983, 1982 and 1981 periods primarily reflect rate increases.

fuel costs
Fuel costs per million btu for 1983 was $1.40, compared to $1.45 in 1982 and $1.29 in 1981. In 1983 total fuel costs increased due to increased generation, which was partially offset by decreased fossil fuel prices, whereas the 1982 and 1981 increases were due primarily to increased fossil fuel prices.

other power sales
Short-term power sales increased significantly as a result of negotiated reductions in coal prices with the major coal suppliers. However, these off-system sales were in part offset by purchases from the Company's Gibson 5 partners in accordance with contractual "buy-back" arrangements.

taxes
Income tax expense and its components varied due to fluctuations in taxable income and investment tax credit provisions (See Note 11 of the "Notes to Financial Statements" for additional discussion).

operation and maintenance
Despite a full year's operation of Gibson Unit 5, other operation and maintenance expenses increased only slightly during 1983. This was made possible by the Company's cost containment efforts offsetting the effects of inflation and higher wage levels. The increases during 1982 and 1981 were the result of the effects of inflation, higher wage levels, customer growth, additions to the transmission and distribution systems and the addition of Gibson Unit 5.

capital costs and allowance for funds used during construction (AFUDC)
Increases in interest charges in 1983 reflect the annualized interest charges for securities issued in December 1982 to finance the Company's construction program.

The increase in AFUDC primarily reflects the rising level of construction work in progress for the Marble Hill project.

earnings
Income available to common stockholders increased in 1983 principally due to increases in AFUDC. However, earnings per share decreased to $4.46, reflecting increased shares of common stock outstanding. Earnings per share for 1982 and 1981 were $4.55 and $3.42, respectively.

Earnings per share of common stock, excluding AFUDC, less the related income tax effects applicable to the capitalized interest component, for 1983, 1982 and 1981 were $.98, $1.02 and $1.09, respectively.

The discontinuance of AFUDC and the charging to income of certain Marble Hill costs will result in a substantial decline in earnings for the year 1984 (See Note 1 of the "Notes to Financial Statements").

rate matters
See Note 4 of the "Notes to Financial Statements".

dividends
Because of the Company's current cash needs and financial condition, common stock dividends payable March 1, 1984, were reduced from 72¢ to 25¢ per share. Future dividend policy will be dependent on the Company's financial condition and recovery of the Marble Hill investment through rates.

inflation
The estimated effects of inflation on the Company's operations are presented on pages 28 and 29 "Supplementary Data on Changing Prices". The continued impact of inflation on operations, as well as construction costs, may require periodic rate adjustments to maintain adequate earnings levels.

selected financial data

	1983	1982	1981	1980	1979
Operating revenues*	**$ 873.9**	$ 809.4	$ 720.1	$ 645.7	$ 628.5
Net income*	**255.8**	233.2	151.6	122.7	123.0
Common stock					
Earnings per share	**4.46**	4.55	3.42	3.21	3.79
Dividends paid per share	**2.82**	2.72	2.57	2.44	2.28
Total assets*	**4 344.8**	3 813.2	3 285.5	2 808.9	2 342.1
Cumulative preferred stock subject to mandatory redemption*	**95.0**	95.0	71.0	50.0	
Long-term debt*	**1 367.0**	1 367.0	1 232.0	1 057.0	832.0
PIN nuclear fuel trust obligations*	**87.6**	55.6	24.1		

*millions

SUPPLEMENTARY DATA ON CHANGING PRICES

Supplementary Data on Changing Prices (Unaudited). The following supplementary data are provided in accordance with the requirements of the Financial Accounting Standards Board (FASB) Statement No. 33, Financial Reporting and Changing Prices, for the purpose of reporting certain information as to the effects of changing prices on the Company's operations. The Company's financial statements are prepared based on historical prices in effect when the transactions occurred; the FASB statement requires the statement of income and certain other information to be prepared on two additional bases: the constant dollar basis and the current cost basis. The constant dollar basis represents the restatement of historical costs to current-day price levels, utilizing the Consumer Price Index for All Urban Consumers (CPI). The current cost basis represents the restatement of historical costs of net utility plant to current reproduction cost utilizing the Handy-Whitman Index of Public Utility Construction Costs.

