ILLINOIS POWER COMPANY 1990 ANNUAL REPORT

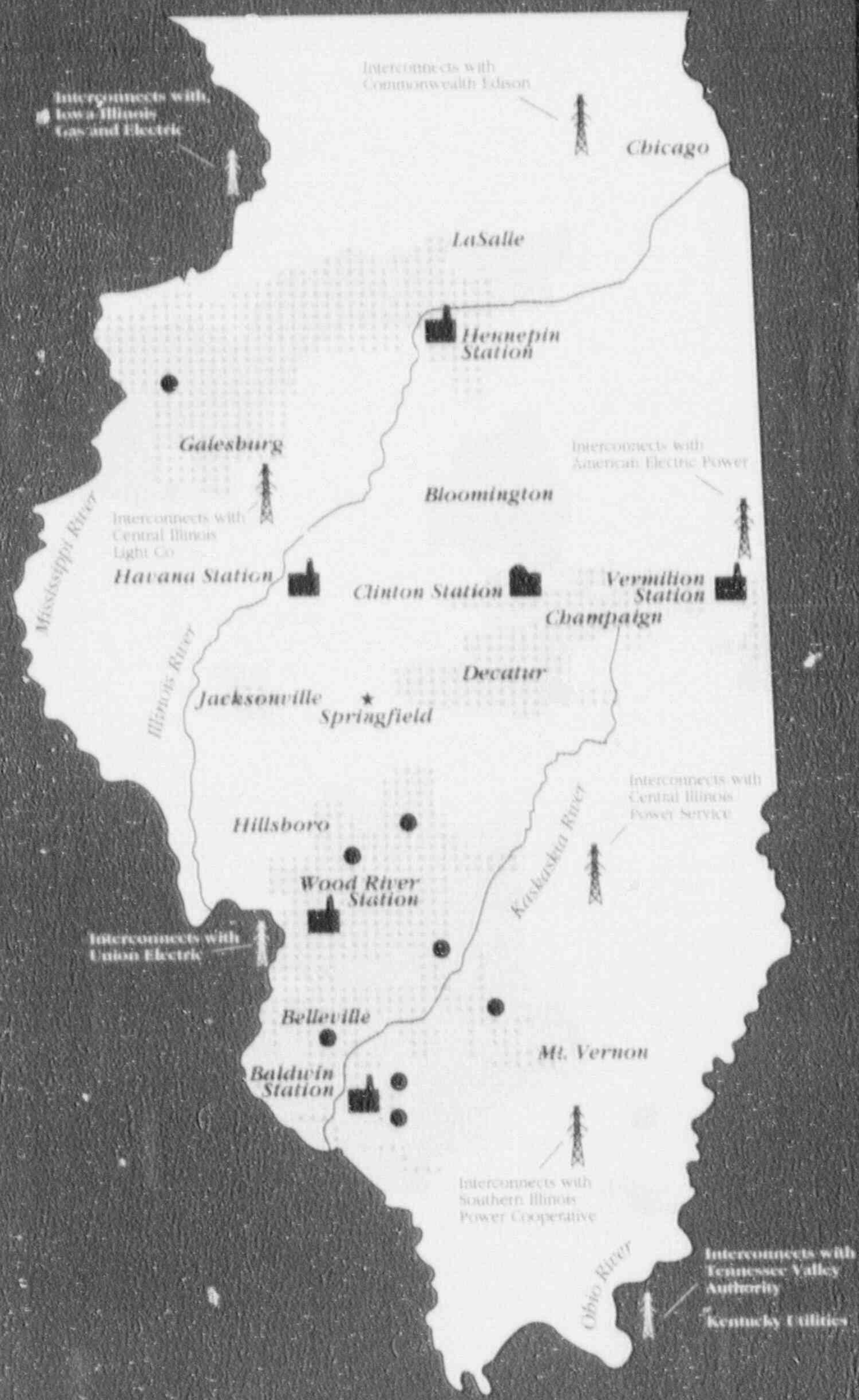
Revitalized And Building A Solid Future

ILLINOIS POWER

Illinois Power Company
1990 Annual Report

Territory and Facilities

Illinois Power Company is a public utility engaged principally in the generation, transmission, distribution, and the sale of electric energy and the distribution, transportation and sale of natural gas solely in the State of Illinois. The Company's territory is approximately 15,000 square miles, or one-quarter of the state. The Company serves approximately 560,000 customers.



Legend

- *Fossil Generating Station*
- *Nuclear Generating Station*
- *Gas Storage Field*
- *Interconnections With Other Utilities*
- *Electric Territory Served*
- *Gas Territory Served*
- *Gas & Electric Territory*

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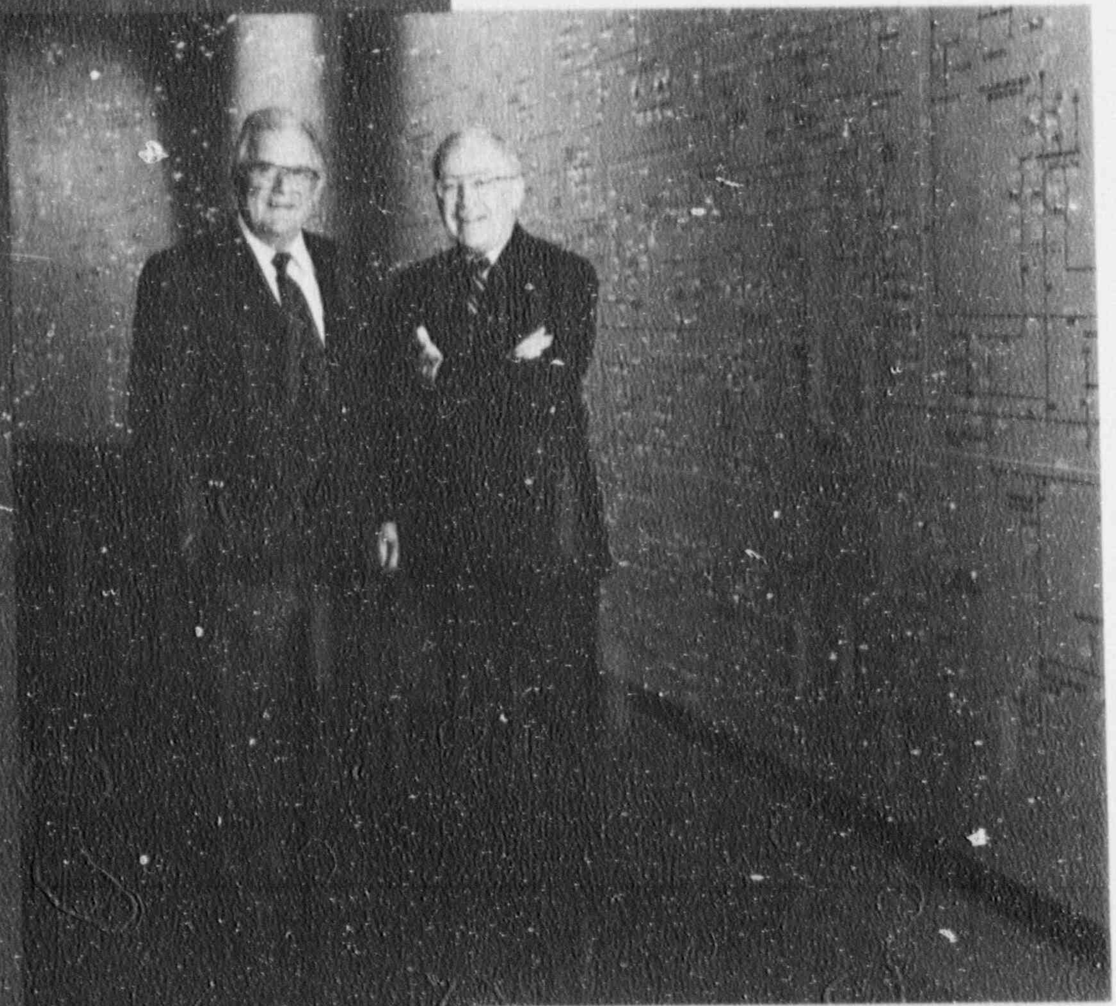
1990 Financial Highlights

