The Annual Report of

ILLINOIS POWER COMPANY

1980

ELECTRICITY

NATURAL GAS

8104100307

The Edison Award

On June 11, 1980 Illinois Power Company was presented the Edison Electric Institute's highest honor, the Edison Award, for "distinguished service to the electric utility industry". The award was in recognition of the videotape "60 Minutes/Our Reply" which we made to correct inaccuracies in a CBS-TV 60 Minutes program on construction of the Clinton nuclear power station. More than 2,500 businesses, organizations and individuals worldwide have requested copies of our videotape.

The citation to the Company said, in part: "For foresight in anticipating and preparing for a potentially misleading television broadcast and for innovation in communicating with the public; for leadership and courage in demonstrating that gross inaccuracies and distortions of fact by the electronic media can be effectively countered; and for presenting a valuable case study to the electric utility industry, the media, and the nation at large on the vital importance to the public interest of responsible journalism".

Illinois Power Company

ANNUAL REPORT 1980

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

Highlights of 1980

1979	1980	% Increase	
14,226	**14,486**	**1.8**	Electric sales—kilowatt-hours (millions)
$479,052	**$567,356**	**18.4**	Electric revenues (thousands)
1,052	**986**	**(6.3)**	Gas sales—therms (millions)
$272,770	**$316,014**	**15.9**	Gas revenues (thousands)
$751,822	**$883,370**	**17.5**	Total operating revenues (thousands)
$ 91,335	**$113,562**	**24.3**	Net income (thousands)
$ 75,636	**$ 94,493**	**24.9**	Earnings available for common stock (thousands)
27,980	**32,906**	**17.6**	Average number of shares outstanding (thousands)
$2.70	**$2.87**	**6.3**	Earnings per share of common stock

What We Received and What We Paid Out or Set Aside

1979	1980	1980 %	**We Received From—**
(Thousands of Dollars)			
$479,052	**$567,356**	**64.2**	Sales of electricity
272,770	**316,014**	**35.8**	Sales of gas
$751,822	**$883,370**	**100.0**	

1979	1980	1980 %	**We Paid or Set Aside For—**
$ 66,487	**$ 73,382**	**8.3**	Payrolls and benefits to employees engaged in operations
191,296	**218,998**	**24.8**	Gas purchased for resale
6,171	**6,527**	**.7**	Power purchased for resale
(58,498)	**(40,452)**	**(4.6)**	Power interchanged—net
225,621	**240,601**	**27.2**	Fuel for electric plants
43,766	**50,278**	**5.7**	Materials and other expenses
55,967	**57,835**	**6.6**	Recovery of cost of property due to wear and obsolescence
82,693	**113,786**	**12.9**	Taxes—federal, state and local
21,958	**23,071**	**2.6**	Investment tax credit deferred—net
			Use of funds invested in our business—
(38,731)	**(51,220)**	**(5.8)**	Allowance for funds used during construction
63,757	**77,002**	**8.7**	Interest—including short-term loans
15,699	**19,419**	**2.2**	Preferred stock dividends
64,615	**79,636**	**9.0**	Common stock dividends
11,021	**14,507**	**1.7**	Future use in our business
$751,822	**$883,370**	**100.0**	

Wendell J. Kelley with Charles W. Wells and William C. Gerstner, executive vice presidents, left to right.

To All Stockholders:

Earnings per share in 1980 were $2.87. This exceeds 1979 earnings by 6.3 percent—but this should be put into a larger perspective. Earnings per share peaked in 1970 at $2.89. It has taken ten years for us to get back to near that level. Our experience in these last ten years illustrates an underlying problem in our industry.

The utility industry is in many ways like other industry. It also is different in many ways.

One difference is that our industry, as a regulated monopoly, has an obligation to serve all consumers in our franchised areas. Simply stated, we must provide electric and gas service to any customer at any time and at any location. This means we have the obligation to anticipate consumer requirements and build facilities in advance to serve them.

At the same time, we have the traditional responsibility to you—our stockholders—to provide an adequate return on your investment by providing increasing earnings.

For many years, these two responsibilities—our obligation to customers and to stockholders—were complimentary. When we built new facilities such as new plants to meet anticipated demands of present and future customers, these new facilities were cheaper and more efficient than the older facilities that were either being replaced or put to decreased use. Thus the customer benefited by lower cost energy and the shareholder benefited by increased earnings because of more efficient operating equipment.

This situation does not exist today. The interests of consumers and shareholders are no longer as compatible.

Because of inflation and overwhelming regulations, new facilities now cost about ten times more than they did in 1970. To finance and build them, we must charge higher rates. But political and social restraints impair our ability to secure adequate higher rates. So the stockholder is hurt when a utility fulfills its obligation to serve by building new facilities. This is the bind we are in.

During the last decade, we have completed three new electric generating units and are currently constructing one—the Clinton Nuclear Unit. This is the only unit we have under construction and the only one planned. At the present time, we do not see the need for further expansion until some time beyond 1990.

We are hopeful that during the time between the completion of the Clinton Unit, and the need to start another, the Company will have a period of relatively low construction expenditures. During this period, our stockholders should fare some better.

In the meantime, we are doing things to slow the growth in our customers' usage, such as promoting conservation. We are studying alternate methods of providing energy, such as cogeneration. We are also investigating feasible methods of providing less than all of our customers' requirements during periods of peak use. At the same time, continuing efforts are being made at the national and state level to inform our customers and our regulators of our situation. Our message is that unless adequate financial resources are made possible, the consumer will ultimately suffer.

Sincerely,

Wendell J. Kelley

Wendell J. Kelley
Chairman and President

Earnings, Revenues, and Sales

Earnings per share of our common stock were $2.87 for 1980. This is an increase of 6.3 percent over the $2.70 per share earned in 1979. The rate increase authorized by the Illinois Commerce Commission in late November, 1979 was a major factor in the 1980 earnings improvement. However, earnings were adversely affected by a decrease in net interchange sales, as well as the higher operating costs and capital costs for our construction program.

Total revenues for the Company were $883.4 million, an increase of 17.5 percent over 1979. Electric revenues were $567.4 million for 1980, an increase of 18.4 percent over 1979 reflecting the rate increase, recovery of increased fuel costs and increased kilowatt-hour sales. Gas revenues of $316 million for 1980 represent a 15.9 percent increase over 1979. This increase resulted principally from the recovery of increased costs of natural gas and the rate increase, partially offset by reduced therm sales.

Kilowatt-hour sales of electricity increased 1.8 percent in 1980 compared to a 4.8 percent increase in 1979. Sales to our residential customers were affected by the hot summer and increased 7.1 percent. Sales to our commercial customers increased 3.5 percent, while sales to our industrial customers decreased 3.4 percent, reflecting the downturn in the economy. Sales to rural cooperatives, municipal utilities, and other electric utilities increased 12.5 percent and reflect the decision of several municipal electric utilities to take service as wholesale customers rather than purchase power under interchange agreements.

Net interchange sales of electric energy to other electric utilities decreased $18 million from 1979, the year of highest interchange sales in the Company's history.

Therm gas sales for 1980 decreased 6.3 percent from 1979. Sales to our industrial customers increased 0.5 percent and reflect both the increased supplies of gas made available to these customers and the impact of the economic decline. Sales to our residential and commercial customers decreased 9.9 and 9.1 percent, respectively, and reflect both the warmer weather conditions in 1980, particularly during the first quarter, and decreased usage due to customers installing additional insulation and lowering thermostat settings.

COMPANY VICE PRESIDENTS ARE SHOWN NEAR SECTIONS OF THIS ANNUAL REPORT THAT DEAL WITH THEIR PRINCIPAL RESPONSIBILITIES.

Arthur E. Gray—Accounting and Data Processing

Financing

We issued common and preferred stock and two series of first mortgage bonds in 1980. These issues, plus funds generated internally, provided the financing for our 1980 construction program and the refunding of $10 million of first mortgage bonds which matured on April 1, 1980.

On March 6, three million shares of common stock and 720,000 shares of 11.66% cumulative preferred stock were offered to the public by groups of underwriters. Proceeds to the Company were $45.1 million and $35.6 million, respectively, from the two sales.

On August 13, we offered a total of $125 million of first mortgage bonds in two separate series to groups of underwriters. We sold $75 million of first mortgage bonds, 11⅜% series due in 1987, for proceeds of $74.2 million. These bonds were reoffered to the public to yield 11.45%. Fifty million dollars of first mortgage bonds, 12⅝% series due 2010, were sold for proceeds of $49.3 million and reoffered to the public to yield 12.7%

We entered into an additional credit agreement in May with four Chicago banks which provides for a revolving loan commitment of $60 million through May 1, 1983 with a provision for conversion to a three-year term loan. No borrowings were made under this agreement in 1980.

The 2,020,208 shares of new common stock issued under the Automatic Reinvestment and Stock Purchase Plan, the Employees Stock Ownership Plan, and the Tax Reduction Act Stock Ownership Plan and Trust provided approximately $37.1 million during 1980. These plans have now provided $72.3 million of new capital through the issuance of 3,617,851 shares since they were begun. Approximately 12,600 security holders are now participating in the Automatic Reinvestment and Stock Purchase Plan. Security holders interested in obtaining more information about the reinvestment plan may obtain a copy of the prospectus and other material from D. F. Meek, Secretary and Treasurer, Illinois Power Company, 500 South 27th Street, Decatur, Illinois 62525.

To meet estimated construction requirements for 1981 of $365 million, we anticipate approximately $230 million of long-term financing in 1981 and the balance to be provided by short-term borrowing and internally generated funds. The types, amounts and timing of these financings have not yet been determined. These estimates assume that our current rate request will be granted in full.

In January, 1981 a 50 percent owned affiliate, Illinois Power Fuel Company, was formed to finance a part of the nuclear fuel for the Clinton power station. The fuel company purchased the approximately $40 million investment Illinois Power Company has to date in nuclear fuel, and will finance the remaining stages of processing. This fuel company affiliate will be able to meet its financing needs almost exclusively with debt instruments, with the initial $40 million being financed with commercial paper. When Clinton Unit 1 becomes operational, we will lease the fuel from the affiliate.

Request For Rate Increase

On August 8, 1980 we filed with the Illinois Commerce Commission a request to increase our electric rates. If approved, the proposed electric rates would increase annual revenues by approximately $115 million or 23 percent. No increase in natural gas rates was sought.

We requested that a total of $510 million of construction work in progress be included in the electric rate base. If this is granted, we will discontinue capitalizing an allowance for funds used during construction on that amount.

With the entire proposed retail rate increase, our electric rates would continue to be among the lowest of the major utilities operating in the State of Illinois.

This filing includes some changes in the residential rates with the addition of a demand-metered rate with time-of-day energy charges for our larger residential customers.

The ICC is permitted 11 months to issue a decision. Accordingly, we expect an order by early July, 1981.

Upon completion of our last electric and gas retail rate case in November, 1979, we and several intervenor organizations petitioned for reconsideration of the ICC decision. When these were denied, the parties appealed to the Circuit Court in Champaign County, Illinois. Oral arguments were presented to the court in December, 1980. We questioned the failure of the ICC to base its order on a fair value rate base, as required by an October, 1980 Illinois Supreme Court decision.

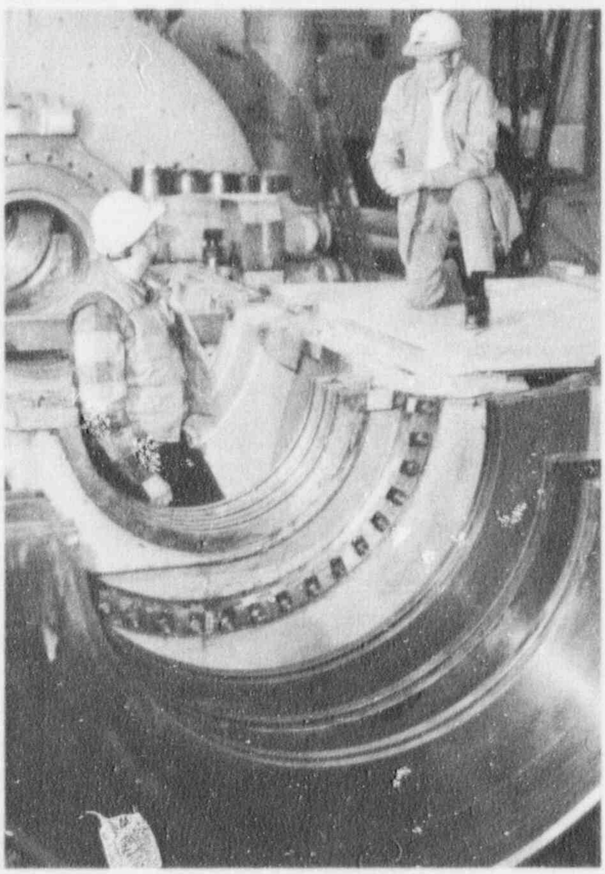
Opponents of this rate increase challenged the amount granted and the inclusion of $97.1 million of construction work in progress in electric rate base. A decision had not been issued as this report was prepared.

In other rate matters, the Federal Energy Regulatory Commission approved an electric rate increase of 7.4 percent to the nine electric cooperative customers effective September 1, 1980. This will increase our revenues by approximately $2 million annually.