Changing prices impact common stock equity in two ways. First, under ratemaking procedures prescribed by the regulatory commissions to which the Company is subject, only the original cost of utility plant is recoverable in revenues as depreciation. The cost of utility plant, determined on the constant dollar and/or current cost basis in excess of original cost, is not presently recoverable in rates as depreciation, nor as a deduction for income tax purposes, and is defined as a reduction to net recoverable cost. Second, 'monetary assets', such as cash and claims to cash, lose purchasing power during inflationary periods because monetary assets buy fewer goods and services as the general price level increases. Conversely, 'monetary liabilities', such as long-term debt, gain because the liabilities will be repaid by dollars having less purchasing power. The net change in monetary assets and liabilities (which excludes utility plant, unamortized investment tax credits and common stock equity) is reflected as a gain (or loss) in purchasing power.

Operating revenues and other operating expenses (exclusive of depreciation) in the statement of income have not been restated since such amounts would not be materially different if determined on a constant dollar or current cost basis. The cost of fuel used in generation is not restated due to the current recovery of actual fuel costs through fuel cost charge factors or adjustments in basic rate schedules. Depreciation expense has been restated by applying current Company depreciation rates to indexed utility plant amounts.

The data presented in the following statements should be viewed as an estimate of the effect of changing prices, rather than as a precise measure.

STATEMENTS OF INCOME

	For the Year Ended December 31, 1983		
	Historical Basis	Constant Dollar Basis (average 1983 dollars) (millions)	Current Cost Basis
Income Available for Common Stock—Actual	$ 227.3	$ 227.3	$ 227.3
Change in Depreciation due to Changing Prices	—	(96.7)	(113.0)
Income Available After Adjustments	$ 227.3	$ 130.6	$ 114.3
Earnings Per Share on Adjusted Income	$ 4.46	$ 2.56	$ 2.24
Other Impacts of Changing Prices			
Increase in current reproduction cost of net plant			$ 141.8
Less increase in net plant based on CPI Index			232.8
Increase (Decrease) in current reproduction cost over CPI			(91.0)
Adjustment of restated plant costs to net recoverable cost		$ (63.0)	44.3
Gain due to repayment of debt with dollars of less purchasing power		93.3	93.3
Income Available for Common Stock (As Adjusted)		$ 160.9	$ 160.9
Earnings per Common Share (As Adjusted)		$ 3.16	$ 3.16

The following summary is a five-year comparison of selected supplementary financial data (historical) which have been restated in average 1983 dollars (except actual data where indicated):

	Years Ended December 31				
	1983	1982	1981	1980	1979
	(millions)				
Operating revenues					
Actual	$ 873.9	$ 809.4	$ 720.1	$645.7	$628.5
As adjusted by CPI Index	$ 873.9	$ 835.7	$ 789.1	$780.9	$863.0
Constant dollar information (Based on CPI Index)					
Net income	$ 159.1	$ 134.4	$ 75.4	$ 64.4	$ 99.5
Earnings per common share					
As adjusted for additional depreciation	2.56	2.33	1.34	1.20	2.73
As adjusted for total impact on common stock equity	3.16	3.32	1.11	(.50)	.45
Net assets (common stock equity) at year-end at net recoverable cost	1 438.8 1/	1 280.5	1 096.7	972.1	956.4
Current cost information (Based on current reproduction cost)					
Net income	$ 142.8	$ 118.4	$ 58.8	$ 52.3	$ 78.5
Earnings per common share					
As adjusted for additional depreciation	2.24	1.98	.90	.81	1.98
As adjusted for total impact on common stock equity	3.16	3.32	1.11	(.50)	.45
Increase in CPI Index over current reproduction cost—net plant	91.0	(29.5)	(104.3)	231.9	153.1
Net assets (common stock equity) at year-end at net recoverable cost	1 438.8 1/	1 280.5	1 096.7	972.1	956.4
General information					
Gain due to repayment of debt with dollars of less purchasing power	$ 93.3	$ 90.1	$ 156.2	$204.3	$199.5
Cash dividends declared per common share					
Actual	$ 2.82	$ 2.72	$ 2.57	$ 2.44	$ 2.28
As adjusted by CPI Index	$ 2.82	$ 2.81	$ 2.82	$ 2.95	$ 3.13
Market price per common share at year-end					
Actual	$ 11.63	$ 24.88	$ 20.25	$20.63	$23.38
As adjusted by CPI Index	$ 11.63	$ 25.69	$ 22.19	$24.95	$32.10
Average CPI Index	298.5	289.1	272.4	246.8	217.4

1/ At December 31, 1983, the constant dollar and current cost bases of plant, net of accumulated depreciation, were $5,895.3 million and $5,787.9 million, respectively, compared with net original cost of plant of $4,054.9 million.