	1990	1989	% Increase (Decrease)
	(Millions except per share amounts)		
Electric sales in KWH	15,941	15,841	0.6
Gas sales in therms (sold and transported)	824	907	(9.2)
Operating revenues			
Electric	$ 1,085	$ 988	9.8
Gas	$ 311	$ 325	(4.3)
Operating expenses and taxes	$ 1,141	$ 1,067	6.9
Operating income	$ 254	$ 246	3.3
Net income (loss)	$ (78)	$ (288)	72.9
Average number of common shares outstanding (thousands)	75,613	75,052	0.7
Earnings (loss) per common share	$ (1.53)	$ (4.34)	64.7
Dividends declared per common share	$ —	$ .66	—
Total assets	$ 5,345	$ 5,609	(4.7)
Capitalization			
Common stock equity	35%	35%	—
Preferred stock	11%	11%	—
Long-term debt	54%	54%	—
Total	100%	100%	



Wendell J. Kelley,
Chairman and Chief Executive Officer (left),
and Larry D. Haab, President,
in the Illinois Power Electric Dispatch Center.

Illinois Power took major strides toward financial recovery in 1990. Electric sales and revenues were up, and the Company is poised to end a trend of quarterly operating losses.

We reached an important milestone in our dividend recovery plan on February 8, 1991 when an Illinois Appellate Court reversed key portions of the Illinois Commerce Commission's (ICC) 1989 rate order. This far-reaching decision validates our belief that our prudent investment in the Clinton Power Station should be fully included in rates and further enhances our confidence that a common stock dividend will be restored in 1991. However, we must point out that an appeal of the court's decision is expected.

Financially, the Company recorded a loss of $115 million, or $1.53 per common share. A write-off of $137 million (net of income taxes) or $1.82 per common share was taken because the Appellate Court upheld the decision of the Commission relating to Clinton construction costs it considered unreasonable. By comparison, we recorded a $4.34 per common share loss in 1989, which included a $346 million (net of income taxes) Clinton write-off.

We believe the Appellate Court's decision has removed a cloud of uncertainty and advances the day when a common dividend can be paid. We cannot predict precisely when in 1991 a dividend can be restored or the initial dividend amount. However, future dividends must be supported by current earnings, sustainable without interruption and have the potential for growth.

We are continuing aggressive efforts to accelerate the Company's financial progress. In 1990, we updated our strategic plan to re-emphasize financial recovery and restoration of a common stock dividend. This plan stresses top quality service to our customers and the importance of teamwork by our employees.

The dividend recovery plan that we have discussed with you previously focuses on what the Company must do to recover full financial strength. It contains four primary objectives:

- Challenge the 1989 ICC rate order.
- Bring Clinton fully into rates.
- Control operating costs.
- Continue to emphasize our economic development activities.

In 1990, we took substantial action in each of these areas.

Recovering the Balance of Clinton's Costs

The quest to fully reflect Clinton in rates has been a long one, and we plan to file a new rate case in the first quarter of 1991 that will be essential to the Company's financial well-being. We will ask the ICC to address the Appellate Court's decision and fully incorporate the prudent costs of Clinton in rate base.

The ICC's June 1990 rate order authorized the Company to increase annual electric revenues by $75 million. Even though the order did not fully incorporate the Clinton investment, we found it to be substantially more balanced than the Commission's 1989 order.

Restoring Shareholder Value

Illinois Power has an ambitious financial goal — to restore profitability over the next five years to levels achieved in the mid-1980s. To achieve this goal, we must strictly control operating and maintenance expenses through rigorous management of our business and obtain regulatory approval to fully reflect the prudent costs of Clinton in our rates.

In 1990, we accelerated our efforts to reduce expenses by retiring high-cost debt and preferred stock. Interest expense on long-term debt was cut by $24 million. Including a February 1991 stock redemption of 600,000 shares, the Company's annual preferred stock dividend requirement has been reduced by $6.6 million since November.

Our efforts to control costs were not totally successful, and in 1990 we experienced higher than expected operating and maintenance expenditures. The higher costs were largely due to major ice and wind storms, a generator failure at our Baldwin Power Station, and more outages and maintenance expenses than expected at Clinton.

Concern about war in the Middle East sent the entire stock market into a decline in August. However, during the final months of the year IP's stock price stabilized and began to climb. The stock market reacted very favorably to the Appellate Court's decision, sending the price of our common stock up more than $1 in a single day.

Although that was a good sign, we do not believe that our stock price yet accurately reflects the Company's strength or operational performance. In our view, the depressed price reflects two facts — we are not paying a common stock dividend and our earnings continue to be constrained by a lack of full return on our investment in Clinton. These are precisely what we are working to resolve in our plans for the future.

Clinton Performance

The Clinton Power Station showed operational improvements in a number of areas. For example, the plant's 1990 equivalent availability factor of 47 percent was moderately better than the 40 percent recorded in 1989. We expect significant improvement in 1991.

Clinton's second refueling outage was completed in the first quarter of 1991, and the plant's next refueling is planned for the spring of 1992. Clinton now enters a period when it will move toward an 18-month refueling schedule. This will improve the plant's potential equivalent availability. Because peak electric demand and customer use appear to be growing faster than previously anticipated, the plant is pivotal to our future profitability, and we are confident that Clinton will be a strong performer.

Economic Development

Future earnings growth is closely tied to economic development. And in 1990, our economic development efforts helped produce an increase in kilowatt-hour sales to commercial and industrial customers.

We have seen significant growth in agriculture-based businesses in our area, particularly among major grain processors, and we expect substantial increases in electric demand from these customers.

Although the national economy has declined, the economy in our service territory continues to do relatively well. We believe the business climate in our territory will perform better than the national economy as a whole during 1991.

We also intend to capitalize on new opportunities for natural gas sales in the 1990s, as oil becomes more costly and the public seeks cleaner fuels. We have developed a gas revitalization program and created a Natural Gas Division designed to strengthen our gas operations and allow us to take advantage of market opportunities.

Complying With the Clean Air Act

The Clean Air Act passed by Congress and signed by the President in 1990 has major financial implications for Illinois Power and many other utilities that rely on fossil fuels to generate electricity. We now estimate the capital cost of compliance to be between $250 million and $450 million over the next 10 years. But we are aggressively pursuing ways to reduce that cost.

We would prefer to continue using high-sulfur Illinois coal as our primary fuel source. In pursuit of this, we will seek to be the host for a U.S. Department of Energy (DOE) Clean Coal Technology project at our Baldwin Power Station. The DOE funding would pay for up to half of the cost of constructing a high-technology clean air system at one Baldwin unit. The Company is also considering construction of a scrubber for a second Baldwin unit. Scrubber systems are designed to reduce the sulfur dioxide emissions produced when coal is burned.