The ICC has proposed a new uniform fuel adjustment clause to be used by all electric utilities in Illinois under ICC jurisdiction. The proposed clause will include the cost of fuel consumed in our generating plants, including nuclear, and the cost of power purchased for our customers from other utilities through purchased power and interchange agreements. We proposed to include the uniform fuel adjustment clause as a part of our pending rate request.

Larry D. Haab—Rate and Financial Matters

James O. McHood—Construction Activities



Construction Program

Our construction expenditures for 1980 were $315.6 million, of which $227 million were for Clinton Unit 1. By the end of the year, accumulated expenditures for Clinton Unit 1 were $859.4 million. This does not include the investment of Soyland Power Cooperative, Inc. and Western Illinois Power Cooperative, Inc., the two cooperatives which have a combined 20 percent interest in Clinton.

Other expenditures during the year for electric facilities were $70.2 million; expenditures for gas facilities were $18.4 million.

Our estimated 1981 construction expenditures will be $365 million —$342 million for electric

facilities and $23 million for gas facilities. Our estimated construction expenditures for the five-year period from 1981 through 1985 are projected to be $1.2 billion. These estimates assume the inclusion of $510 million construction work in progress in the electric rate base as requested in our current rate proceeding. Without the additional CWIP the construction expenditures for the five-year period would be increased by about $75 million.

Based on our current electrical load projections, no additional generating capacity will be needed beyond Clinton Unit 1 before the early 1990's. It will not be necessary to make a decision for several years regarding the type and location of such additional capacity. None of the alternative generating plans being considered would increase the estimated construction expenditures for the five-year period by more than $200 million. The five-year estimate includes no expenditure that might be necessary due to future regulatory requirements.

Clinton Nuclear Unit Progress

On December 5, 1980 we announced a new schedule and cost estimate for the Clinton Unit 1 nuclear station. We now expect to load fuel in January, 1983, nine months later than our previous estimate. The current cost estimate for the unit is $1.733 billion. This includes 20 percent ownership by two cooperatives.

Ever-changing regulations which affect ongoing construction make it impossible to determine exact schedule and cost for nuclear plants, and future requirements might alter the new estimates. In our last two rate requests, critics have charged that Clinton costs are rising because of mismanagement. The factors which caused our estimates to increase also affected other nuclear construction projects, and changes in the Clinton project compare favorably to other single-unit boiling water reactors under construction in the country. There are seven such projects and four have cost estimates per kilowatt higher than Clinton and Clinton has experienced the least percentage increase in cost estimate and delay in completion schedule.

The Nuclear Regulatory Commission did not docket our application for an operating license for Clinton Unit 1 until September 8, 1980. We submitted the application on December 1, 1979 but were told the NRC was unable to perform its acceptance review of the application sooner because of the heavy work load imposed on the NRC staff as a result of the nuclear accident at Three Mile Island.

In accordance with their normal practice, the NRC has established an Atomic Safety and Licensing Board for the Clinton station docket. This board will preside over the proceeding if a public hearing on the operating license is ordered. An early action of the Board is to rule on petitions to intervene which have been filed.

During 1980, many significant scheduled milestones were met in the construction of this unit. Among them are:

— Installation of the control rod drive penetrations for the reactor;

— Installation of the overhead maintenance and refueling crane and completion of the steel liner in the containment building;

— The start of main steam piping in the containment and turbine buildings;

— Inserting the condenser

Leonard J. Koch—Nuclear Operations

tubing and start of turbine installation in the turbine building, and

— The completion of the manufacture, staging, testing and shipment of the Power Generation Control Complex panels for the control room.

At the end of 1980, with all structures in the power block closed in and weatherized for year-round construction, we estimated that Clinton Unit 1 was 72 percent completed.

The construction of the 345 kilovolt (kV) switchyard, 345/138 kV transmission substation and about 35 miles of 345 kV transmission line was completed for Clinton. These facilities and an additional 22 miles of 345 kV transmission line, completed earlier, were energized during 1980. They reinforce the bulk supply transmission serving our Decatur service area and will ultimately provide outlets for the power generated at the Clinton power station.

In 1980, the ICC began formal hearings to investigate possible incentives for control of construction costs at Clinton Unit 1. We presented evidence that existing work force management improvement programs and natural financial market pressures adequately control costs and that artificial incentive schemes are neither appropriate nor necessary.

Staffing for plant operation continues on schedule. Twenty-one people have successfully completed a rigorous two-year training program, including a nine-week course at the Black Fox Simulator near Tulsa, Oklahoma. Successful completion of this training program qualifies employees to take the NRC-administered examination to become licensed reactor operators for the Clinton power station.

Electric and Gas Services

While construction of new residential units in our territory dropped by approximately 35 percent in 1980, electric space heating was installed in more than 60 percent of the new units. Approximately 65 percent of the commercial expansion was heated electrically.

The unusually hot and dry summer weather and the grain embargo made 1980 a difficult year for our farm customers and resulted in a slower rate of growth in electric grain drying loads and automated animal confinement buildings. The abnormally dry fall weather and early harvest did not require as much grain drying as normal and fewer therms of gas and kilowatt-hours were used.

Increasingly, our residential and commercial customers are converting from highly-priced oil and LP gas to either electric or natural gas heating.

On July 15, 1980 we experienced a peak electric demand of 3,150,450 kilowatts—4.3 percent higher than the 1979 firm peak demand. Extremely hot weather that day tended to offset a general decline in peak load demand from industrial customers due to unfavorable economic conditions.

Gas supplies continued to improve during the year but less severe winter weather and the economic recession caused 1980 gas sales to be lower than those of 1979. Four of our gas pipeline suppliers have lifted curtailments. They are supplying full contract volumes during the five winter months and are able to fully supply system requirements on a year-to-year basis.

We are able to make gas available at the time of request for new residential and commercial customers for the first time since 1970 when restrictions were adopted because of limited supplies of natural gas. All industrial applicants for gas service as of January 21, 1981 have been offered service. In all, we gained approximately 4,200 new natural gas customers during 1980.

Work continues on our new electric and gas dispatch center that will be completed in 1983.

Systems Reliability

We plan, design, and operate our electric and gas systems to provide safe, economical, and highly reliable service to our customers. This quality of service is further insured by coordinated planning with neighboring utilities.

We work closely within the Illinois Missouri Pool, the Mid-America Interpool Network, and the National Electric Reliability Council to insure that the interconnected electric system can reliably deliver bulk power to large regional areas.

We have been able to make extensive use of our inter-connections to import, export, and transfer power to maintain reliability and economy in our service area. These interchanges also have helped in the national efforts, encouraged by the Department of Energy, to conserve oil in other parts of the United States. Electricity sold from nuclear and coal-fired plants in the United States and Canada, including Illinois Power Company, to other utilities replaced nearly 116 million barrels of oil in 1980. Our net interchange sales totaled over 1.2 billion kilowatt-hours for the year.

The reliability of our electric system was tested by major storms four times in 1980. Rain, high winds and tornado-like weather disrupted service throughout our territory in the summer and fall. Service was restored to all customers with minimum delay.

Fuel Supply

Coal accounted for 97.3 percent of the fuel we used during 1980 in the generation of electricity. Oil accounted for 1.3 percent; and other fuels, 1.4 percent.

In response to the Department of Energy's request and in the public interest, we continued to use natural gas for three of the generating units at the Wood River power station and two combustion turbine peaking plants to reduce demand for No. 2 distillate fuel oil.

Future needs for existing coal-fired units are estimated to be 162 million tons. Contracts in effect as of December 31, 1980, including extension options, provide for delivery of approximately 159 million tons.

Uranium needed through 1995 for the Clinton nuclear station will be supplied by Kerr-McGee Nuclear Corporation under the terms of two contracts. They provide for the purchase and conversion of approximately 5.4 million pounds of uranium to be delivered to the Department of Energy, with whom we have 30-year contracts for our fuel-enrichment requirements. A contract with General Electric Company provides approximately 15 years of fuel fabrication, the final step of preparing uranium for reactor fuel.

Environmental Protection

Operating expenses for environmental related activities in 1980 exceeded $52 million. This equals approximately 9.3 percent of our revenue from the sale of electricity in 1980. Our accumulated capital expenditures for environmental protection programs since 1969 have reached $149 million.

We have obtained or applied for all necessary air pollution operating permits and water pollution control operating permits for our facilities.

The Illinois Pollution Control Board approved a sulfur dioxide emission limit for the Baldwin power station in 1979 which still is under review by the U.S. Environmental Protection Agency. Based on data gathered in 1979 and 1980, we submitted to the State EPA a demonstration that the Illinois Pollution Control Board-approved emission limit will not result in violation of standards.

The Baldwin power station was among 15 plants, in five states, identified as targets of possible suits by the State of New York for alleged violations of federal Clean Air Act standards. We received a notice in December of New York State's intent to file suit.

In July, the U.S. EPA adopted a new set of regulations which reclassified the 2,000-acre cooling pond at the Baldwin power station and will make it necessary to install pollution control equipment on the waste water entering this pond. It will cost about $10 million to meet these new standards by July, 1984, as required. Meeting some aspects of these regulations at our other plants could cost another $16 million. Regulations being developed under other federal environmental laws can have further economic impact on our operations.

We filed a petition with the Illinois Pollution Control Board to obtain a higher thermal discharge limit for one-unit operation at the Clinton power station. This would eliminate the need for installation of a supplemental cooling system for discharge water to the 5,000-acre cooling lake until a second generating unit is installed. A hearing has been held on this petition and a decision is expected during 1981.

As National Pollutant Discharge Elimination System permits were renewed, portions of new permits that could later create undue hardships on power generating facility operation and unnecessary expense to the Company were appealed. We appealed three permits to the Pollution Control Board where one is pending. One has been appealed to the Illinois Appellate Court and one to the Illinois Circuit Court.

Research and Development

Research and development expenditures for 1980 totaled about $4.5 million. Included were funds for research in nuclear power, air and water standards, coal gasification, cogeneration, solar, waste heat utilization and other technologies to meet future energy needs in an environmentally and economically acceptable manner. Our 1981 expenditures are estimated to be $4 million.

Our largest single 1980 expenditure, $1.6 million, was made through the Electric Power Research Institute (EPRI), an organization formed to coordinate the electric utility research of more than 580 public, private and cooperative utilities. Total payments to EPRI by all members during 1981 are expected to reach $265 million.

This was our fifth year of support for the Allis-Chalmers kilngas coal gasification process. Full demonstration-project funding was achieved during 1980. Formal groundbreaking took place in October, 1980 to begin the construction phase of the demonstration plant at our Wood River power station. During 1980 we invested $1.1 million of a total five-year commitment of $5.5 million for the construction and demonstration phases of this process. The total cost of the program is estimated at $135 million. Allis-Chalmers, the State of

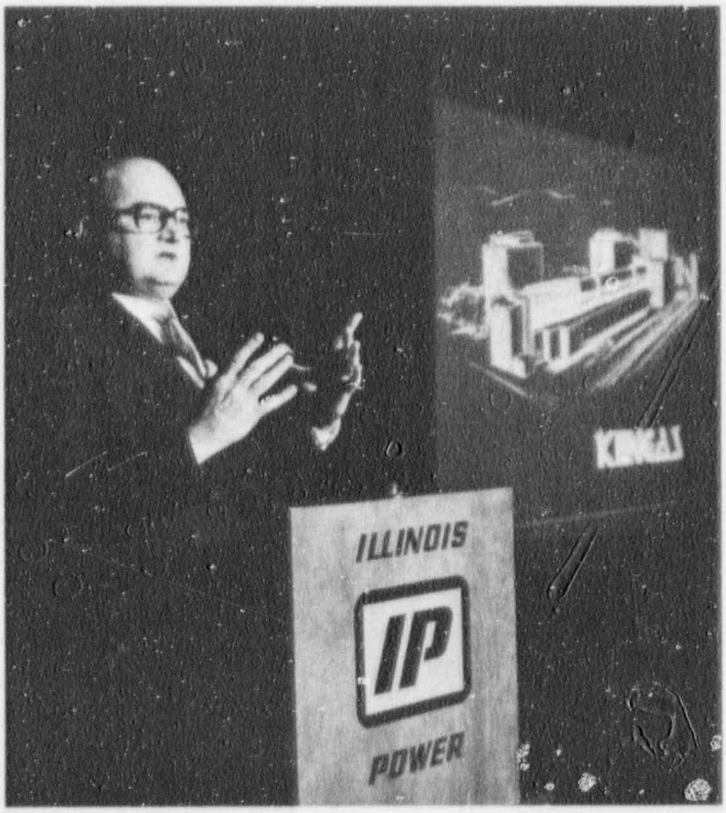
Illinois, Gilbert Associates, and a consortium of 12 electric utilities are sharing the cost. The objectives of the program include demonstrating the feasibility of power generation with environmentally acceptable low Btu gas derived from Illinois coal.

Several research projects concerning improvements in nuclear maintenance and operations will be continued in 1981. Work also will continue this year on a project begun in 1979 involving the use of stored underground compressed air to economically drive peaking generating units. Continued interest by industrial customers in cogeneration requires continuing research into new ways of solving economic, technical, and institutional problems.