10 YEARS OF PROGRESS

		1983	1982
	KILOWATT-HOURS SOLD (millions)		
	Domestic	4,983	4,927
	Commercial	3,694	3,654
	Industrial	5,860	5,635
	REMCs	1,526	1,826
	Municipals	1,529	1,525
	All Other	63	68
	Total	17,655	17,535
	OPERATING REVENUES (thousands)		
	Domestic	$ 319,124	$ 285,293
	Commercial	192,372	181,553
	Industrial	232,712	215,187
	REMCs	54,405	60,039
	Municipals	51,779	50,501
	All Other	23,533	16,821
SALES AND CUSTOMERS	Total	$ 873,925	$ 809,394
	Average Price per Kilowatt-hour	4.86¢	4.53¢
	CUSTOMERS (annual averages)		
	Domestic	475,539	473,260
	Commercial	63,618	63,543
	Industrial	2,469	2,479
	REMCs (delivery points served)	39	39
	Municipals	25	43
	All Other	986	982
	Total	542,676	540,346
	Heating Customers (included above)	100,466	97,106
	DOMESTIC SERVICE (average per customer)		
	Annual Use (kilowatt-hours)	10,479	10,411
	Annual Revenue	$ 671.08	$ 602.83
	Price per Kilowatt-hour	6.40¢	5.79¢
	KILOWATT-HOUR OUTPUT (millions)		
	Generated (net)	24,309	21,841
	Purchased	(5,068)	(2,912)
	Total	19,241	18,929
	Losses and Company Use	1,586	1,294
	Total Sales	17,655	17,635
ELECTRIC OPERATIONS	**SYSTEM GENERATING CAPABILITY** (megawatts)		
	Owned	5,687	5,843
	Unit Power	265	-
	Total	5,952	5,843
	MAXIMUM SYSTEM DEMAND (megawatts)		
	Summer	3,771	3,517
	Winter	3,583	3,923
	FUEL COST—per million BTUs consumed	$ 1.40	$ 1.45
UTILITY PLANT	**CONSTRUCTED ADDITIONS** (thousands)	$ 558,237	$ 547,594
	Marble Hill Additions included above (thousands)	579,677	438,029
	COMMON STOCK EQUITY (thousands)*	$1,470,088	$1,262,847
	Dividends per Share	2.82	2.72
	Average Shares Outstanding	50,951	45,142
CAPITALIZATION (December 31)	Earnings per Share	$ 4.46	$ 4.55
	CUMULATIVE PREFERRED STOCK (thousands)	$ 330,000	$ 330,000
	Dividends	28,540	27,529
	Average Dividend Rate	8.65%	8.65%
	LONG-TERM DEBT (thousands)	$1,367,000	$1,367,000
	Interest on Debt	143,120	127,981
	Average Interest Rate	10.47%	10.47%
EMPLOYEE DATA	**NUMBER OF EMPLOYEES** (at December 31)	5,267	5,351
	SALARIES, WAGES AND BENEFITS (thousands)	$ 174,853	$ 161,616