In addition to DOE funding, we need favorable federal tax treatment and state financial assistance to reduce the cost of building scrubbers. It is also essential that the Company secure favorable contracts for the continued purchase of high-sulfur Illinois coal.

Although the installation of scrubbers is our preferred compliance strategy, we are also examining other options, including switching to low-sulfur Western coal. This year, we will test-burn Western coal at our Hennepin and Baldwin plants to determine if this is an effective way to reduce emissions and comply with the new federal regulations. A decision on the most viable compliance strategy will be made later in 1991.

Changing Our Corporate Culture

In 1990, we developed an Employee Incentive Compensation Plan which offers financial rewards to all employees for meeting annual performance goals set for the Company. These incentive rewards will be paid only after a common stock dividend is restored.

From a financial standpoint, the program is attractive because it increases employee stock ownership in the Company without issuing new shares of common stock. From a human standpoint, the benefits are far-reaching. The program encourages employees to provide quality customer service, help meet financial performance goals and improve operating efficiency — the fundamentals of good business.

While many utilities have such programs for corporate officers and senior management personnel, Illinois Power will be one of only a handful of utilities that offer incentive compensation to all employees.

This incentive stock ownership plan is one element of the changing corporate culture at Illinois Power. We are continuing to emphasize the importance of quality service to our customers. Recognizing that this can only be accomplished through complete employee involvement, we are committing resources to provide our employees with the tools they need for their jobs. This is important because as we move into a decade of new opportunities, competition and change, success will come from the commitment of our people.

With that in mind, we would like to share with you some of the major activities we have undertaken in the past year. And as you read this report, we believe you will feel the new vitality at Illinois Power.

Very truly yours,

Wendell J. Kelley

Wendell J. Kelley
Chairman and Chief Executive Officer

Larry D. Haab

Larry D. Haab
President

February 28, 1991

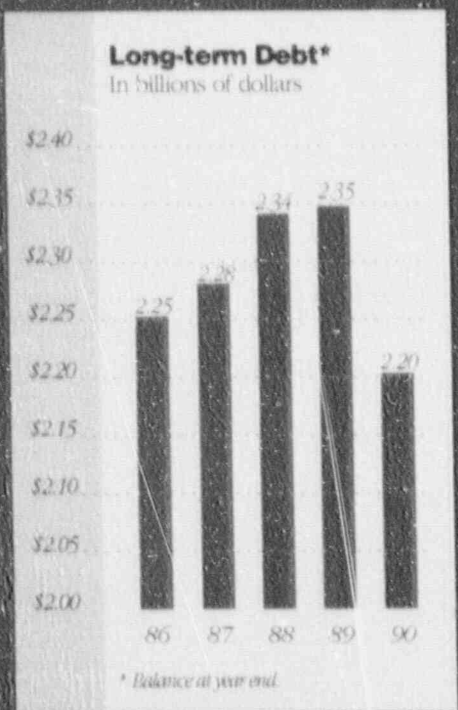
An Aggressive Approach to Improving the Bottom Line

Illinois Power is committed to increasing the value of our shareholders' investment through dividend income and stock price appreciation.

Our financial objectives are to achieve within five years the level of earnings seen in the mid-1980s and a common stock dividend level that is competitive with others in the utility industry.

This may seem ambitious, considering the difficult times we have gone through. But, with a stable operational base, an expanding market and ongoing cost-control measures, we are poised to achieve the essential elements of our dividend recovery plan.

The Company is not now paying a common stock dividend, but we anticipate restoring a dividend at some level in 1991. This belief was bolstered by the February 8 ruling by an Illinois Appellate Court that reversed key portions of the Illinois Commerce Commission's (ICC) 1989 rate order.



Appellate Court Decision Reduces Uncertainty

Although the Appellate Court affirmed the ICC's determination that a portion of the cost of Clinton was unreasonable and should not be included in rate base, the court ruling has two positive elements.

- First, the court ruled that the test used by the ICC in 1989 to determine whether Clinton was "used and useful" in serving customers was inappropriate. This validates our belief that Clinton has been 100 percent used and useful since it went into operation in early 1987.
- Second, the court reversed the Commission's decision to prohibit Illinois Power from the recovery of, and earning a return on, nearly $102 million in deferred Clinton post-construction costs.

As a result of the court's decision, Illinois Power took a write-off of $137 million (net of income taxes) or $1.82 per common share in the fourth quarter of 1990. This reflects the additional Clinton prudence write-off, reduced by the deferred costs. An appeal of the court's decision is expected.

Earnings

The write-off resulted in the Company recording a loss of $1.53 per common share for 1990, compared to a loss of $4.34 per common share in 1989. Earnings in 1989 reflect an initial after-tax write-off of $346 million, or $4.61 per share of common stock. Without the effect of these write-offs, Illinois Power earned 29 cents per common share in 1990, compared to 27 cents per common share in 1989. Electric revenues rose from $988 million in 1989 to about $1.1 billion in 1990. This increase reflects a portion of a $75 million annual increase in revenues, granted in a June 1990 rate order from the Illinois Commerce Commission and a full year of higher rates from the ICC's March 1989 order.

Comparatively mild winter weather in both the early and late portions of the year caused natural gas sales to fall. Revenues from gas operations were $311 million, a 4.3 percent decline from 1989. Gas revenues include a one-time credit of approximately $13 million allowed by the ICC for natural gas revenues collected, but not reported as income, since 1987.

The Company's financial condition was negatively affected by higher than expected operating and maintenance expenses and a drop in interchange sales.

Operating and maintenance costs were $366 million in 1990, compared to $323 million in 1989. Interchange sales dropped by $9 million from the year before, primarily because Baldwin Unit 3, a coal-fired unit, was out of service for five months following a generator failure.

Sales

Although the weather during the summer of 1990 was milder than normal, electric sales increased from 15.8 billion kilowatt-hours in 1989 to 15.9 billion kilowatt-hours in 1990. The increase came primarily from industrial customers.

The total volume of gas sold and transported was 824 million therms in 1990, a 9.2 percent decline from the year before. This was due primarily to a relatively mild fall and winter and an increase in the number of major customers that now buy gas directly from pipeline companies.

Stock Price

The lack of full recovery of Clinton costs in rates and the fact that the Company is not paying a common dividend depressed IP's stock price in 1990. Our stock price will likely remain relatively low until these issues are resolved.

Instability in the Middle East and concern about a national economic downturn kept the entire stock market in turmoil during the last two quarters of the year, causing many stocks to decline.

Illinois Power's stock price followed the downward trend, and the stock was considered speculative by financial analysts because of uncertainties facing the Company. However, the Appellate Court's decision erases some of that uncertainty and when rate issues are resolved and a common stock dividend is restored, we expect the Company's stock to attract investors who recognize that the stock is undervalued and has growth potential.

Retained Earnings

The Company's retained earnings are $1.2 million after the most recent write-off. From this base, we expect retained earnings to grow steadily during 1991 and beyond.

The Company took steps to ensure the preferred dividend will be paid throughout 1991 — regardless of how the court ruled on our appeal. Last December, the Board of Directors declared $35.1 million in preferred dividends to be paid in 1991 if the Company's financial condition satisfies requirements established by the ICC. The declaration of these dividends was another major reason for the decline in 1990 retained earnings.