A residential electric water heater load control experiment initiated in 1980 will be continued in 1981. The experiment seeks to determine the feasibility and benefit of controlling the service to electric water heaters as a means of reducing system load during peak periods.

We expect to continue the development of a program to use power station waste heat for greenhouse heating. It is currently being demonstrated at our Baldwin power station in cooperation with the University of Illinois. A successful demonstration may offer a means of profitably recovering this otherwise lost heat resource.

Other current and planned research activities include thermal storage, expanded heat pump applications, lighting control, wind generation, solar application, and energy conservation devices.



Porter J. Womeldorff—Technical Activities

William E. Warren—Operations and Industrial Relations

Customer Services

We have consolidated all of our customer-related conservation programs in a new energy programs department to promote energy conservation measures and the more efficient use of energy.

By the end of 1980 we had conducted energy audits of approximately 77,000 residential structures and a total of 1,934 commercial establishments.

We brought many large commercial and industrial customers together at our fourth Energy Efficient Equipment conference last spring and at an industrial Energy Symposium for our largest industrial customers. Energy topics of mutual interest were discussed.

We have been active in the organization of the state plan for Illinois to comply with the National Energy Conservation Policy Act, which requires that regulated utilities encourage the installation of energy conservation measures, including renewable resource measures, in existing homes of residential customers. While no government mandates require such energy conservation promotions for industrial customers, we will continue efforts to benefit both our customers and the Company.

To encourage economic development in our territory, our staff provides professional services to industries and communities. We analyze a company's requirements and the economic, geographic and demographic factors and recommend suitable locations to companies planning expansion or moves into our territory. We offer to communities a training program designed to provide a trained and skilled development team able to present a community's advantages to industrial prospects. It was started in 1974 and has been used by about 20 communities, including six in 1980.

In 1980, 34 new industrial plants, 1.2 million square feet of new facility space, and 720 new jobs were added to our territory's economy. Forty existing customers constructed an additional 1.3 million square feet of space and added 507 new jobs.

During 1980 we made a major commitment to help offset the loss of manufacturing jobs and the eroding tax base within the Illinois portion of the St. Louis metropolitan area. We have completed initial development of 435 acres of Company-owned property at Granite City, Illinois into Northgate Industrial Park. The property is being fully developed for commercial and industrial usage and phase one is expected to be totally occupied by the end of the decade with more than 1,000 new permanent jobs created for area residents. On May 9, groundbreaking ceremonies were held for the first tenant, the Precoat Metals Division of Chromalloy American Corporation.

The Illinois Commerce Commission issued an order making permanent last year's trial restrictions on disconnection of service. Under this order utilities have more stringent requirements to notify customers before winter terminations for non-payment, resulting in substantial increases in collection costs and in uncollectible accounts.

In 1979, we initiated project HELP through which we asked customers who expect winter payment problems to contact us. We work closely with governmental agencies in arranging payment assistance to our customers.

Report of Management

The financial statements and all information in this annual report are the responsibility of management. The financial statements have been prepared in conformity with generally accepted accounting principles consistently applied and, in the opinion of management, fairly reflect the Company's financial

David F. Meek—Secretary and Treasurer

position, results of operations and sources of funds provided for gross property additions.

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

The financial statements have been audited by our independent accountants, Price Waterhouse & Co., in accordance with generally accepted auditing standards which include a study and evaluation of internal control for the purposes of establishing a basis for reliance thereon relative to the scope of their examination of the financial statements. In addition to the use of independent accountants, the Company maintains a professional staff of internal auditors who conduct financial, procedural and special audits. The selection and training of qualified personnel, the establishment and communication of accounting and administrative policies and procedures, as well as the program of internal audits, are important elements of the internal control system.

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

Board of Directors

Miss Eva Jane Milligan was elected to the Board of Directors on March 27, 1980. Eleven other directors were re-elected.

Miss Milligan, of Chicago, Illinois, is Senior Vice President, General Personnel Manager of Marshall Field & Company.

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

Finance Committee

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

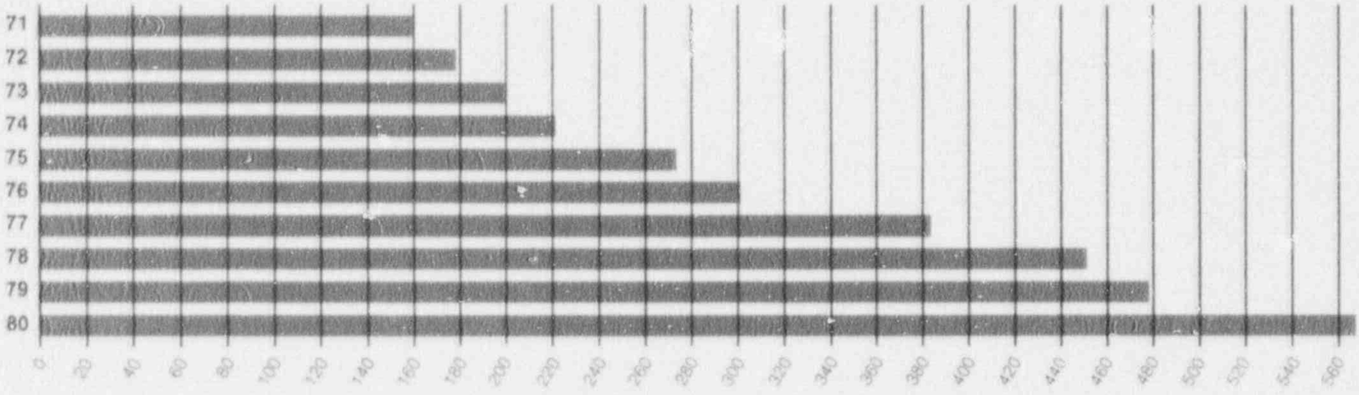
Audit Committee

The Audit Committee recommends the appointment of the Company's independent accountants, confers with the independent accountants, and reviews the scope of the audit, the results of auditors' examinations, and the activities of the Company's internal auditors. The members are: Vernon K. Zimmerman, chairman, Robert J. Burow, George E. Hatmaker, John H. Leslie, Eva Jane Milligan and Richard P. Stone.

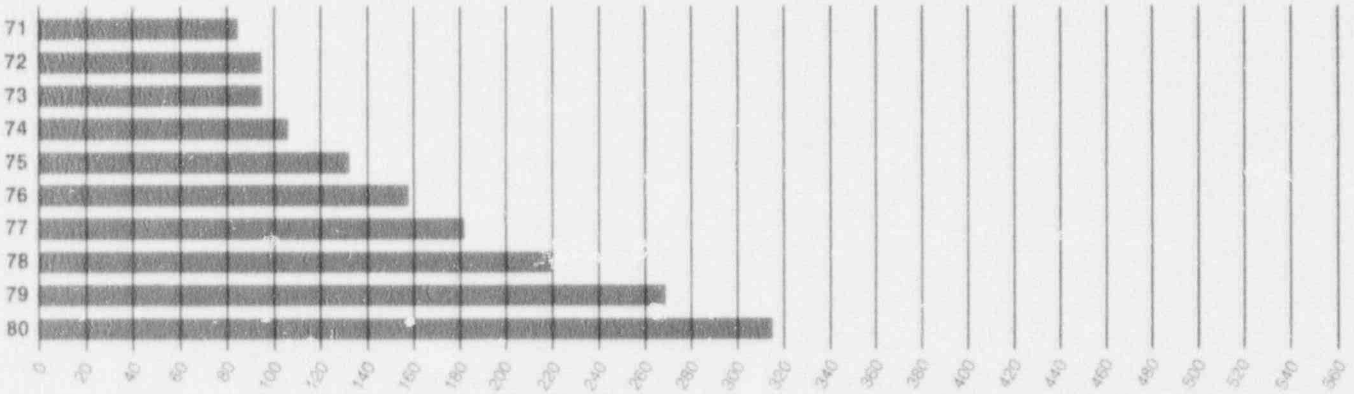
Compensation and Organization Committee

This committee reviews and recommends compensation of elected Company officers, reviews benefit plans and recommends nominees to fill vacancies on the Board of Directors. The members are: Keith R. Potter, chairman, Robert J. Burow, Wendell J. Kelley, John H. Leslie, Eva Jane Milligan, Boyd F. Schenk and Gordon R. Worley.

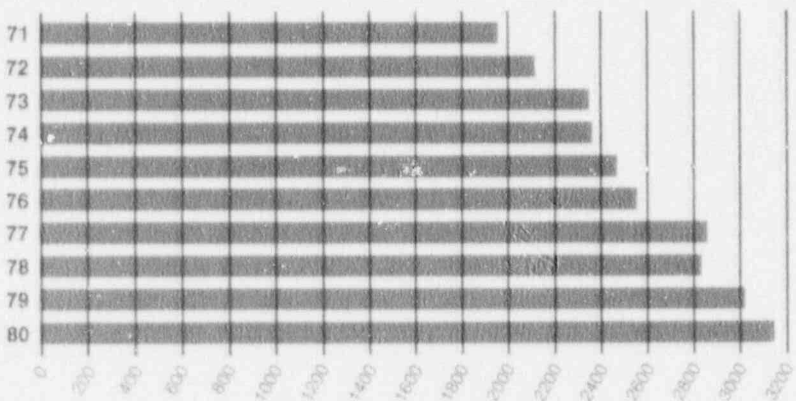
Electric Revenues (MILLIONS OF DOLLARS)



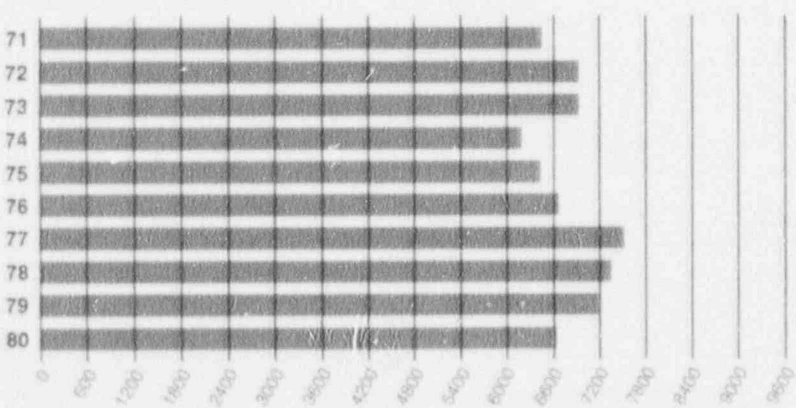
Gas Revenues (MILLIONS OF DOLLARS)



Electric Peak Loads (IN THOUSANDS OF KW)



Gas Peak Loads (IN THOUSANDS OF THERMS)



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

Reference is made to the Financial Statements and Electric and Gas Operating Statistics for information concerning financial condition and results of operations. The factors having significant impact upon financial condition, changes in financial condition and results of operations since January 1, 1978 are as follows:

Liquidity and Capital Resources

During the years 1978 through 1980, the capital requirements for construction were approximately $312.4 million, $291.6 million, and $315.6 million, respectively, and for bond refunding were $15 million, $15 million, and $10 million, respectively. The major item of construction is the Clinton nuclear power station which accounted for approximately 64.4% of the construction expenditures in this three-year period. In June, 1978, construction of a 450 megawatt coal-fired unit at the Havana power station was completed and the unit was placed into commercial service at a total cost of approximately $189.3 million. Our 80% ownership interest in the Clinton nuclear power station Unit 1 is estimated to cost $1.382 billion and will require additional capital expenditures of approximately $514.9 million or about 42.2% of our projected capital requirements for the five-year period 1981-1985. These estimates of expenditures for the Clinton plant assume the inclusion of $510 million of construction work in progress (CWIP) in the electric rate base as requested in the Company's current rate proceeding. Without the additional CWIP the construction expenditures would be increased by about $75 million.

Cash flow from operations has provided sufficient liquidity to meet ongoing operating requirements and to provide additional funds for the construction program. The capital requirements during the three-year period have been provided in approximately the following proportions: 40.2% through the issuance of long-term debt, 33.3% through the sale of common and preferred stock, and 26.5% through funds provided from operations.

During this three-year period, we used short-term borrowings to meet interim cash requirements. These short-term obligations were repaid from long-term financings, and, at December 31, 1980 there were no outstanding short-term borrowings.

Lines of credit with commercial banks are maintained to meet interim cash requirements. At December 31, 1980 we had unused lines of credit in the amount of $169.1 million, including a new credit agreement of $60 million negotiated in 1980, against which no borrowings have been made.

At December 31, 1980, based upon the most restrictive earnings test contained in the Company's Mortgage and Deed of Trust, approximately $108 million of additional first mortgage bonds could be issued at an assumed interest rate of 14%.

To obtain the capital necessary for our ongoing construction program will require the Company to maintain the financial standards necessary for flexible access to financial markets. Our bonds and preferred stock are currently rated double A and our common stock is rated single A-. To preserve these financial ratings, which result in lower financing costs and thereby benefit both our customers and shareholders, we filed a request for an electric rate increase with the Illinois Commerce Commission on August 8, 1980. If granted, this increase would provide about $115 million in additional annual revenue commencing in July, 1981. A substantial amount of this increase was requested to cover a portion of the financing costs attributable to the Clinton nuclear power station. While we capitalize an allowance for funds used during construction, this non-cash credit to income does not provide immediate cash to pay these financing costs. Further, in an effort to reduce projected capital requirements, the Company has arranged to lease most of its nuclear fuel from a fuel company affiliate formed in January, 1981.