*Reflects 3-for-2 stock split in April 1976

1981	1980	1979	1978	1977	1976	1975	1974	1973
4,874	5,049	4,763	4,731	4,568	4,136	4,068	3,657	3,632
3,508	3,450	3,295	3,080	3,248	3,025	2,924	2,617	2,653
6,000	6,029	6,291	5,813	5,711	5,279	4,602	4,986	5,136
2,794	2,769	2,288	2,216	2,147	1,805	1,582	1,555	1,189
1,535	1,517	1,502	1,454	1,389	1,204	1,146	989	892
79	84	84	76	83	83	82	81	78
18,790	18,898	18,223	17,370	17,146	15,532	14,404	13,885	13,580
243,485	$ 218,199	$209,152	$184,771	$162,703	$141,897	$111,084	$ 93,962	$ 90,295
154,074	136,752	131,799	111,344	103,700	90,031	72,628	60,687	59,083
194,533	169,681	176,334	148,796	126,469	105,077	77,115	70,170	67,190
76,706	74,096	64,078	52,268	44,905	33,656	23,204	19,503	12,994
40,067	36,317	35,620	31,221	25,329	19,416	15,186	11,335	8,673
11,261	10,643	11,555	10,023	7,805	7,665	6,681	5,205	5,130
720,126	$ 645,688	$628,538	$538,423	$470,911	$397,742	$305,898	$260,862	$243,365
3.80¢	3.39¢	3.41¢	3.07¢	2.73¢	2.54¢	2.10¢	1.86¢	1.78¢
471,825	466,974	460,258	451,491	442,674	435,512	429,186	423,663	415,772
63,436	62,641	61,865	61,039	60,131	59,359	58,600	57,204	55,953
2,524	2,518	2,522	2,514	2,485	2,461	2,451	2,438	2,437
124	121	116	115	112	108	102	98	96
43	43	43	43	44	44	44	44	44
976	847	834	827	836	836	839	820	805
538,928	533,144	525,638	516,029	506,282	498,320	491,222	484,267	475,107
94,277	89,711	82,552	72,315	61,812	53,164	46,460	39,708	32,837
10,329	10,812	10,349	10,478	10,319	9,497	9,479	8,631	8,736
516.05	$ 467.26	$ 454.42	$ 409.25	$ 367.55	$ 325.82	$ 258.83	$ 221.79	$ 217.17
5.00¢	4.32¢	4.39¢	3.91¢	3.56¢	3.43¢	2.73¢	2.57¢	2.49¢
22,809	23,938	23,690	19,276	20,012	18,698	16,002	14,579	14,977
(2,517)	(3,390)	(4,011)	(652)	(1,504)	(1,840)	(350)	492	(347)
20,292	20,548	19,679	18,624	18,508	16,858	15,652	15,071	14,630
1,502	1,650	1,456	1,254	1,362	1,326	1,248	1,186	1,050
18,790	18,898	18,223	17,370	17,146	15,532	14,404	13,885	13,580
5,374	5,261	5,678	5,028	4,378	4,378	3,730	3,239	3,254
(152)	(310)	(423)	(229)	183	(156)	93	361	30
5,222	4,951	5,255	4,799	4,561	4,222	3,823	3,600	3,284
3,942	3,896	3,598	3,381	3,320	2,922	2,924	2,706	2,751
3,895	3,554	3,718	3,676	3,388	3,138	2,845	2,567	2,430
1.29	$ 1.17	$ 1.07	$ 1.06	$ .80	$ .66	$ .52	$ .39	$ .30
464,710	$ 487,099	$364,196	$297,880	$267,288	$209,392	$148,974	$160,661	$134,710
278,396	325,749	214,589	136,906	66,125	14,770	5,608	3,059	717
034,284	$ 844,401	$736,640	$624,707	$543,938	$462,427	$395,228	$343,157	$326,559
2.57	2.44	2.28	2.13	2.01	1.89⅓	1.73⅓	1.66	1.55⅓
37,777	31,383	27,962	25,211	23,690	22,054	20,921	19,084	17,834
3.42	$ 3.21	$ 3.79	$ 2.92	$ 3.28	$ 3.01	$ 2.33	$ 2.53	$ 2.43
306,000	$ 285,000	$235,000	$200,000	$155,000	$155,000	$115,000	$ 80,000	$ 80,000
22,577	21,680	16,634	13,761	10,870	8,370	5,397	4,158	3,878
8.29¢	7.92%	7.56%	7.32%	7.01%	7.01%	6.49%	5.20%	5.20%
232,000	$1,057,000	$832,000	$789,000	$689,000	$534,000	$534,000	$502,000	$395,000
110,316	79,556	61,622	52,131	44,491	37,068	33,161	26,226	21,704
10.02%	8.77%	7.64%	7.46%	7.25%	6.94%	6.94%	6.15%	5.49%
5,120	4,868	4,351	4,025	3,855	3,701	3,533	3,449	3,290
134,964	$ 115,136	$ 90,764	$ 78,801	$ 69,330	$ 60,177	$ 52,684	$ 46,991	$ 42,618