The Board's action had an immediate positive result. Standard & Poor's removed the Company's preferred stock rating from "CreditWatch." The rating agency also noted the Company's financial condition is improving, and that our total common equity base is "solid" at $1.[illegible] billion at year end. Duff and Phelps, another major securities rating agency, upgraded our preferred stock rating, as did Moody's Investors Service, which changed it from "possible downgrade" to "possible upgrade."

Cost Control

In an ongoing effort to reduce expenses, the Board of Directors in 1990 authorized retiring relatively high-cost debt and redeeming shares of preferred stock. Refinancing and retiring debt in late 1989 and 1990 lowered interest expense on long-term debt by $24 million. Since November, the redemption of preferred stock has reduced the Company's preferred dividend requirement by a total of $6.6 million annually. This includes the redemption of 600,000 shares of preferred stock in February 1991.

In another positive move, IP's Shareholder Services assumed responsibility for administering the automatic dividend reinvestment and stock purchase plan available to stockholders. The change was made to provide better service to shareholders at a lower cost.

The Company's financial position was also helped by moderate capital spending in 1990. In fact, with the exception of meeting requirements of the new Clean Air Act, the Company is facing few major new financial obligations over the next five years.

. . . with a stable operational base, an expanding market and ongoing cost-control measures, we are poised to achieve the essential elements of our dividend recovery plan.

Legal and Regulatory Issues

Two lawsuits were favorably resolved in 1990, reducing some of the financial uncertainty facing the Company.

A U.S. District Court judge ruled in favor of current and former members of the Board of Directors in a case brought by a stockholder who claimed that certain IP directors acted in bad faith and breached their fiduciary duties in connection with the building and licensing of the Clinton plant.

In another case, Illinois Power and the Soyland Power Cooperative — which owns 13.2 percent of Clinton — reached a settlement involving a 1988 lawsuit. The suit was initiated by Soyland over Clinton's construction and included the Company's counter-claim against Soyland. The terms of the settlement benefit both utilities.

A case that is still pending is the Hauman suit. This 1989 class action lawsuit was brought by two stockholders who claim that the Company, its independent accountants, and two present and two former officers made misleading and untrue statements in IP's financial statements, reports or news releases. The Company is aggressively challenging these allegations. The discovery phase of the lawsuit is currently underway.

In a regulatory matter, the Company will contest, in court if necessary, a recommendation from the ICC staff that IP should not be allowed to recover 21 months of carrying charges on nuclear fuel stored during the construction of Clinton. The ICC is not bound by the staff recommendation. However, if it were adopted by the Commission and upheld in court, the recommendation could result in a write-off of up to $27 million, after taxes.

Views That Count

In business, perceptions have a way of becoming reality. A management team may look at financial data and feel optimistic, but it is the views of regulators, shareholders and the financial community that can have a profound effect on a company's economic stability.

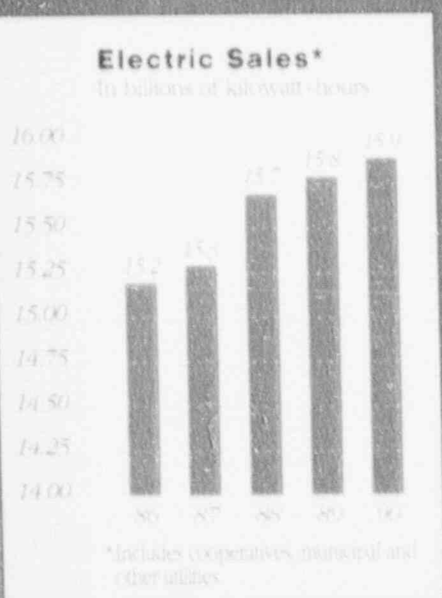
Illinois Power is committed to maintaining close contact with these groups during this period of financial recovery.

That's why in 1990 Company officers met with shareholders in six cities — Boston, Philadelphia, Baltimore, San Francisco, Denver and Hartford.

Illinois Power executives meet regularly with leaders in the financial community, and the Company is continually working to build a relationship of trust and credibility with regulators. Officers also visited major commercial and industrial customers to better understand their businesses and energy needs.

The purpose of all these efforts is to share current financial information and create a better understanding of where the Company stands and where it is going.

Electric sales to the Archer Daniels Midland Co. in Decatur will grow rapidly as a result of a contract signed in 1990. ADM, a major food company and grain processor, expects its energy needs to grow as it increases production. These additional electric sales will make ADM our largest customer. Here, an ADM employee performs a quality assurance check in one of the firm's Decatur labs.



*Includes cooperatives, municipal and other utilities.

Quality Customer Service: IP's Number One Priority

Illinois Power embraces a very basic idea — provide customers with excellent service and success will follow. That is reflected in our customer service philosophy: *The customer must be first. We are committed to providing reliable, 24-hour, personalized service with caring employees dedicated to meeting or exceeding our customers' expectations.*

Although we already had a number of effective customer service programs in place, in 1990 steps were taken to become even more responsive to customer needs.

In addition to serving our existing customers well, the Company is working to expand our customer base through marketing and economic development activities within the service territory, across the country and internationally.

These efforts are part of the combined goal of building and serving the market.

Marketing Targets Major Customers

Illinois Power continued its aggressive marketing efforts in 1990, and set a course for the future by implementing a five-year marketing plan.

The Company's marketing program targets major commercial and industrial customers, the group that can have the greatest impact on sales. These efforts paid off when Archer Daniels Midland Co. (ADM), a major grain processor, committed to increase its load by 100 megawatts by 1992. ADM could have chosen to expand its own co-generation facilities, but instead, selected IP.

Although electric sales to industrial customers increased only slightly — from 7.7 billion kilowatt-hours in 1989 to 7.8 billion kilowatt-hours in 1990 — this was accomplished during a time when much of the country was experiencing an economic downturn. In the years ahead, the Company expects further growth from major customers in our service territory.

The Foreign Connection

Illinois Power has become a company with interests spanning from Europe to the Pacific Rim, and we have created a foreign economic development program with two important goals:

- Encouraging foreign companies to locate facilities in our service territory, or enter into joint ventures with area companies.
- Helping local industries export goods to foreign markets, which could result in expansion of their existing facilities.

Achieving these goals will directly increase electric and natural gas sales and allow the Company to benefit from the expanding global economy.

Center for Site Selection Has Successful First Year

In its first full year of operation, IP's Center for Site Selection helped a major corporation locate a facility in the Company's service territory.

Wittek Manufacturing Co., one of the world's leading producers of hose clamps, used the Center for Site Selection to find a suitable business location in Galesburg. The Chicago-based company will create approximately 700 new jobs for the area within three years, and is expected to provide spin-off employment for at least 2,000 people in the retail and service sectors.

The Center for Site Selection offers potential commercial and industrial customers information on hundreds of available business locations in our service territory. The center's computerized information system, which includes videotaped tours of the sites, allows clients to evaluate more locations in a few hours than could otherwise be visited in days or weeks.

The facility is the only one of its kind in the Midwest, and it is an important tool for attracting major customers to the areas Illinois Power serves.

For the Company, that translates into higher sales and increased earnings. For the communities in our service territory, drawing new business to the area means more jobs and a stronger economy.

24-Hour Customer Center Opens

In an effort to serve customers better, a new 24-Hour Customer Center was created in Decatur. This telephone answering center began operation in January 1991, and it allows the Company to handle customer calls around-the-clock, seven days a week.