Without additional rate relief, it is foreseeable that we will be unable to maintain the interest coverage ratio required by the Mortgage and Deed of Trust for the issuance of additional first mortgage bonds. To meet the projected capital requirements associated with the ongoing construction program and other working capital needs, this interest coverage deficiency would necessitate the use of alternative and potentially higher cost financing methods.

Results of Operations

Electric Operations—Electric revenues increased during the years 1978 through 1980 as a result of rate increases, increased fuel costs passed on in billings to our customers and increases in kilowatt-hour sales as shown below:

	Twelve Months Ended December 31,		
	1980	1979	1978
Revenue increase (thousands of dollars)	$88,304	$26,845	$68,640
Components of revenue increase (%)—			
Rate increases	53%	12%	23%
Kilowatt-hour sales	20	45	17
Recovery of increased fuel costs	27	43	60
	100%	100%	100%

Revenue growth from rate changes reflects general rate increases of 11.3% effective June, 1977 and 10.9% effective November, 1979, as granted by the Illinois Commerce Commission.

The changes in economic and weather conditions during this three-year period, as well as our customers' conservation efforts, were the major factors affecting kilowatt-hour sales which increased 4.8% in both 1978 and 1979, but only 1.8% in 1980.

The cost of fuel for electric plants increased $58.5 million in 1978, $18.5 million in 1979, and $15 million in 1980. Factors which impact fuel costs include kilowatt-hour generation, fuel price increases and the availability of all generating units. Kilowatt-hour generation increased 8.2% in 1978 and 6.9% in 1979, and decreased 3.1% in 1980. Coal, which is our primary fuel, constituted about 92.3%, 95.9% and 97.3% of our fuel used for generation in 1978, 1979 and 1980, respectively. Correspondingly, the weighted average cost per ton of coal burned increased about 33.7% in 1978 and 5.9% and 13.4% in 1979 and 1980, respectively. In 1979 the fuel cost increase was partially offset by the greater use of lower cost generating units. Further, the commercial operation of Havana power station unit 6, beginning in June, 1978, increased the Company's coal-fired generating capacity which is lower in cost as compared to either gas or oil.

Sales of interchange power fluctuate as a direct result of market demand based upon the needs of other utilities and the availability of our generating capacity to serve those needs. The credit for power interchanged-net increased about $16.2 million and $11.4 million in 1978 and 1979, respectively, and decreased $18 million in 1980. During this period, there existed a favorable market for these "opportunity sales" of interchange power and our generating capacity was available when needed.

Gas Operations—Gas revenues increased in each of the years 1978, 1979 and 1980, principally reflecting recovery of the increased cost of natural gas passed on in billings to our customers. Other factors affecting gas revenues were the 7.9% rate increase granted by the Illinois Commerce Commission in November, 1979, and changes in therm sales. The components of the annual revenue increases were approximately as follows:

	Twelve Months Ended December 31,		
	1980	**1979**	**1978**
Revenue increase (thousands of dollars)	$43,244	$52,963	$35,987
Components of revenue increase (%)—			
Recovery of increased gas costs	100%	82%	42%
Rate increases	36	1	—
Therm sales	(36)	17	58
	100%	100%	100%

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

The increase in gas supply, changes in economic and weather conditions, and customer conservation efforts were the major factors affecting therm sales during this period, which increased 10.4% and 1.6% in 1978 and 1979, respectively, and decreased 6.3% in 1980.

The cost of gas purchased for resale increased $27.7 million, $45.8 million and $27.7 million in 1978, 1979 and 1980, respectively. In each year, the cost increases were primarily attributable to higher prices paid for gas. The average cost per therm increased 11.7%, 29.6% and 20.2% in 1978, 1979 and 1980, respectively.

Other Expenses and Taxes—Since 1977 the Company has experienced increases in other operating expenses, maintenance and general taxes as follows:

	1980	**1979**	**1978**
	(Thousands of Dollars)		
Other operating expenses	$12,097	$3,068	$10,636
Maintenance	2,419	3,809	5,035
Depreciation	1,868	4,398	4,381
General taxes	17,164	900	7,351

During the above three-year period, both other operating expenses and maintenance have been affected by the impact of inflation which, as measured by the average Consumer Price Index, increased about 7.7%, 11.3% and 13.5% in 1978, 1979 and 1980, respectively.

In addition to stringent controls over expenses, we have, through both the timing and scope of our rate

requests, attempted to minimize the financial impact of inflation. In the request for an electric and gas retail rate increase filed with the Illinois Commerce Commission (ICC) in January, 1979 (rate order subsequently received in November, 1979), we requested and received an adjustment to other operating and maintenance expenses to provide for partial recovery of such expenses at an inflationary level projected through 1980. Similarly, in the electric retail rate increase request filed with the ICC in August, 1980, we again requested an adjustment for the projected cost increases, due to inflation, during the first year the new rates would be in effect.

The increases in other operating and maintenance expenses reflect increased wages and employee benefits as well as the continuing effect of the inflationary trends on all costs and expenses. Other operating expenses for 1978 also reflect the expenses incurred in the testing of Havana power station Unit 6 prior to commercial operation on June 22, 1978, and for 1980 reflects the increase in uncollectible accounts. In addition, the 1978 maintenance expenses reflect the costs associated with ice storms which occurred in March and December.

Depreciation expense during 1978 and 1979 increased primarily as a result of the completion of Havana power station Unit 6.

General taxes have increased each year as a result of higher state and municipal public utility taxes associated with the growth of operating revenues. In addition, real estate taxes have escalated annually, reflecting both increased assessed property valuations and higher tax rates. In both 1979 and 1980, general taxes reflected the implementation of the Illinois Corporate Personal Property Replacement Tax Law. This new law eliminated both personal property and capital stock taxes as of January 1, 1979. Effective July 1, 1979 these taxes were replaced with a tax on invested capital and an additional tax on income.

The Company's effective combined federal and state income tax rate has been 36.8%, 35.1% and 36.2% for the years 1978, 1979 and 1980, respectively. For a detailed analysis of income tax components, see Note 5 of the "Notes to Financial Statements".

Other Income—Total allowance for funds used during construction (AFDC) increased approximately $8.7 million, $9.8 million and $12.5 million during 1978 through 1980, respectively. Increases in AFDC relate to the amount of construction work in progress (CWIP), discontinuance of the capitalization of AFDC on approximately $79.9 million of CWIP included in our rate base between June, 1977 and June, 1978 for Havana Unit 6, and about $97.1 million of CWIP included in rate base beginning in November, 1979 for the Clinton nuclear power station Unit 1. The 1980 increase in AFDC also reflects an increase in the AFDC effective after-tax rate from 7.0% to 7¾%, beginning May 1, 1980, to reflect the increased cost of financing our ongoing construction program.

The increase in miscellaneous-net reflects increased income tax reductions applicable to non-operating activities, principally construction projects.

Interest Charges—Interest charges have increased $9.9 million, $9.9 million and $13.2 million during 1978 through 1980, respectively. These increases primarily reflect the $325 million of long-term debt issued during the period at a weighted average interest rate of 10.3%. During this period we retired $40 million of long-term debt with a weighted average interest rate of about 2.9%.

Earnings per Common Share—The changes in net income applicable to common stock in 1978 through 1980 resulted from the interaction of all the factors discussed herein, including the issuance of additional preferred stock. Changes in earnings per common share also reflect the increased number of common shares outstanding in each year. (See Notes 9, 10 and 11 in the "Notes to Financial Statements").

Inflation—The high rate of inflation which has been experienced in recent years has an impact on our reported earnings, shareholders equity and other financial information that is not measured by traditional accounting methods. For supplementary information to disclose the effects of changing prices, see pages 30 and 31.

BALANCE SHEETS

December 31,	1980	1979
	(Thousands of Dollars)	
ASSETS		
Utility Plant, at original cost		
Electric (includes construction work in progress of $920,167,000 and $703,229,000, respectively)	$2,481,189	$2,212,046
Gas (includes construction work in progress of $6,949,000 and $8,196,000, respectively)	327.991	313,195
	2,809,180	2,525,241
Less—Accumulated depreciation	607,017	556,584
	2,202,163	1,968,657
Nuclear fuel in process	39,429	18,262
Acquisition adjustment (less amortization of $1,680,000 and $1,434,000, respectively)	2,253	2,499
	2,243,845	1,989,418
Investments and Other Assets	8,596	8,663
Current Assets		
Cash	10,441	10,535
Temporary cash investments, at cost, which approximates market	6,000	2,500
Accounts receivable (less allowance for doubtful accounts of $3,000,000 and $2,000,000, respectively)	63,866	68,194
Materials and supplies, at average cost		
Fuel	67,744	62,939
Gas in underground storage	17,388	26,646
Operating materials	22,743	19,997
Prepayments and miscellaneous accounts receivable	21,494	22,047
	209,676	212,858
Deferred Charges		
Unamortized debt expense	3,855	2,638
Other	1,219	1,075
	5,074	3,713
	$2,467,191	$2,214,652

CAPITAL AND LIABILITIES

	1980	1979
Capitalization		
Common stock—		
No par value, 40,000,000 shares authorized; 34,507,851 and 29,487,643 shares outstanding, respectively, stated at	$ 572,685	$ 490,539
Retained earnings	183,060	168,553
Less—Capital stock expense	4,640	3,795
Total common stock equity	751,105	655,297
Preferred and preference stock	215,171	215,171
Redeemable preferred stock	36,000	—
Long-term debt	991,402	866,747
Total capitalization	1,993,678	1,737,215
Current Liabilities		
Accounts payable	65,014	87,813
Notes payable	—	34,145
Long-term debt maturing within one year	—	10,000
Dividends payable	25,648	20,823
Income taxes accrued	9,681	2,132
General taxes accrued	25,039	20,440
Interest accrued	28,716	21,514
Other	12,866	17,010
	166,964	213,877
Other		
Accumulated deferred income taxes	173,221	153,299
Accumulated deferred investment tax credit	133,328	110,261
	306,549	263,560
Commitments (Note 7)		
	$2,467,191	$2,214,652

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

STATEMENTS OF INCOME

For the Years Ended December 31,	1980	1979	1978
Operating Revenues*			
Electric	**$567,356**	$479,052	$452,207
Gas	**316,014**	272,770	219,807
Total	**883,370**	751,822	672,014
Operating Expenses and Taxes			
Fuel for electric plants	**240,601**	225,621	207,082
Power purchased for resale	**6,527**	6,171	5,505
Power interchanged—net	**(40,452)**	(58,498)	(47,078)
Gas purchased for resale	**218,998**	191,296	145,486
Other operating expenses	**85,628**	73,531	70,463
Maintenance	**40,182**	37,763	33,954
Depreciation	**57,835**	55,967	51,569
General taxes	**72,389**	55,225	54,325
State income taxes—current	**7,983**	4,820	2,697
deferred (net)	**3,169**	2,090	1,846
Federal income taxes—current	**27,210**	14,231	6,812
deferred (net)	**15,683**	15,329	18,638
Investment tax credit—deferred (net)	**23,071**	21,958	22,793
Total	**758,824**	645,504	574,092
Operating income	**124,546**	106,318	97,922
Other Income			
Allowance for funds used during construction—			
All funds—prior to January 1, 1977	**—**	—	—
Other funds—after December 31, 1976	**36,567**	27,520	21,321
Miscellaneous—net	**14,798**	10,043	9,402
Total	**51,365**	37,563	30,723
Income before interest charges	**175,911**	143,881	128,645
Interest Charges			
Interest on long-term debt	**72,952**	62,005	52,453
Other interest charges	**4,050**	1,752	1,439
Allowance for borrowed funds used during construction—after December 31, 1976	**(14,653)**	(11,211)	(7,608)
Total	**62,349**	52,546	46,284
Net Income	**113,562**	91,335	82,361
Preferred dividend requirements	**19,069**	15,699	15,699
Net Income applicable to common stock	**$ 94,493**	$ 75,636	$ 66,662
Weighted average number of common shares outstanding during the period	**32,906,017**	27,979,606	24,302,139
Earnings per common share	**$2.87**	$2.70	$2.74
Cash dividends declared per common share	**$2.355**	$2.28	$2.28

** Includes revenue related taxes added to customer billings in each of the years 1971 through 1980. In 1980, 1979 and 1978 these revenue related taxes were $20,643,000, $17,526,000 and $15,449,000, respectively.*

RETAINED EARNINGS

For the Years Ended December 31,	1980	1979	1978
		(Thousands of Dollars)	
Balance at Beginning of Year	**$168,553**	$157,532	$147,122
Net Income	**113,562**	91,335	82,361
	282,115	248,867	229,483
Less—			
Cash dividends—			
Preferred stock	**19,419**	15,699	15,699
Common stock	**79,636**	64,615	56,252
	99,055	80,314	71,951
Balance at End of Year	**$183,060**	$168,553	$157,532