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements of Public Service Indiana and other financial information included herein are representations of the management of the Company; accordingly, the integrity, accuracy, objectivity and consistency of presentation is assumed by Company management. Financial statement preparation is in conformity with generally accepted accounting principles and follows accounting policies and principles prescribed by the Public Service Commission of Indiana and the Federal Energy Regulatory Commission.

In meeting its responsibilities for the reliability of the financial statements, management depends on the Company's system of internal accounting control. This system is designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the policies and principles described above. The Company also seeks to assure the objectivity and integrity of its accounts by careful selection of its managers, division of responsibilities, delegation of authority and communication programs for the entire organization to assure that policies and standards are understood.

Management utilizes an internal auditing program to evaluate the adequacy and application of financial and operating controls, compliance with Company policies and procedures and the accountability and safeguarding of Company assets. Management believes that the Company's accounting controls provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected within a timely period by employees in the normal course of performing their assigned functions.

The Board of Directors, through its Audit Committee composed of Directors other than Company employees, pursues its responsibilities for these financial statements by meeting periodically with management, the internal auditors and the independent auditors to assure that they are carrying out their respective responsibilities. The Audit Committee has full access to the internal and independent auditors and meets with them, with and without management being present, to discuss auditing and financial reporting matters.

Hugh A. Barker
Chairman and Chief Executive Officer

security markets, prices and dividends

The principal organized markets in which the Company's common stock is traded are:

The New York Stock Exchange
The Midwest Stock Exchange

In addition the Company's common stock has unlisted trading privileges on the Cincinnati, Detroit and Philadelphia exchanges. All cumulative preferred stock sold publicly is listed on the New York Stock Exchange and the 3 1/2%, 4.16% and 4.32% Series are also listed on the Midwest Stock Exchange.

Company bonds sold publicly since 1969 have been listed for trading on the New York Stock Exchange.

The following table shows the quarterly high and low sale prices of the Company's common stock on the composite tape and dividends paid for the past two years.

	1983			1982		
	high	low	dividend	high	low	dividend
first	$27 3/8	$24 1/2	$.69	$23 1/4	$20 1/8	$.65
second	27 1/4	23 3/4	.69	24 1/4	21 1/2	.69
third	26 1/4	24	.72	24 5/8	21 3/4	.69
fourth	27 3/8	10 7/8	.72	27 1/2	22 7/8	.69

BOARD OF DIRECTORS

Hugh A. Barker
Chairman and Chief Executive Officer of the Company

Otis R. Bowen, M.D.
Professor and Director, Department of Family Medicine, Indiana University School of Medicine, Indianapolis, Indiana

Charles W. Campbell
Retired Senior Vice President and General Counsel of the Company

John C. Hancock
Dean, Schools of Engineering Purdue University, West Lafayette, Indiana

Shelton M. Hannig
President and Chairman of the Board, Marsh, Inc., Design and Construction, Terre Haute

Dagmar Riley Jones
Retired Publisher, The Bloomington Herald-Telephone and Bedford Daily Times-Mail, Bloomington

Darrell V. Menscer
President and Chief Operating Officer of the Company

Melvin Perelman, Ph.D.
President, Eli Lilly International Corporation, Pharmaceuticals, Indianapolis

W. George Pinnell, D.B.A.
Executive Vice President, Indiana University, Bloomington

Richard B. Stoner
Vice Chairman of the Board, Cummins Engine Company, Inc., Diesel Engine Manufacturing, Columbus