Centralizing this operation at one location should save the Company more than $1 million a year. Communications equipment that will soon be installed at the Customer Center should also improve the Company's performance in the event of an emergency or a widespread service outage.

IP People: The Key To Quality Service

When we talk about Illinois Power, we are really talking about a collection of people — all with different talents and abilities — who are working together to achieve common goals.

Because employee performance plays such a vital role in accomplishing our corporate mission of providing quality energy services to customers, in 1990 we developed a new Employee Incentive Compensation Plan to reward workers when annual Company goals are achieved.

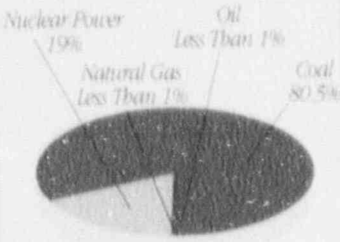
The goals are directly related to employee performance and are intended to improve customer service, operating efficiency and financial return. When the goals are met, employees will receive incentive compensation, consisting of cash and Company stock.

The program will not be implemented until a common stock dividend is restored. But when it is, no new shares of stock will be required because the shares are bought on the open market.

The new incentive plan complements our successful Quality and [illegible]ductivity program. "QP" puts into [illegible]e constructive ideas from employee[illegible] as on improving customer service, cost control and operating efficiency.

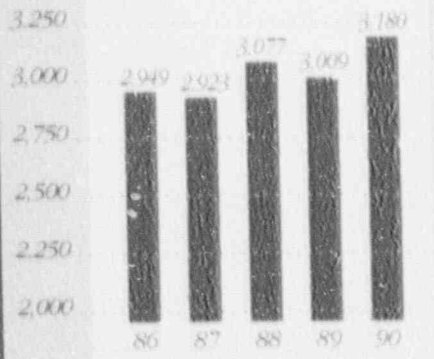
To better serve customers while lowering costs, the 24-Hour Customer Center began operations in January 1991. Barbara Beck, director of the center, talks with Customer Service Representative Kevin Miller about the improved communications system.

1990 Fuel Sources



Firm Peak Demand*

In thousands of kilowatts



*Does not include contract sales to electric cooperatives.

Rising Electric Demand Presents an Opportunity and a Challenge

One of the key elements of Illinois Power's dividend recovery plan is to sell more energy. In 1990, the firm peak electric demand of nearly 3.2 million kilowatts set an all-time record, and customer use is growing faster than previously anticipated.

To meet our customers' energy needs, the Company's six power stations generated a net total of 16.4 billion kilowatt-hours of electricity in 1990. The Clinton Power Station produced 3.1 billion kilowatt-hours for Illinois Power customers, an improvement over the 2.5 billion kilowatt-hours generated in 1989. The fossil-fueled plants provided 13.3 billion kilowatt-hours, down from 14.1 billion the year before.

A growing electric demand presents the Company with an opportunity and a challenge. It gives us the opportunity to build a solid financial future. But to accomplish that, we must meet the challenge of operating excellence. Since power generation accounts for the largest cost of providing electricity to customers, the operating performance of IP's power plants is a critical component of financial recovery.

Measuring Success

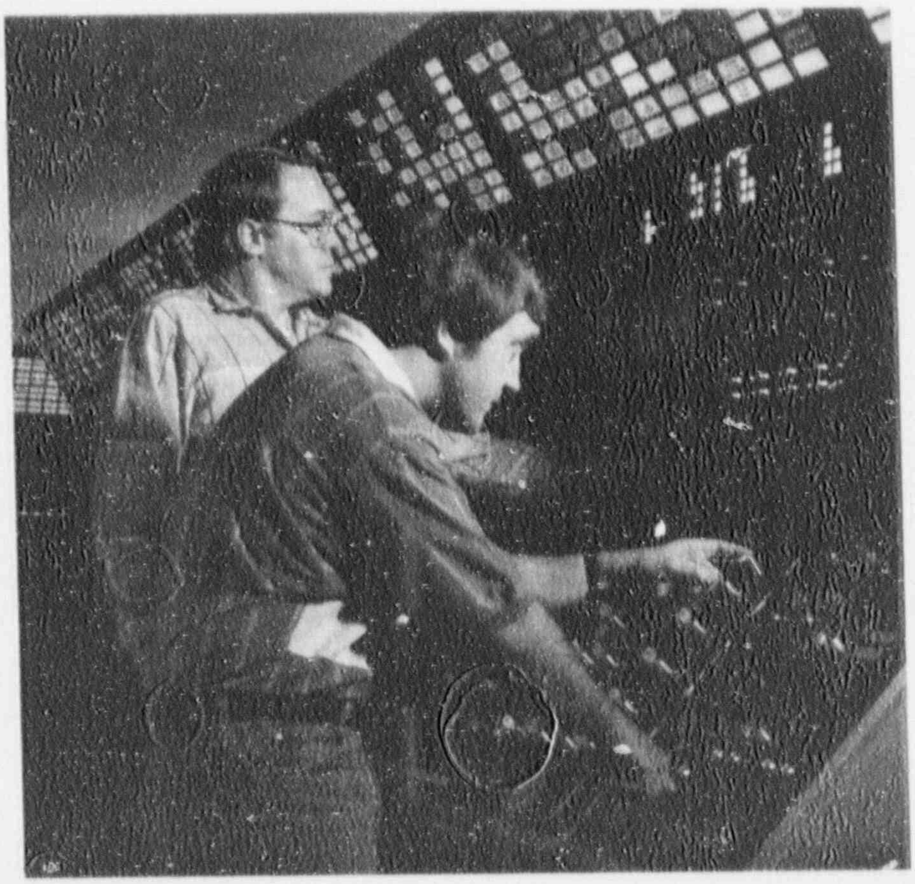
Equivalent availability is one measure of how well power plants are operated and maintained. In 1990, the majority of our fossil plants turned in outstanding performances, and the Clinton nuclear plant's equivalent availability increased.

With the exception of the Baldwin Power Station, the equivalent availability of the Company's coal-fired units ranged from 88.8 percent to 81.7 percent. Baldwin's equivalent availability of 64.7 percent was lower than expected, due to one of its large generating units being out of service for five months because of a generator failure.

For our major coal-fired units, equivalent availability was reduced due to the Baldwin outage, averaging 75.6 percent for the year, compared to 79.9 percent in 1989.

Baldwin returned to full service in November, which helped offset the decline in power generation capacity resulting from Clinton's second refueling outage. The refueling and maintenance outage began in October and is sched-

Regular training is a key to safe nuclear operations. Control room operators spend a week training on a simulator every six weeks. George Snyder (left) maintains the simulator and helps operators such as Charles Matthews enhance their skills by responding to a variety of operational scenarios.



uled to be completed in the first quarter of 1991.

Although the refueling kept Clinton out of service for most of the fourth quarter, the plant's equivalent availability reached 47 percent in 1990 — an improvement over the 40 percent in 1989.

During Clinton's refueling outage, one-third of the fuel bundles in the reactor core were replaced. Corrective and preventive maintenance was also performed, and modifications were made to enhance the plant's performance.

The plant's second refueling was completed in the first quarter of 1991 and is scheduled to be refueled again in the spring of 1992. The plant is moving toward an 18-month refueling cycle — the norm for mature nuclear plants. This should increase Clinton's equivalent availability and keep the plant available during the summer months, when electric demand from customers is highest.