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

1977	1976	1975	1974	1973	1972	1971
	(Thousands of Dollars)					
$383,567	$303,066	$275,809	$221,126	$199,489	$177,209	$159,175
183,820	158,595	133,142	108,789	94,953	95,445	86,221
567,387	461,661	408,951	329,915	294,442	272,654	245,396
148,553	123,782	88,725	63,013	41,408	34,470	31,892
8,664	7,092	5,591	4,727	4,179	3,671	3,156
(30,855)	(51,484)	(29,522)	(18,321)	(10,547)	266	(9,806)
117,812	91,476	71,288	56,539	47,728	46,469	40,722
59,827	53,295	49,631	41,083	37,649	32,302	29,737
28,919	25,726	19,506	17,584	16,131	15,500	13,583
47,188	45,556	42,911	39,282	36,103	32,178	30,230
46,974	40,368	37,036	31,210	28,833	26,282	23,719
3,188	2,444	2,381	1,717	1,732	1,479	1,868
980	1,199	1,166	817	813	714	702
15,760	16,001	11,575	15,831	14,099	15,265	20,711
9,053	11,433	11,681	7,367	7,199	6,838	4,342
19,573	10,994	15,034	1,706	5,118	1,567	395
475,636	377,882	327,003	262,555	230,445	217,001	191,251
91,751	83,779	81,948	67,360	63,997	55,653	54,145
—	10,503	7,459	7,960	7,189	7,339	4,018
15,137	—	—	—	—	—	—
5,709	3,174	1,967	2,231	2,143	2,101	1,174
20,846	13,677	9,426	10,191	9,332	9,440	5,192
112,597	97,456	91,374	77,551	73,329	65,093	59,337
42,091	35,927	33,144	28,779	25,237	22,810	20,615
1,888	1,744	1,508	4,122	891	1,079	1,511
(5,046)	—	—	—	—	—	—
38,933	37,671	34,652	32,901	26,128	23,889	22,126
73,664	59,785	56,722	44,650	47,201	41,204	37,211
13,257	10,606	7,229	7,229	7,229	5,729	3,078
$ 60,407	$ 49,179	$ 49,493	$ 37,421	$ 39,972	$ 35,475	$ 34,133
22,521,013	20,369,958	18,277,397	16,544,110	15,940,000	14,887,945	13,946,849
$2.68	$2.41	$2.71	$2.26	$2.51	$2.38	$2.45
$2.22	$2.20	$2.20	$2.20	$2.20	$2.20	$2.20

Price Waterhouse & Co.

ONE MEMORIAL DRIVE
ST. LOUIS, MISSOURI 63102
314-425-0500

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of Illinois Power Company:

In our opinion, the accompanying balance sheets and related statements of income, of retained earnings and of sources of funds provided for gross property additions present fairly the financial position of Illinois Power Company at December 31, 1980 and 1979, and the results of its operations and the sources of funds provided for gross property additions for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles consistently applied. Also, in our opinion, the statements of income and of sources of funds provided for gross property additions for each of the seven years in the period ended December 31, 1977, which have been prepared from the applicable statements covered by our reports on each of those years, present fairly the financial information included therein. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

February 2, 1981

Price Waterhouse & Co.

STATEMENTS OF SOURCES OF FUNDS PROVIDED FOR GROSS PROPERTY ADDITIONS

For the Years Ended December 31,	1980	1979	1978
Funds Provided from Operations			
Net income	**$113,562**	$ 91,335	$ 82,361
Items not requiring working capital—			
Depreciation and amortization	**59,967**	57,653	53,003
Deferred income taxes—net	**19,922**	18,635	20,275
Investment tax credit—deferred (net)	**23,071**	21,958	22,793
Allowance for funds used during construction	**(51,220)**	(38,731)	(28,929)
Total funds provided from operations	**165,302**	150,850	149,503
Dividends on—Preferred stock	**(19,419)**	(15,699)	(15,699)
Common stock	**(79,636)**	(64,615)	(56,252)
Net funds provided from operations	**66,247**	70,536	77,552
Funds Obtained from External Sources			
Proceeds from sales of—Common stock	**82,146**	85,451	67,870
Preferred stock	**36,000**	—	—
Capital stock expense	**(845)**	(368)	(379)
Proceeds from sales of bonds	**125,000**	100,000	100,000
Pollution control construction funds held by trustee	**—**	—	2,999
Proceeds from sale of ownership interests in the Clinton power station	**—**	—	33,926
Net increase (decrease) in notes payable	**(34,145)**	24,145	10,000
Retirement of bonds	**(10,000)**	(15,000)	(15,000)
Total funds obtained from external sources	**198,156**	194,228	199,416
Other Funds Provided (Used)			
Net decrease (increase) in working capital*	**414**	(11,048)	7,345
Miscellaneous—net	**(474)**	(835)	(814)
Total other funds provided (used)	**(60)**	(11,883)	6,531
Total funds from above sources	**264,343**	252,881	283,499
Allowance for funds used during construction	**51,220**	38,731	28,929
Gross property additions	**$315,563**	$291,612	$312,428
Decrease (Increase) in Components of Working Capital*			
Cash and temporary investments	**$ (3,406)**	$ (5,146)	$ 22,231
Accounts receivable	**4,328**	(11,673)	(10,466)
Materials and supplies	**1,707**	(19,228)	(14,253)
Accounts payable	**(22,799)**	27,781	10,884
Dividends payable	**4,825**	2,365	1,650
Accrued taxes	**12,148**	(3,455)	178
Interest accrued	**7,202**	3,286	3,711
Other—net	**(3,591)**	(4,978)	(6,590)
	$ 414	$(11,048)	$ 7,345

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

GROSS PROPERTY ADDITIONS AND RETIREMENTS

For the Years Ended December 31,		1980	1979	1978
Additions	—Electric	**$297,157**	$270,806	$296,597
	Gas	**18,406**	20,806	15,831
		$315,563	$291,612	$312,428
Retirements	—Electric	**$ 5,607**	$ 5,748	$ 6,247
	Gas	**2,943**	2,218	2,280
	Other	**—**	—	—
		$ 8,550	$ 7,966	$ 8,527

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

1977	1976	1975	1974	1973	1972	1971
	(Thousands of Dollars)					
$ 73,664	$ 59,785	$ 56,722	$ 44,650	$ 47,201	$ 41,204	$ 37,21[illegible]
49,761	49,845	44,810	41,216	37,532	33,351	31,460
14,099	12,632	12,847	8,184	8,012	7,552	5,044
19,573	10,994	15,034	1,706	5,118	1,567	395
(20,183)	(10,503)	(7,459)	(7,960)	(7,189)	(7,339)	(4,018)
136,914	122,753	121,954	87,796	90,674	76,335	70,092
(13,590)	(10,979)	(7,229)	(7,229)	(7,229)	(5,950)	(3,284)
(50,051)	(45,226)	(41,338)	(36,993)	(35,068)	(33,418)	(30,778)
73,273	66,548	73,387	43,574	48,377	36,967	36,030
3,788	63,712	47,256	27,894	—	43,306	20,400
50,450	50,100	—	—	—	35,177	30,129
(275)	(525)	(186)	(139)	—	(242)	(193)
118,700	100,000	—	58,500	60,000	—	35,000
(2,999)	—	—	—	—	—	—
42,855	27,199	—	—	—	—	—
—	(10,000)	(12,000)	19,000	(6,000)	8,000	(14,000)
—	(45,000)	—	—	—	—	—
212,519	185,486	35,070	105,255	54,000	86,241	71,336
(23,480)	(13,177)	7,378	(27,781)	4,546	(160)	788
1,371	965	(407)	(1,238)	(1,743)	5,523	(1,399)
(22,109)	(12,212)	6,971	(29,019)	2,803	5,363	(611)
263,683	239,822	115,428	119,810	105,180	128,571	106,755
20,183	10,503	7,459	7,960	7,189	7,339	4,018
$283,866	$250,325	$122,887	$127,770	$112,369	$135,910	$110,773
$ (534)	$(17,997)	$ 1,996	$ (3,873)	$ 1,985	$ (2,278)	$ (1,520)
(3,632)	(8,313)	12,749	(25,792)	1,842	(4,077)	26
(24,868)	(11,149)	(9,134)	(11,944)	(1,348)	(3,685)	(2,367)
9,832	6,429	6,983	3,186	(2,896)	8,321	421
1,528	2,533	1,210	962	—	1,487	948
(4,466)	5,529	(6,330)	5,101	4,094	(1,023)	2,540
692	6,520	(402)	2,827	379	(2)	660
(2,032)	3,271	306	1,752	490	1,097	80
$(23,480)	$(13,177)	$ 7,378	$(27,781)	$ 4,546	$ (160)	$ 788

1977	1976	1975	1974	1973	1972	1971
	(Thousands of Dollars)					
$272,462	$239,936	$112,234	$116,637	$ 98,646	$119,893	$ 94,524
11,404	10,389	10,653	11,133	13,723	16,017	16,249
$283,866	$250,325	$122,887	$127,770	$112,369	$135,910	$110,773
$ 5,040	$ 8,010	$ 7,420	$ 6,264	$ 5,742	$ 6,532	$ 4,645
1,746	2,034	1,695	2,014	2,126	2,369	1,358
—	—	—	—	—	—	514
$ 6,786	$ 10,044	$ 9,115	$ 8,278	$ 7,868	$ 8,901	$ 6,517

NOTES TO FINANCIAL STATEMENTS

Note 1—Summary of Accounting Policies:

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

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

Depreciation—For financial statement purposes, depreciation is provided over the estimated lives of the various classes of depreciable property by applying composite rates on a straight-line basis. Provisions for depreciation in 1980, 1979 and 1978 were equivalent to approximately 3.4% and 2.9% of the average depreciable cost for electric and gas utility plant, respectively.

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

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

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

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

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

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

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

In May, 1980 the rate used in computing AFDC by the Company was changed to 7¾% (the effective after-tax rate) compounded semi-annually. The rate used in 1978, 1979 and through April, 1980 was 7%.

In accordance with the November 28, 1979 Illinois Commerce Commission rate order, the Company has excluded $97,064,000 of electric plant construction work in progress ("CWIP") from the base on which AFDC is computed for the Clinton power station unit No. 1. Also in accordance with the June 16, 1977 Illinois Commerce Commission rate order, the Company excluded $79,866,000 of electric plant construc-

tion work in progress from the rate base on which the AFDC was computed for the Havana power station unit No. 6 which was placed in service on June 22, 1978. Since these orders authorized the inclusion of such expenditures in the rate base upon which the Company realizes revenues, there was no material effect on net income.

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

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

Note 2—Investments and Other Assets:

Investments and Other Assets are carried at cost, except for the Company's investment at December 31, 1980 and 1979 of $4,361,000 and $3,995,000, respectively, in IP Gas Supply Company, a wholly-owned subsidiary. The investment in IP Gas Supply is for the purpose of exploration to increase available natural gas supplies through one of the Company's pipeline suppliers. In accordance with an order from the Illinois Commerce Commission, the accounts of the subsidiary are not consolidated with the accounts of the Company but are accounted for as an investment on the equity accounting method.

Note 3—Short-Term Loans and Compensating Balances:

At December 31, 1980 there were no outstanding notes payable. At December 31, 1979 notes payable consisted of $34,145,000 in commercial paper bearing interest at an average rate of 13.9% and maturing between January 2, 1980 and February 29, 1980. At December 31, 1978 notes payable consisted of $10,000,000 in commercial paper bearing interest at an average rate of 10.7% and maturing between January 29, 1979 and February 13, 1979.

The Company has lines of credit extending through 1981 with commercial banks for short-term bank borrowings. Under these lines of credit, the Company had unused commitments of $109,125,000 at December 31, 1980. Bank borrowings under such commitments have a 360-day maturity from the time of issuance and carry an interest rate equivalent to the prime rate in effect at the time of issuance, adjusted to the prime rate in effect on the first day of each calendar quarter thereafter.

The Company has unwritten agreements with banks committed for $80,000,000 of the total bank commitments to maintain average checking account balances equivalent to 10% of the commitments for borrowings from the banks or 15% of the borrowings outstanding, whichever is greater.

The Company also has a credit agreement which provides for a revolving loan commitment of $60 million through May 1, 1983 with a provision for conversion to a term loan having quarterly installment payments beginning August 1, 1983 and maturing May 1, 1986. No borrowings have been made under this agreement through 1980. The agreement is on a fee basis of one-half percent of the unused line of credit through May 1, 1983. Borrowings through 1982 are at the greater of the lending banks' prime rate or the average 90-day certificate of deposit rate published by the Federal Reserve Bank of New York and 103% thereof through 1984 and 105% thereof until maturity.

Unused bank commitments are held available to support the amount of commercial paper outstanding at any time.

The maximum aggregate amount of short-term borrowings at any month end during 1980, 1979 and 1978 was $77,580,000, $34,145,000 and $21,465,000, respectively. The average daily short-term borrowings during these periods approximated $30,100,000, $12,000,000 and $13,100,000, respectively (calculated as an average of the daily borrowings outstanding), with a weighted average interest rate of 11.8%, 11.3% and 7.9%, respectively (calculated by dividing the interest expense during the period for such borrowings by the average short-term borrowings indicated above).