Burr S. Swezey, Jr.
Chairman of the Board, Lafayette National Bank, Lafayette; Chairman of the Board, Union Bank and Trust Company, Delphi

audit committee
W. George Pinnell, chairman
Shelton M. Hannig, vice chairman
Dagmar Riley Jones
Hugh A. Barker, ex officio

compensation and nominating committee
Richard B. Stoner, chairman
Melvin Perelman
Burr S. Swezey, Jr.
Hugh A. Barker, ex officio

corporate citizenship committee
Otis R. Bowen, chairman
Dagmar Riley Jones
Richard B. Stoner
Hugh A. Barker, ex officio

finance committee
Hugh A. Barker, chairman
Charles W. Campbell
Darrell V. Menscer

technology committee
John C. Hancock, chairman
Shelton M. Hannig
Melvin Perelman
Darrell V. Menscer, ex officio

OFFICERS

Hugh A. Barker
Chairman and Chief Executive Officer

Darrell V. Menscer
President and Chief Operating Officer

W. E. George
Senior Vice President-Fossil Power

Jon D. Noland
Senior Vice President and General Counsel

Vernley R. Rehnstrom
Senior Vice President-Finance

Seth W. Shields
Senior Vice President-Nuclear Division

Willard Twyman
Senior Vice President-Customer Operations

William F. Brown
Vice President-Labor Relations

Lloyd A. Crews
Vice President-Construction

John P. Edwards
Vice President-Corporate Communications

Duejean C. Garrett
Vice President and Associate General Counsel

Barton G. Grabow
Vice President-Corporate Affairs

Gerald Hofmockel
Vice President-Power Supply

Danny L. Littell
Vice President-Technical Services

John P. Masselink
Vice President-Fossil Fuels and Mining

James H. Pennington
Vice President-Customer Operations Support

William M. Petro
Vice President-Nuclear Services

Richard P. Stein
Vice President-Public Affairs

Larry E. Thomas
Vice President-Administrative Services

Charles E. Uhl
Vice President-Marketing and Customer Services

William M. Cook
Vice President-Northern Division

Harold L. Isaacs
Vice President-Southern Division

Richard E. Willis
Vice President-Western Division

W. J. Hebble
Treasurer

Joe E. Rogers
Secretary

G. W. Roberts
Assistant Treasurer and Assistant Secretary

Donald W. Schlehuser
Comptroller

James L. Koenig
Assistant Comptroller

Greg K. Kimberlin
Assistant General Counsel

stock transfer agents and registrars

Continental Illinois National Bank and Trust Company of Chicago
30 North LaSalle Street, Chicago 60693

Bradford Trust Company
67 Broad Street, New York 10004

dividend disbursing office

Investor Services
Public Service Indiana
1000 East Main Street
Plainfield, Indiana 46168

Toll Free Telephone Numbers:

Indiana	800-382-1174
Other States	800-428-4337

The annual meeting of shareholders will be held at the Murat Theatre, 502 N. New Jersey Street, Indianapolis, Indiana, on April 30, 1984. Shareholders of record at the close of business on March 12, 1984 will be entitled to vote at the meeting. Formal notice, proxy statement and proxy form will be mailed about March 23.

This annual report and the financial statements contained herein are submitted for the general information of the shareholders of Public Service Company of Indiana, Inc., and are not intended for use in connection with any sale or purchase of, or any offer or solicitation of offers to buy or sell, any securities of the Company.

PUBLIC SERVICE INDIANA
1000 East Main Street
Plainfield, Indiana 46168

PUBLIC
SERVICE
INDIANA

July 20, 1984

Mr. Harold R. Denton
Director of Nuclear Reactor Regulation
U. S. Nuclear Regulatory Commission
Washington, D. C. 20555

Docket Nos.: STN 50-546
STN 50-547
Construction Permit Nos.:
CPPR - 170
CPPR - 171

Marble Hill Nuclear Generating Station - Units 1 and 2

Dear Mr. Denton:

In accordance with 10 CFR 50.71(b), we are filing one (1) copy of the annual financial report for 1983 for Public Service Company of Indiana, Inc. (PSI).

This annual report contains an auditor's report by Arthur Anderson and Company for PSI at page 12 of the report. Please advise if you have questions.

Sincerely,

SWShields

S. W. Shields

SWS:MEN:bjl
Attachment

cc: Director of Inspection and Enforcement
U. S. Nuclear Regulatory Commission
Washington, D. C. 20555

J. E. Konklin (w/o attachment)
J. R. Schapker (w/o attachment
E. P. Martin (w/o attachment)
P. W. O'Connor (w/o attachment)

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