Coal-fired power stations provide about 80 percent of the electricity generated by Illinois Power. Richard Hamilton, a heavy equipment operator at the Havana Power Station, monitors a conveyor to ensure a steady supply of coal to the station's boiler.

Plant Operations

The nuclear industry regularly measures a number of factors that indicate whether plants are being operated safely and efficiently. And for fossil plants, striking a balance between operational performance and environmental responsibility is a sign of success.

Clinton Power Station

During 1990 Clinton continued to exceed industry performance in several key areas. For nuclear facilities, a low number of unplanned automatic reactor shutdowns — or "scrams" — indicates the plant is being operated safely and efficiently. In 1990, Clinton experienced one unplanned automatic reactor shutdown, which is better than the recent industry average for boiling water reactors of 2.1 scrams.

A low gross heat rate is another performance indicator. It reflects emphasis on thermal efficiency and attention to detail in maintaining plant systems. Clinton's gross heat rate for the year was better than the recent industry average for boiling water reactors.

Clinton has clearly set a course for improvement. The Company will continue efforts to meet and exceed industry averages for all nuclear performance indicators, while remaining conservative in decisions affecting plant safety.

The Fossil Plants

Limiting fossil plant "emission excursions" — the short periods during testing or start-up when visible emissions are more than clean air standards allow — is a measure of the Company's environmental commitment. In 1990, emission excursions fell well below the target set in the strategic plan.

At the Havana Power Station, the plant's staff determined that by staggering the start-up of fans on a coal-fired cycling boiler, emissions could be reduced. This innovative idea resulted in a 50 percent reduction in emission excursions.

The Company is also working very hard to reduce overall plant emissions. The Hennepin Power Station began burning a blend of low-sulfur coal and Illinois coal in a pilot program to determine if this is an efficient way to reduce sulfur dioxide emissions. In 1991, additional test burns will be conducted at the Hennepin and Baldwin plants.

One of the Company's environmental goals is to find safe and useful ways to dispose of our byproducts, and the Havana plant contributed to that effort. The plant began burning oil collected from Company garages, gas storage fields and Clinton as a part of its fuel mix.

Illinois Power also continued preventive maintenance programs at its five fossil plants designed to limit outages and reduce operating and maintenance expenses.

One successful example is the tube leak program. Since it began in 1989, the Company's loss of equivalent availability due to tube leaks dropped from about 4.5 percent in the mid-1980s to about 3 percent today. That translates into a savings of approximately $1.5 million a year.

Balancing

During 1990, Illinois Power test burned shredded tires mixed with coal at its Baldwin Power Station. Burning the one-inch pieces of tire, held here by Charles A. Giancola, Baldwin plant manager, could help solve a major environmental problem caused by discarded tires.

Congress Passes Clean Air Act

In 1990, Congress passed a new clean air law. The measure calls for further reductions in sulfur dioxide and nitrogen oxide emissions from coal-fired power plants.

These gases are suspected of causing acid rain, and the clean air law requires that by 1995 Illinois Power cut annual sulfur dioxide emissions by half. By 2001, emissions will have been cut by a total of 65 percent.

Because about three-fourths of the electricity Illinois Power produces is generated by burning high-sulfur Illinois coal, complying with these new requirements can have major financial implications for the Company and other coal-burning utilities across the nation.

The estimated capital cost of compliance will be between \$250 million and \$450 million by the end of this decade. However, we are examining ways to reduce that cost, including possible participation in a U.S. Department of Energy (DOE) clean-coal project.

Doing business without bruising the environment. It's a delicate balancing act, but at Illinois Power we believe economic success and environmental leadership are compatible goals.

This commitment goes beyond merely complying with clean air requirements. It demands that we limit the environmental impact of our actions by reducing fossil plant emissions, developing clean-coal technologies, recycling, and finding innovative uses for our byproducts. It means being part of the environmental solution.

Our Compliance Strategy

Recognizing that Congress was prepared to pass clean air legislation in 1990, the Company began studying possible compliance options more than a year before the law was enacted.

Illinois Power will remain flexible on how to comply with the clean air law. One option is to build scrubbers at Baldwin, our largest coal-fired power station and, therefore, IP's biggest emitter. Scrubbers work like chemical plants, removing the sulfur dioxide produced when high-sulfur coal is burned.

a Competitive Edge and a Corporate Conscience

If DOE funding is made available for this project, the Company would contract with Babcock & Wilcox, an engineering and construction firm, to develop and test a unique clean air system at one Baldwin unit that could eliminate nearly all sulfur dioxide emissions from that unit.

The capital cost of the project is about $200 million, and Babcock & Wilcox will apply for DOE clean coal funds to pay for up to one-half. We must also secure competitive pricing for high-sulfur coal, changes in federal tax laws to reduce the cost of compliance, and favorable state legislation that will allow the Company to include in rates the cost of building the scrubbers.

We are working to achieve these requirements because scrubbers offer several advantages. This equipment would allow the Company to continue using high-sulfur Illinois coal — a major component of the state's economy. Financially, this is important because power generation with locally mined coal costs less than other fuel options. Illinois' vast coal deposits help reduce the cost of transporting coal to our power plants and provide the Company with a reliable and abundant fuel source. And, these mines are among the Company's largest customers.

Although scrubbers offer certain benefits, we are also considering other compliance options. These include the combined use of scrubbers and low-sulfur Western coal, or switching to low-sulfur coal as a primary fuel at several fossil plants. Switching to low-sulfur coal could reduce or eliminate the significant capital cost of building scrubbers. A final decision on the best option is expected to be made in 1991.

The Hennepin Project

The Company is spearheading the development of clean-coal technology with a project at the Hennepin Power Station.

This $17 million project — funded entirely by federal, state and industry sources — began testing a process last December that removes nitrogen oxide and sulfur dioxide from emissions without the use of scrubbers.

This state-of-the-art process is designed to decrease nitrogen oxide emissions by 60 percent and sulfur dioxide emissions by 50 percent.

Environmental Leadership

Although clean air legislation dominated the headlines in 1990, it was not the Company's only environmental concern. Illinois Power began several new programs and pursued a variety of established projects that will further our environmental goals.

Tire Burning: The Company received a grant from the state of Illinois to test burn a blend of shredded tires and coal in two Baldwin units. If the project is successful and discarded tires become a regular part of the fuel mix at Baldwin, millions of scrap tires could be eliminated each year. This would help solve a major solid waste disposal problem.

Recycling: Illinois Power has embarked on an aggressive company-wide recycling effort. In 1990, IP recycled more than 6 million pounds of scrap metal, such as copper wire and old iron pipes, in addition to recycling paper and metals, such as aluminum. The Company is also eliminating the use of most chlorofluorocarbons, which are suspected of damaging the earth's ozone layer.

In recognition of our extensive recycling efforts, the Company was honored with an award from the Illinois Recycling Association. The association noted the Company's innovative recycling activities, such as donating used wood poles to the Illinois Department of Conservation to make gates and fences; recycling concrete and asphalt, which is crushed and mixed with new material for road construction; and collecting used motor oil and using it as a fuel source to generate electricity.

Research and Advocacy: Illinois Power is continuing to provide information about clean air to members of Congress and regulators through the Coalition for Acid Rain Equity, a 36-member organization the Company helped create. During the 102nd session of Congress, the Company will work for changes to the federal tax laws that will help lower the cost of complying with the Clean Air Act.