Note 4—Sale of Interest in Clinton Power Station:

On October 16, 1979, pursuant to agreements entered into in August, 1976, the Company sold a 10.5% interest to Soyland Power Cooperative, Inc. and a 9.5% interest to Western Illinois Power Cooperative, Inc. in the Clinton power station currently under construction. The sales aggregated $103,980,000, substantially all of which had been previously advanced to the Company. Subsequent to the sale each party is responsible for its portion of construction expenditures. The Com-

pany's 80% interest in the power station including land, nuclear fuel in process and allowance for funds used during construction applicable to the Company's interest at December 31, 1980 and 1979 was $941,263,000 and $701,710,000, respectively. The sales agreements include the provisions that the Company will exercise control over construction and operation of the generating station, the parties will share electricity generated in proportion to their interests and the Company will have certain obligations to provide replacement power to the Cooperatives when the units are out of service.

Note 5—Income Taxes:

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

	Year Ended December 31,		
	1980	1979	1978
	(Thousands of Dollars)		
Current taxes—			
Included in Operating Expenses and Taxes	$35,193	$19,051	$ 9,509
Included in Other Income—Miscellaneous—net	(12,685)	(9,037)	(4,899)
Total current taxes	22,508	10,014	4,610
Deferred taxes—			
Book-tax depreciation differences—net	14,398	14,240	15,764
Certain overhead and dismantling costs capitalized—net	5,524	4,395	4,511
Book-tax revenue recognition differences	(1,070)	(1,216)	209
Total deferred taxes	18,852	17,419	20,484
Investment tax credit—deferred (net)	23,071	21,958	22,793
Total income taxes	$64,431	$49,391	$47,887

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

	Year Ended December 31,		
	1980	1979	1978
	(Thousands of Dollars)		
Computed tax expense at statutory federal and state income tax rates	$88,356	$68,815	$65,228
Reductions (increase) in income taxes resulting from—			
Allowance for funds used during construction	25,425	18,940	14,487
Other—net	(1,500)	484	2,854
Total income taxes	$64,431	$49,391	$47,887

Note 6—Pension Costs:

The Company has pension plans covering all officers and employees. Pension costs, which are funded as accrued, include current service costs plus unfunded prior service costs which are being amortized over a period of about 25 years. The Company's pension plans were amended during 1979 and 1978 to provide increased benefits. During 1979, based upon recommendations by the Company's independent actuary, actuarial assumptions were revised to reflect both actual Plan experience and actuarial projections. These revisions resulted in a decrease of approximately $9,600,000 in unfunded prior service costs. The cost of the pension plans was $6,839,000, $6,391,000 and $5,670,000 during 1980, 1979 and 1978, respectively.

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

	1980	1979
	(Thousands of Dollars)	
Actuarial present value of accumulated plan benefits—		
Vested	$69,802	$63,936
Non-vested	9,730	8,826
	$79,532	$72,762
Net assets available for benefits	$95,948	$80,027

The assumed rate of return used in determining actuarial present value was 6% in 1980 and 1979.

Note 7—Commitments:

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

Note 8—Quarterly Financial Information (Unaudited):

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	1980	1979	1980	1979	1980	1979	1980	1979
	(Thousands of Dollars Except Earnings Per Common Share)							
Operating revenues	$264,662	$229,195	$194,718	$164,445	$212,823	$167,929	$211,167	$190,253
Operating income	36,181	34,256	32,497	22,430	34,497	27,560	21,371	22,072
Net income	30,720	29,780	30,109	19,151	32,546	24,428	20,187	17,976
Net income applicable to common stock	26,573	25,855	25,135	15,226	27,572	20,504	15,213	14,051
Earnings per common share	87¢	$1.01	76¢	54¢	82¢	71¢	44¢	48¢

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

Note 9—Common Stock and Retained Earnings:

At the annual meeting of the Company on March 29, 1979, the stockholders voted to amend the Articles of Incorporation to authorize an additional 10,000,000 shares of common stock of the Company.

The Company has an Automatic Reinvestment and Stock Purchase Plan and an Employee Stock Ownership Plan ("ESOP") for which 719,153 and 31,010 shares, respectively, of common stock were designated for issuance at December 31, 1980.

The Company also has a Tax Reduction Act Stock Ownership Plan ("TRASOP"), permitting the Company a maximum additional investment tax credit of 1% provided common stock of the Company equal in value to the additional credit is contributed to the Trust. The TRASOP allows an additional investment tax credit up to ½% provided that such amount is matched by employee contributions and that common stock of the Company equal in value to the additional credit and the employee contributions is contributed to the Trust. Under this plan, 156,986 shares of common stock were designated for issuance at December 31, 1980.

Changes in common stock during 1980, 1979 and 1978 were as follows:

	1980		1979		1978	
	Shares	Amount*	Shares	Amount*	Shares	Amount*
Balance beginning of year	29,487,643	$490,539	25,474,381	$405,088	22,599,334	$337,218
Public offerings	3,000,000	45,075	3,000,000	64,650	2,500,000	58,875
Automatic Reinvestment and Stock Purchase Plan	1,676,155	30,369	771,796	15,509	194,447	4,515
ESOP	31,053	569	21,439	454	17,538	422
TRASOP	313,000	6,133	220,027	4,838	163,062	4,058
Balance end of year	34,507,851	$572,685	29,487,643	$490,539	25,474,381	$405,088

* Thousands of dollars

None of the Company's retained earnings at December 31, 1980, were restricted with respect to the declaration or payment of dividends.

Note 10—Preferred and Preference Stock:

The following tabulation shows preferred and preference stock, issued and outstanding at December 31, 1980, 1979 and 1978, and the redemption prices (exclusive of accrued dividends) applicable to each series.

Serial preferred stock, cumulative, $50 par value—

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

Series	Shares	Redemption prices	1980	1979	1978
			(Thousands of Dollars)		
4.08%	300,000	$51.50	**$ 15,000**	$ 15,000	$ 15,000
4.26%	150,000	51.50	**7,500**	7,500	7,500
4.70%	200,000	51.50	**10,000**	10,000	10,000
4.42%	150,000	51.50	**7,500**	7,500	7,500
4.20%	180,000	52.00	**9,000**	9,000	9,000
8.24%	600,000	53.96 prior to August 1, 1981 52.93 thereafter and prior to August 1, 1986 51.90 thereafter	**30,000**	30,000	30,000
7.56%	700,000	53.575 prior to July 1, 1982 52.63 thereafter and prior to July 1, 1987 51.685 thereafter	**35,000**	35,000	35,000
8.94%	1,000,000	55.55 prior to March 1, 1981* 54.25 thereafter and prior to March 1, 1986 52.90 thereafter and prior to March 1, 1991 51.60 thereafter	**50,000**	50,000	50,000
8.00%	1,000,000	55.29 prior to August 1, 1982* 54.29 thereafter and prior to August 1, 1987 53.29 thereafter and prior to August 1, 1992 52.29 thereafter	**50,000**	50,000	50,000
Premium on preferred stock			**1,171**	1,171	1,171
Serial preferred stock, cumulative, without par value—					
Authorized 5,000,000 shares in 1980 and 1979; none outstanding			**—**	—	—
Total preferred stock			**215,171**	215,171	215,171
Preference stock, cumulative, without par value—					
Authorized 5,000,000 shares in 1980 and 1979; none outstanding			**—**	—	—
Total preferred and preference stock			**$215,171**	$215,171	$215,171

** Not redeemable through a refunding operation at a cost to the Company of less than 8.92% per annum prior to March 1, 1981 for the 8.94% series and 7.93% per annum prior to August 1, 1982 for the 8.00% series.*

At the annual meeting of the Company on March 29, 1979, the stockholders voted to amend the Articles of Incorporation to (a) create a new class of 5,000,000 shares of serial preferred stock without par value, and (b) create a new class of 5,000,000 shares of preference stock without par value.

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

Note 11—Redeemable Preferred Stock:

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

Note 12—Long-Term Debt:

Long-term debt was represented by:

	December 31, 1980	December 31, 1979
	(Thousands of Dollars)	
First mortgage bonds—		
2¾% series due 1980	$ —	$ 10,000
3½% series due 1982	20,000	20,000
3½% series due 1983	20,000	20,000
3¾% series due 1986	20,000	20,000
11⅜% series due 1987	75,000	—
4% series due 1988	25,000	25,000
4¼% series due 1993	35,000	35,000
5.85% series due 1996	40,000	40,000
6⅜% series due 1998	25,000	25,000
6¾% series due 1998	45,000	45,000
8.35% series due 1999	35,000	35,000
9% series due 2000	35,000	35,000
7.60% series due 2001	35,000	35,000
7⅝% series due 2003	60,000	60,000
6.60% series due 2004 (Pollution Control Series A)	8,500	8,500
9⅞% series due 2004	100,000	100,000
10½% series due 2004	50,000	50,000
8⅝% series due 2006	100,000	100,000
6% series due 2007 (Pollution Control Series B)	18,700	18,700
8¼% series due 2007	100,000	100,000
8⅞% series due 2008	100,000	100,000
12⅝% series due 2010	50,000	—
Total long-term debt	997,200	882,200
Unamortized premium and discount on debt	(5,798)	(5,453)
	991,402	876,747
Less first mortgage bonds maturing within one year	—	10,000
	$991,402	$866,747

Certain supplemental indentures to the Mortgage and Deed of Trust require that the Company, beginning in 1985, deposit in cash as a sinking and property fund, $5,000,000 for the 9⅞% series due 2004 and $100,000, and increasing amounts in later years, for the 6.60% series due 2004 (Pollution Control Series A), which amounts are not subject to reduction. Certain other supplemental indentures require that the Company deposit in cash as a sinking and property fund amounts not to exceed $3,000,000 in 1981, $3,150,000 in 1982, $2,950,000 in 1983, $3,550,000 in 1984 and $4,050,000 in 1985, which amounts are subject to reduction in accordance with certain terms of the mortgage; historically these requirements have been met by pledging property additions.

The above bonds are secured by a first mortgage lien on substantially all of the fixed property, franchises and rights of the Company with certain minor exceptions expressly provided in the mortgage securing the bonds. The remaining balance of net bondable additions at December 31, 1980 was approximately $578,000,000.

Note 13—Segments of Business:

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

	Year Ended December 31, 1980			Year Ended December 31, 1979			Year Ended December 31, 1978		
	Electric	Gas	Total Company	Electric	Gas	Total Company	Electric	Gas	Total Company
	(Thousands of Dollars)			(Thousands of Dollars)			(Thousands of Dollars)		
Operating information—									
Operating revenues ..	$ 567,356	$316,014	$ 883,370	$ 479,052	$272,770	$ 751,822	$ 452,207	$219,807	$ 672,014
Operating expenses, excluding provision for income taxes ...	401,517	280,191	681,708	343,592	243,484	587,076	327,374	193,932	521,306
Pre-tax operating income	165,839	35,823	201,662	135,460	29,286	164,746	124,833	25,875	150,708
Allowance for funds used during construction (AFDC) ..	51,032	188	51,220	38,525	206	38,731	28,823	106	28,929
Pre-tax operating income, including AFDC	$ 216,871	$ 36,011	252,882	$ 173,985	$ 29,492	203,477	$ 153,656	$ 25,981	179,637
Other (income) and deductions			(14,798)			(10,043)			(9,402)
Interest charges			77,002			63,757			53,892
Provision for income taxes			77,116			58,428			52,786
Net income per accompanying statements of income ...			$ 113,562			$ 91,335			$ 82,361
Other information—									
Depreciation	$ 48,838	$ 8,997	$ 57,835	$ 47,377	$ 8,590	$ 55,967	$ 43,316	$ 8,253	$ 51,569
Capital expenditures ..	$ 297,157	$ 18,406	$ 315,563	$ 270,806	$ 20,806	$ 291,612	$ 296,597	$ 15,831	$ 312,428
Investment information—									
Identifiable assets* ..	$2,088,962	$269,619	$2,358,581	$1,836,862	$266,463	$2,103,325	$1,603,847	$245,492	$1,849,339
Nonutility plant and other investments ..			8,596			8,663			7,892
Assets utilized for overall Company operations			100,014			102,664			81,275
Total assets ...			$2,467,191			$2,214,652			$1,938,506

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

Two Year Dividends and Stock Prices by Quarters

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

		1980 Stock Prices							
		1		2		3		4	
	Dividends*	High	Low	High	Low	High	Low	High	Low
Common	**	19⅛	15¾	22½	16	21¾	18⅝	20⅛	16¾
4.08% Pfd.	$ .51	18	15¾	19½	14	19½	17	17	14½
4.26% Pfd.	.53¼	20	16¾	20	16	20	17¼	18	15
4.70% Pfd.	.58¾	22	18½	23½	17	22⅞	18	19½	16
4.42% Pfd.	.55¼	19	18	21⅜	17¾	19½	19½	18	17¼
4.20% Pfd.	.52½	19⅛	14¼	19¾	14⅛	19¼	17¾	16½	15
8.24% Pfd.	1.03	36	27	40¾	26¼	40	33⅜	34¼	28½
7.56% Pfd.	.94½	36	25	37¼	25¼	34¾	31	30½	26
8.94% Pfd.	1.11¾	42⅜	33¼	44	32	42	34	36½	30½
8.00% Pfd.	1.00	37⅜	32	40	28½	39	32½	32⅞	28½
11.66% Pfd.	1.45¾	—	—	55	49	55	52½	52	48⅞

	1979 Stock Prices							
	1		2		3		4	
	High	Low	High	Low	High	Low	High	Low
Common	23¾	21⅞	23⅜	20	23¼	21	22	17½
4.08% Pfd.	22⅝	20½	22⅝	20¼	22½	19	20¼	16¾
4.26% Pfd.	23½	21½	24⅛	21	24⅝	21½	20	17¾
4.70% Pfd.	25	24	25½	23	25½	24	24	19½
4.42% Pfd.	23	22¼	22½	22½	24	22½	20⅞	18½
4.20% Pfd.	22	20⅞	22½	20½	23	20½	20	19¼
8.24% Pfd.	45⅝	42¼	46¼	42⅜	45⅞	42	42	35½
7.56% Pfd.	42⅞	41	42½	38¼	43	39	37	32½
8.94% Pfd.	50½	48	50½	48	50⅞	44¾	44¾	38
8.00% Pfd.	44⅝	42½	45	43½	43½	42	40	34
11.66% Pfd.	—	—	—	—	—	—	—	—

** The amount declared in each quarter during 1979 and 1980. The 11.66% Preferred was issued on March 13, 1980 and dividends were declared thereafter at the indicated rate.*

*** $.57 per common share in 1979 and first quarter 1980 and $.59½ second, third and fourth quarters 1980.*

There were 81,908 registered record holders of common stock at January 9, 1981.

Selected Financial Data*

	1980	1979	1978	1977	1976
Total operating revenues	$ 883,370	$ 751,822	$ 672,014	$ 567,387	$ 461,661
Net income	$ 113,562	$ 91,335	$ 82,361	$ 73,664	$ 59,785
Net income applicable to common stock	$ 94,493	$ 75,636	$ 66,662	$ 60,407	$ 49,179
Earnings per common share	$ 2.87	$ 2.70	$ 2.74	$ 2.68	$ 2.41
Cash dividends declared per common share	$ 2.355	$ 2.28	$ 2.28	$ 2.22	$ 2.20
Total assets	$2,467,191	$2,214,652	$1,938,506	$1,776,662	$1,506,104
Long-term debt	$ 991,402	$ 866,747	$ 776,559	$ 692,255	$ 590,199
Redeemable preferred stock	$ 36,000	—	—	—	—
Ratio of earnings to fixed charges**	3.25	3.15	3.34	3.58	3.54

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

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

Supplementary Information to Disclose the Effects of Changing Prices

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

Utility Plant and Depreciation

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

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

The increase in depreciation expense on utility plant restated for the effects of changing prices, represents the excess of depreciation expense in terms of constant dollars and current cost over historical depreciation expense ($57.8 million) used for financial statement purposes.

Reduction to Net Recoverable Cost

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

During 1980, several rate orders issued by the Illinois Commerce Commission for other utilities have been based upon a "fair value" rate base, and we anticipate that "fair value" will be a consideration in our currently pending rate request. However, the impact, if any, that an order based on "fair value" would have on the reduction to net recoverable cost is unknown at this time.

Gain from the Decline in Purchasing Power of Net Amounts Owed

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

Inventories and Taxes

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

As prescribed in the Statement of Financial Accounting Standards No. 33, income taxes were not adjusted. Present income tax laws ignore the effects of inflation in measuring taxable income. Higher depreciation expense under constant dollar and current cost accounting is not tax deductible. Therefore, the Company's combined effective federal and state income tax rate, when adjusted for inflation, is 58.7% under constant dollar and 68.6% under current cost, for 1980, each of which exceeds the reported effective tax rate of 36.2% and the combined statutory federal and state rate of 49.6%.

Statement of Income Adjusted for Changing Prices

	For the Year Ended December 31, 1980 (Thousands of Dollars)	
	Constant Dollar Average 1980 Dollars	Current Cost Average 1980 Dollars
Net Income, as reported	$ 113,562	$113,562
Increase in depreciation expense on utility plant, as restated for the effects of changing prices	68,229	84,137
Net Income (excluding reduction to net recoverable cost)	$ 45,333*	$ 29,425
Increase in specific prices (current cost) of utility plant held during the year**		$291,127
Less increase in cost of utility plant adjusted for changes in general price level		371,401
Excess of increase in general price level over increase in specific prices		(80,274)
Reduction to net recoverable cost	$(168,344)	(72,162)
		(152,436)
Gain from decline in purchasing power of net amounts owed	143,970	143,970
Net price level adjustment	$ (24,374)	$ (8,466)

* *Including the reduction to net recoverable cost, the net loss on a constant dollar basis would have been approximately $123 million for 1980.*

** *At December 31, 1980, current cost of utility plant, net of accumulated depreciation, was approximately $3.4 billion, while net historical cost recoverable through depreciation was approximately $2.2 billion.*

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

	For the Years Ended December 31,				
	1980	1979	1978	1977	1976
Operating revenues—					
Historical cost	$883,370	$751,822	$672,014	$567,387	$461,661
Adjusted for general inflation	883,370	853,494	848,787	771,521	668,258
Historical cost information adjusted for general inflation					
Income from operations (excluding reduction to net recoverable cost)	45,333	42,738			
Income per common share (after preferred stock dividend requirements and excluding reduction to net recoverable cost)	.80	.89			
Net assets at year end at net recoverable cost	717,387	701,104			
Current cost information					
Income from operations (excluding reduction to net recoverable cost)	29,425	23,143			
Income per common share (after preferred stock dividend requirements and excluding reduction to net recoverable cost)	.31	.19			
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost	152,436	199,278			
Net assets at year end at net recoverable cost	717,387	701,104			
General information					
Gain from decline in purchasing power of net amounts owed	143,970	174,637			
Cash dividends declared per common share—					
Historical cost	2.355	2.28	2.28	2.22	2.20
Adjusted for general inflation	2.355	2.59	2.88	3.02	3.18
Market price per common share at year end—					
Historical cost	17.88	19.13	22.75	26.50	27.50
Adjusted for general inflation	17.08	20.54	27.67	35.14	38.94
Average consumer price index	246.8	217.4	195.4	181.5	170.5
Year-end consumer price index	258.4	229.9	202.9	186.1	174.3

* *In thousands of average 1980 dollars except per share data and indices.*

ELECTRIC OPERATING STATISTICS

	1980	1979	1978	1977	1976
Revenues (Thousands of Dollars)					
Residential	**$ 199,124**	$ 160,355	$ 159,493	$ 139,458	$ 108,932
Commercial and small power	**123,463**	105,262	102,170	69,947	53,698
Large power and light	**198,177**	174,315	158,611	149,307	121,735
Other	**9,897**	8,137	7,631	6,286	5,170
Revenues—ultimate consumers	**530,661**	448,069	427,905	364,998	289,535
Rural cooperatives and municipal utilities	**33,236**	27,790	21,448	15,853	10,920
Other electric utilities	**68**	59	66	50	39
Miscellaneous	**3,391**	3,134	2,788	2,666	2,572
	$ 567,356	$ 479,052	$ 452,207	$ 383,567	$ 303,066
Customers at End of Year					
Residential	**466,546**	461,966	455,014	445,130	435,611
Commercial and small power	**54,546**	53,804	53,051	51,384	51,019
Large power and light	**359**	374	368	1,305	1,340
Other	**715**	714	699	692	694
	522,166	516,858	509,132	498,[illegible]1	488,664
Sales in KWH (Thousands)					
Residential	**4,003,563**	3,737,245	3,770,703	3,632,898	3,271,719
Commercial and small power	**2,492,930**	2,408,131	2,383,521	1,696,894	1,405,389
Large power and light	**6,507,468**	6,738,321	6,271,872	6,541,429	6,412,648
Other	**290,851**	282,848	271,853	260,263	247,298
Sales—ultimate consumers	**13,294,812**	13,166,545	12,697,949	12,131,484	11,337,054
Rural cooperatives and municipal utilities	**1,189,702**	1,057,113	874,452	817,334	736,834
Other electric utilities	**1,961**	1,874	2,004	2,035	1,836
	14,486,475	14,225,532	13,574,405	12,950,853	12,075,724
Generated and Purchased in KWH (Thousands)					
Generated—					
Steam	**16,306,993**	16,840,214	15,770,060	14,530,570	15,688,384
Hydro and internal combustion	**61,914**	55,241	38,039	74,117	55,844
Total generated	**16,368,907**	16,895,455	15,808,099	14,604,687	15,744,228
Purchased and interchanged—net	**(838,615)**	(1,666,889)	(1,256,163)	(666,844)	(2,707,988)
Total output	**15,530,292**	15,228,566	14,551,936	13,937,843	13,036,240
Less—used and unaccounted for	**1,043,817**	1,003,034	977,531	986,990	960,516
	14,486,475	14,225,532	13,574,405	12,950,853	12,075,724
Peak Demand (native load) in KW (Thousands)	**3,150**	3,019	2,825	2,846	2,570
Net Generating Capability in KW (Thousands)	**3,815**	3,815	3,815	3,412	3,412

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

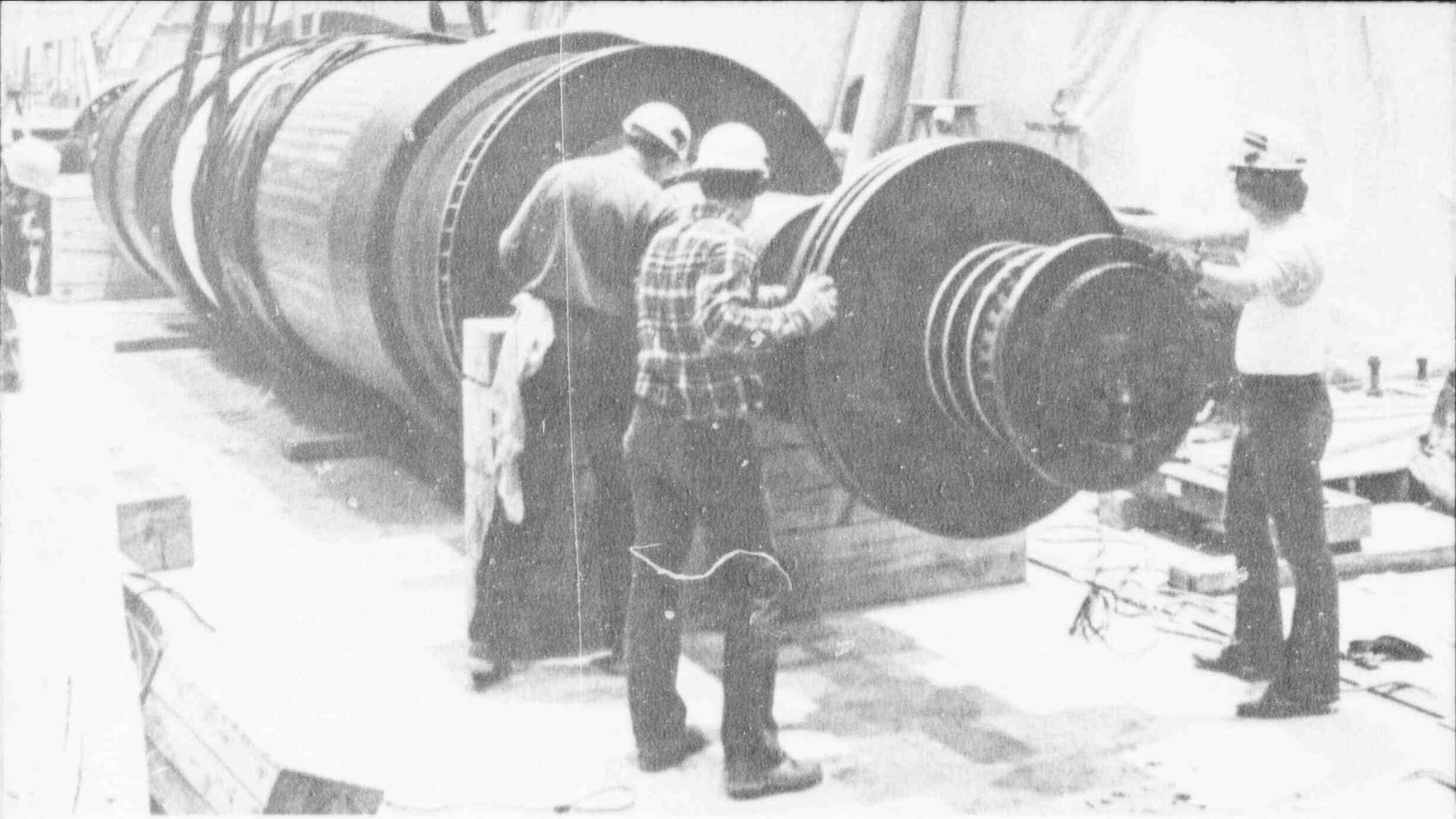
GAS OPERATING STATISTICS

	1980	1979	1978	1977	1976
Revenues (Thousands of Dollars)					
Residential—without space heating	**$ 2,201**	$ 2,056	$ 1,758	$ 1,819	$ 1,801
with space heating	**142,050**	124,354	105,484	91,798	74,521
Commercial—without space heating	**2,265**	2,858	1,722	1,469	2,005
with space heating	**52,976**	46,010	37,536	31,098	24,905
Industrial—non-interruptible	**76,743**	43,714	30,910	25,641	20,325
interruptible	**31,951**	51,354	40,906	33,376	35,083
Revenues—ultimate consumers	**308,186**	270,346	218,316	185,201	158,640
Interdepartmental revenues—interruptible	**1,825**	2,365	1,058	75	60
Miscellaneous	**6,003**	59	433	(1,456)	(105)
	$ 316,014	$ 272,770	$ 219,807	$ 183,820	$ 158,595