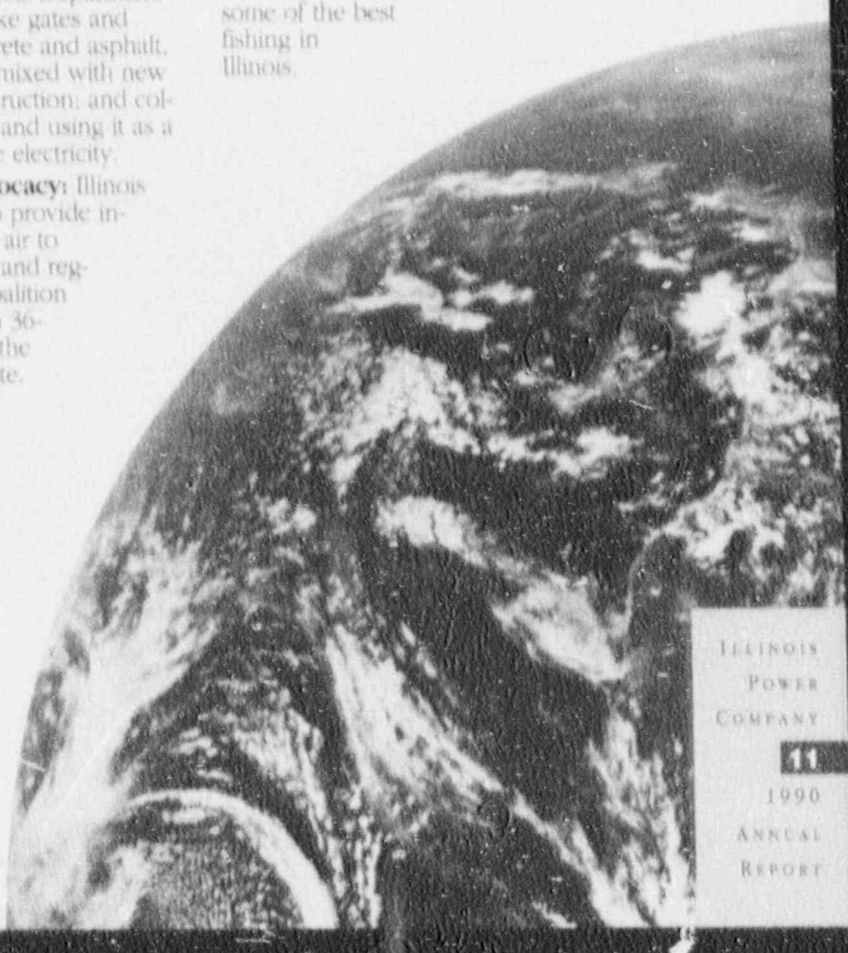
We will also continue our activities with the Coalition on Global Warming, a business organization that sponsors research and public education. The ultimate goal of this group is to find long-term ways to deal with climatic change.

Environmental Responsibility

There is a certain synergy in protecting natural resources, while at the same time developing areas for the public to enjoy. And there is no better example of this than the "Orchid Hill" project at the Vermilion Power Station.

For decades, the Company has carefully preserved a unique habitat for six varieties of native orchids on the banks of the Vermilion River. In 1990, Illinois Power dedicated the Orchid Hill site to the state of Illinois as a Natural Heritage Landmark.

Sharing our facilities with the public is nothing new. The lakes the Company built at the Clinton and Baldwin power plants are used as cooling systems. But rather than using the water solely for this purpose, IP leased the two lakes, totalling 7,000 acres, and the surrounding land to the state Department of Conservation for development as recreation areas. Hundreds of thousands of people visit these areas each year, and both the Clinton and Baldwin lakes are considered to offer some of the best fishing in Illinois.



Reaching Out to the Communities We Serve

Fourth-graders at Aledo Elementary School in Northern Illinois collected money for the new Warm Neighbors Fund instead of buying holiday gifts for classmates. Michael Wells and Kristy Vance, the children of IP employees, were among the 200 students who donated to the fund.

Corporate citizenship. For Illinois Power that means giving something back to the communities in which we do business.

One reason the Company is committed to community involvement is because IP and its employees are an integral part of the areas we serve. We share common goals, challenges and concerns for improving the quality of life.

Employees not only live and raise families in our service territory, they also donate their time, talents and energy to diverse community programs, causes and organizations.

Reaching out to communities meant something new in 1990. We surveyed our customers to determine ways IP could respond to their needs and those of the community. The responses strengthened our commitment to community involvement and the premise that the Company's financial success is tied to the strength and vitality of its service area. Improving our communities also improves the economic health of our service area and our Company.

In 1990, the Company's corporate citizenship focused on four broad areas — customer assistance, service to the community, education and environmental responsibility.

Customer Assistance

When winter comes to Illinois, staying warm becomes a matter of survival for some people. As a utility that is conscious of social problems, the Company believes it has a responsibility to help those in need, and that's why the new Warm Neighbors Fund was created as a program of the Energy Assistance Foundation.

Warm Neighbors works through local organizations to offer people with financial problems short-term help by paying winter heating bills, up to $300. The fund is supported by donations from Illinois Power customers and a $100,000 matching contribution from the Company.

In the first fund-raising campaign, more than 10,000 customers contributed and pledged $241,000 to the Warm Neighbors Fund — making it one of the most successful heating assistance programs in the country.

The Energy Assistance Foundation was created by IP in 1982 with a $250,000 grant. While Warm Neighbors addresses a short-term problem, the foundation also provides a long-term approach to lowering energy costs.

The foundation offers a home weatherization program to handicapped individuals and senior citizens on a fixed or low income. Community volunteers provide the labor, and the foundation pays for the materials. Through this outreach, more than 1,000 homes have been weatherized.

Since more than a quarter of the population in Illinois Power's service territory is over the age of 55, the Company offers a variety of programs and services for older adults. One of the most successful is the Gatekeeper program.

Through Gatekeeper, employees who are in contact with the public are encouraged to pay special attention to older adults who might need assistance. Since the program began in 1987, IP employees have referred nearly 500 older customers to area service agencies. The Illinois Department on Aging presented the Company with the first Gatekeeper Program Award in 1990 in recognition of IP's service to the community.

Service to the Community

Because Illinois Power's service territory spans a quarter of the state, many customers' perceptions of the Company are based on contact with employees in their area.

That's one reason IP encourages employees to become community volunteers. In 1990, the Company developed a program to recognize the contributions of IP volunteers and to help employees connect with organizations that need their skills.

Illinois Power has ongoing Consumer Advisory Councils in Champaign-Urbana and Belleville. These councils are comprised of customers who meet regularly to discuss consumer and Company issues and suggest ways the Company might address specific customer needs.

"Crime Stoppers" is a community service offered throughout our service area that asks the public to provide police with information to help solve crimes. The Company supports this program by including Crime Stopper notices in our bill inserts and producing videos to be used as public service announcements on cable television.

Educational Programs

As America competes in the global economy, nothing is more important to our nation's future than the education of our children.

We believe business has a role to play in improving education, and the Company supports a number of educational programs. Many focus on energy issues, but some address social concerns — such as literacy, the drug problem and students dropping out of school.

A new pilot program brings together IP managers and a Teacher Advisory Council, made up of teachers and administrators from the Decatur School District. The council recommends programs the Company could develop to assist in meeting the educational needs in the community.