	1980	1979	1978	1977	1976
Customers at End of Year					
Residential—without space heating	**16,040**	18,251	19,834	21,377	23,204
with space heating	**332,695**	326,816	319,968	313,900	308,578
Commercial—without space heating	**1,891**	2,048	2,112	2,192	2,465
with space heating	**30,725**	30,032	29,522	29,116	28,771
Industrial—non-interruptible	**474**	480	470	457	457
interruptible	**24**	58	80	102	103
	381,849	377,685	371,986	367,144	363,578

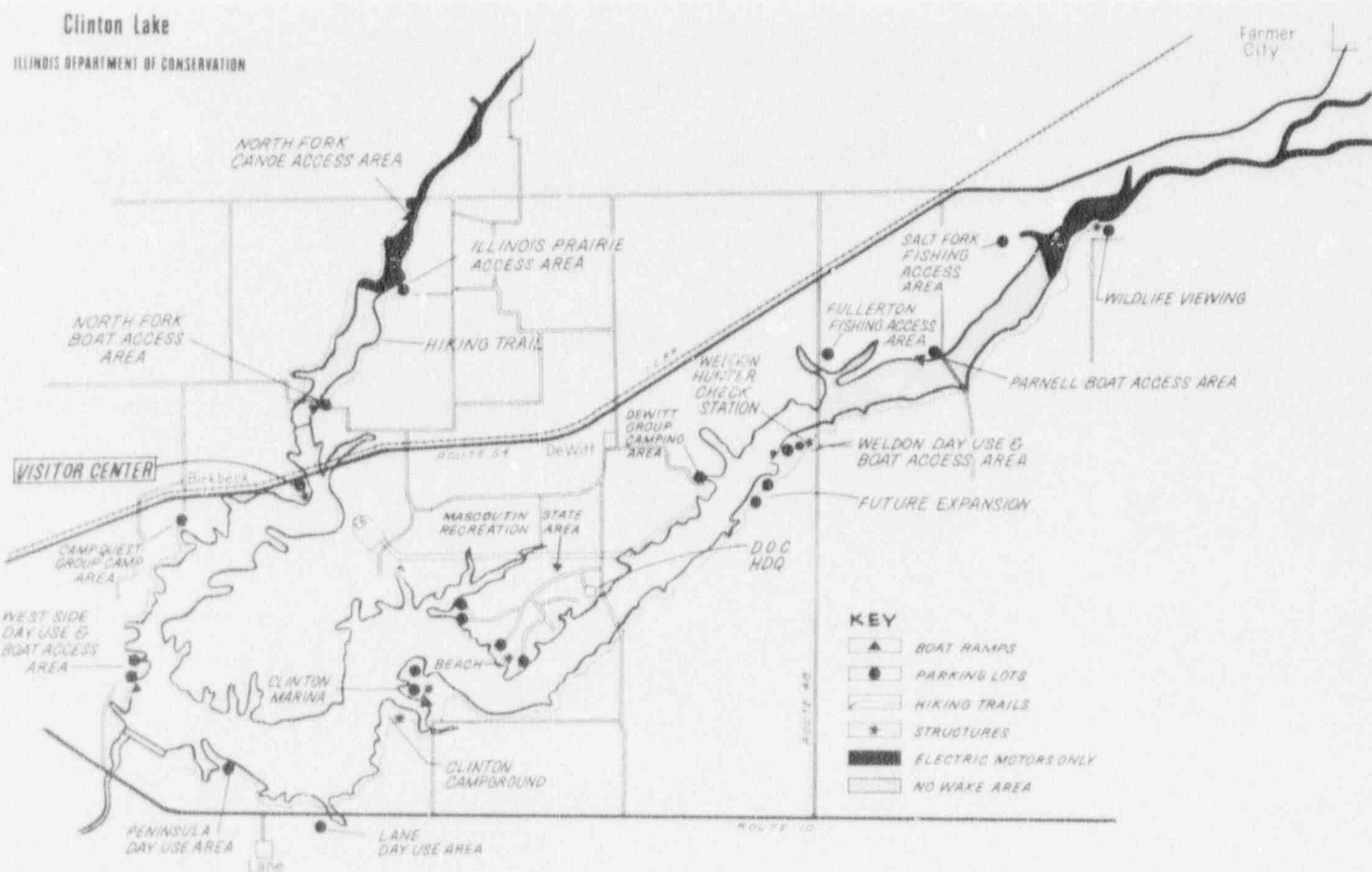
	1980	1979	1978	1977	1976
Sales in Therms (Thousands)					
Residential—without space heating	**5,165**	6,231	6,172	6,840	8,321
with space heating	**414,405**	459,329	469,906	436,838	433,993
Commercial—without space heating	**6,749**	10,586	7,986	7,554	12,820
with space heating	**168,563**	182,212	181,960	166,455	171,562
Industrial—non-interruptible	**280,471**	194,310	181,029	172,089	178,637
interruptible	**101,935**	186,264	180,138	147,205	181,784
Sales—ultimate consumers	**977,288**	1,038,932	1,027,191	936,981	987,117
Interdepartmental sales—interruptible	**8,853**	13,141	8,034	693	720
	986,141	1,052,073	1,035,225	937,674	987,837

	1980	1979	1978	1977	1976
Purchased and Produced—Therms (Thousands)					
Purchased	**980,426**	1,118,246	1,087,749	1,024,805	1,012,047
Storage—net of (injected) and withdrawn	**55,525**	(30,203)	(14,998)	(57,182)	28,269
Purchased gas delivered	**1,035,951**	1,088,043	1,072,751	967,623	1,040,316
Produced	**99**	69	24	2,417	91
Total	**1,036,050**	1,088,112	1,072,775	970,040	1,040,407
Less—used and unaccounted for	**49,909**	36,039	37,550	32,366	52,570
	986,141	1,052,073	1,035,225	937,674	987,837



Construction

Inside the Clinton station another major milestone was reached with the installation of the generator rotor. Although this rotor is approximately 30 ft. long and weighs 192 tons, it is quite delicate and must be handled very carefully since it spins at high speed while generating its rated output of 950,000 kilowatts.



Recreation

The 5,000-acre lake developed at the Clinton station site was officially opened in 1980 and visited by 526,000 people. The Illinois Department of Conservation manages the lake, whose planned recreational facilities are illustrated on this map.

Groundbreaking
First ground was turned in October at Illinois Power Company's Wood River power station for construction of a low-Btu coal gasification project. Participating in the event were (left to right) Company Chairman and President Wendell J. Kelley, Illinois Gov. James R. Thompson and Allis-Chalmers Corporation Chairman and President David C. Scott. The State and 12 utilities are participating with Allis-Chalmers in financing the Kilngas demonstration project.

Conservation
Illinois Power has completed energy efficiency inspections at 75,500 customer homes over the last four years. The company's conservation program was a pioneer in the industry and has received national recognition.

Board of Directors

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

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

George E. Hatmaker
Corporate Director
Springfield, Illinois

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

John H. Leslie
Chairman of the Board of
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(manufacturer of steel and plastic
strapping and packaging systems)
Glenview, Illinois

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

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(manufacturer of trucks; agricultural, construction,
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(processor and marketer of food products
and other consumer goods)
St. Louis, Missouri

Richard P. Stone
Grain and Seed Farm Operator
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Executive Vice President of the Company
Decatur, Illinois

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

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

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

Officers

Wendell J. Kelley
Chairman and President

William C. Gerstner
Executive Vice
President

Charles W. Wells
Executive Vice
President

Arthur E. Gray
Vice President

James O. McHood
Vice President

Larry D. Haab
Vice President

William E. Warren
Vice President

Leonard J. Koch
Vice President

Porter J. Womeldorff
Vice President

David F. Meek
Secretary and Treasurer

John B. Burdick
Assistant Treasurer

Transfer Agent and Registrar

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

Stockholder Records and Dividend Disbursing Office

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

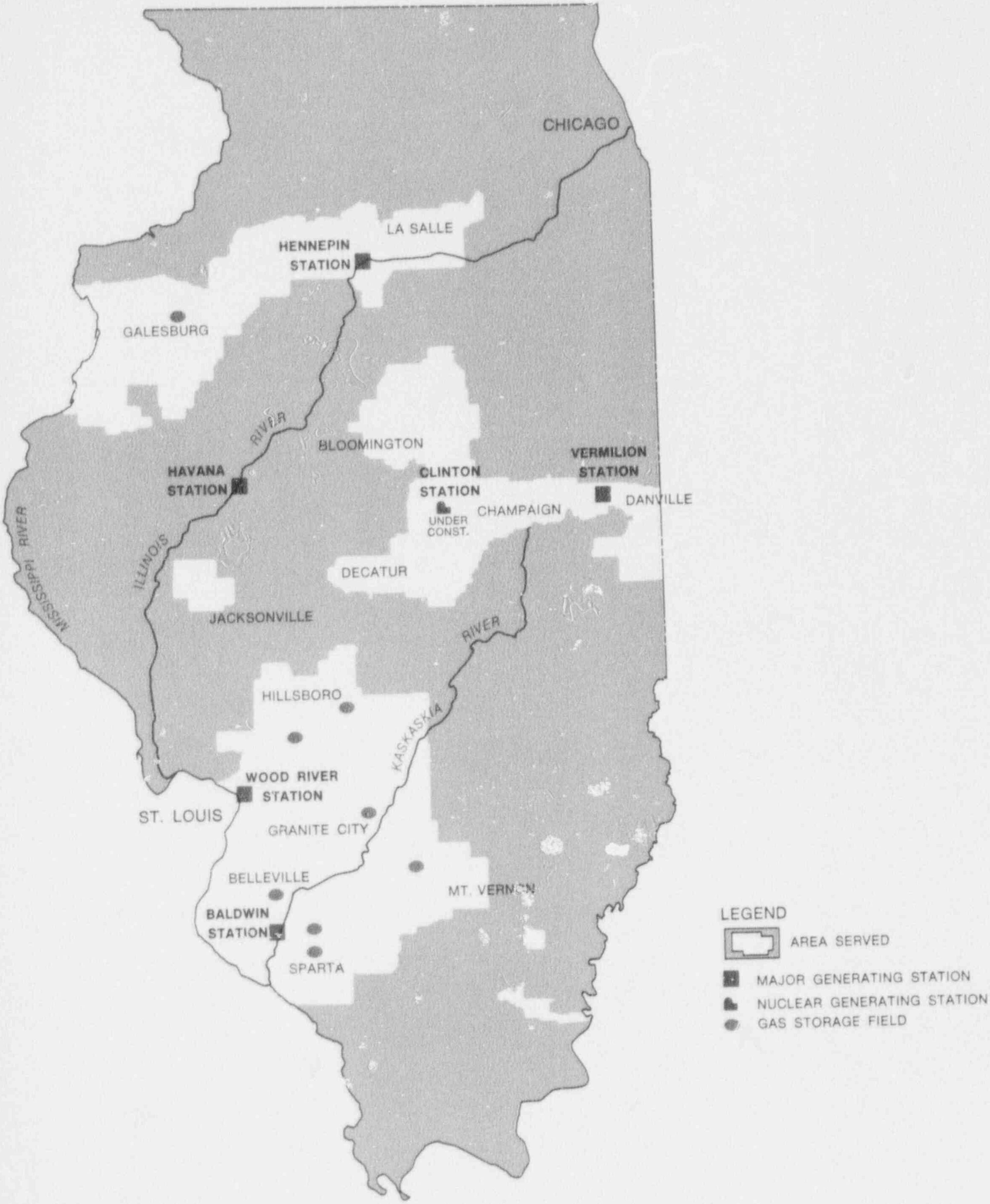
The annual stockholders' meeting will be held April 16, 1981, at the executive office of the Company at 10 A.M. Proxies for this meeting will be requested by the Board of Directors. A proxy statement will be mailed to stockholders about March 13, 1981.

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

ILLINOIS POWER COMPANY

Principal Office
Monticello, Illinois 61856

Executive Office
500 South 27th Street, Decatur, Illinois 62525
Phone (217) 424-6600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LA SALLE
HENNEPIN STATION
GALESBURG
BLOOMINGTON
HAVANA STATION
ILLINOIS RIVER
MISSISSIPPI RIVER
CLINTON STATION
UNDER CONST.
VERMILION STATION
CHAMPAIGN
DANVILLE
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JACKSONVILLE
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ELECTRICITY

ILLINOIS POWER COMPANY

NATURAL GAS