One of the programs, which will be implemented on a pilot basis in 1991, sends IP volunteers into Decatur's ninth grade classrooms to encourage these students to stay in school. This program uses real-life examples to show students what they can expect if they drop out of school.

The ability of local education systems to meet changing human resource needs can directly affect Illinois Power. Therefore, when we contribute to the educational community, we are truly investing in the Company's future.

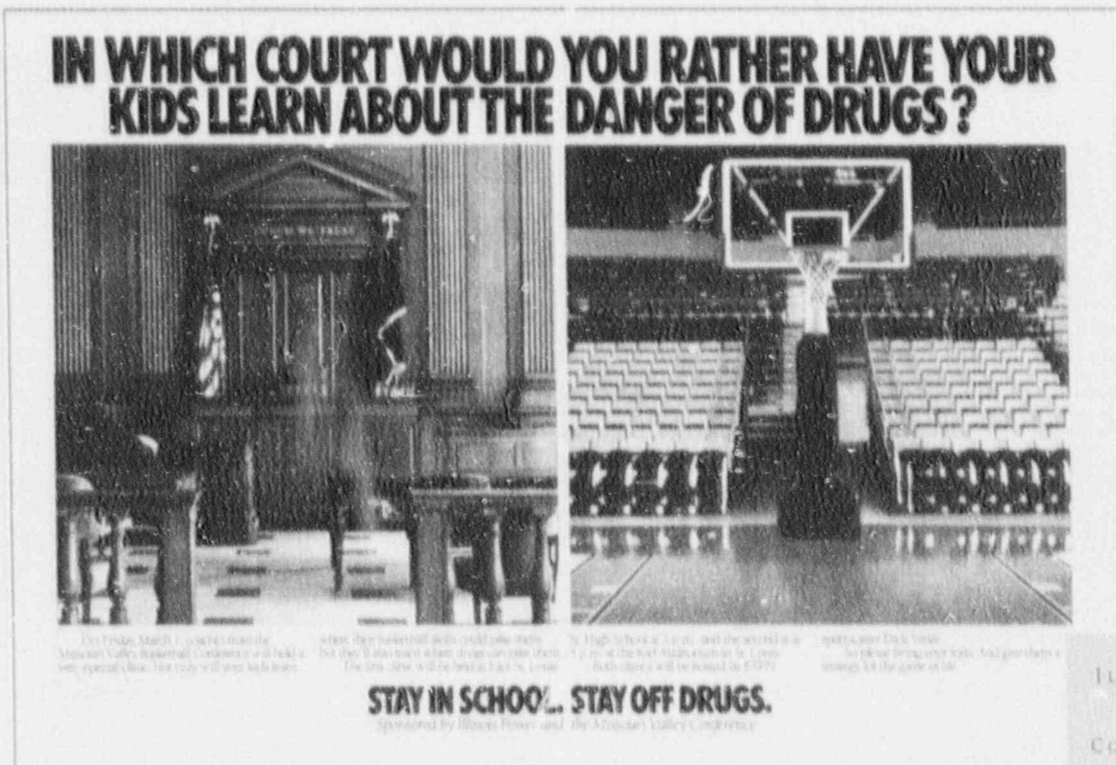
Illinois Power is helping teachers learn more about how utility rates are set through a program called "The Balancing Act." And our Starship Energy and Safety City programs inform elementary students about the fundamentals of gas and electric safety. The Company also sponsors a variety of quality children's programming on public television stations.

To increase public understanding of energy issues, IP provides schools and community groups with access to an extensive video and film library, a speakers bureau, tours of Company power plants, the Illinois Power Visitors Center at Clinton, and a variety of other educational resources.

During 1990, the Company introduced a pilot literacy program designed to stimulate interest in reading among kindergarten students.

As part of the campaign against drug abuse, IP created an anti-drug education program for high school students, which is presented in association with the annual Missouri Valley Conference Basketball Tournament. Prominent high school and college coaches, as well as nationally known sports figures, visit schools and instruct students about basketball basics, while sending a strong, positive message — "stay off drugs and stay in school."

All these achievements are ways the Company is making a positive difference as a good corporate citizen.



To help fight drug abuse among teenagers, Illinois Power sponsored a drug education program that links a basketball skills clinic for high school students with a message to "stay off drugs and stay in school."

Natural Gas: A Premium Fuel for the Future

Stimulated by new technologies and environmental benefits, natural gas is becoming a premium fuel for the future. And as a low-cost gas provider, Illinois Power is positioned to capitalize on these new opportunities.

The public's growing environmental concerns have again focused attention on natural gas as a clean, safe, plentiful and cost-effective fuel. As a natural gas provider, this presents Illinois Power with new opportunities for financial growth.

Since forecasts indicate IP's gas load will stay relatively stable in the years ahead, new applications for gas will become increasingly important. Therefore, in 1990, the Company began developing a Gas Revitalization Program designed to strengthen the gas business and set a course for future growth.

Illinois Power has begun implementing the program this year. The first step was to establish a Natural Gas Division within the Company that will be accountable for the financial and operating performance of the gas business. This new organization will do long-range and short-range planning, identify new markets and further develop existing ones.

The gas revitalization effort will help the Company fully utilize existing resources. Illinois Power has access to five interstate pipelines connecting the nation's major gas suppliers to the Company's eight gas storage fields. These resources allow IP to buy and store gas during the off-season, when prices are low, and call upon reserves in the peak winter months when gas is more expensive.

In 1990, the total volume of natural gas sold and transported was 824 million therms, down 9.2 percent from a year ago. Revenues from the sale of gas and gas services were $311 million, a 4.2 percent decline. This revenue figure includes a one-time credit of about $13 million for natural gas revenues collected since 1987, but not reported as income, pending an ICC decision following a reduction in the federal income tax rate.

Natural gas sales are seasonal and highly weather sensitive. With relatively mild winter weather in both the early and late months of 1990, residential gas sales dropped 14.9 percent. Including the gas transported for customers, commercial sales dropped 11.6 percent, and industrial sales fell 2.3 percent from the year before.

Changes in the Gas Industry

Two events in 1990 made natural gas a more important fuel option. Iraq's invasion of Kuwait increased the price volatility of crude oil. Because the United States imports about half of its oil, mostly from Middle Eastern countries, public concern over our nation's dependence on foreign oil was heightened.

The other significant event was the passage of the Clean Air Act. The new federal law makes natural gas an alternative fuel for a number of applications — from replacing coal in electric power generation to replacing gasoline for fleet vehicles.

The law mandates that fleet users in 22 major cities begin switching to "clean fuel" vehicles in the late 1990s. Even though the Company's territory is outside these urban areas, we are studying the possibility of converting fleet vehicles from gasoline to natural gas. In addition, a number of metropolitan transportation systems are considering natural gas as a fuel for city buses.

Some commercial and industrial concerns are turning to natural gas for cogeneration and independent power production. Natural gas-powered air conditioning systems are also gaining favor for large industrial and commercial facilities.

As demand for electric generation increases and peaking units are needed, gas turbines will be an attractive option for many utilities, including IP. Natural gas is also being used with coal in some industrial and electric utility boilers.

Stimulated by new technologies and environmental benefits, natural gas is becoming a premium fuel for the future. And as a low-cost gas provider, Illinois Power is positioned to capitalize on these new opportunities.

Wendell J. Kelley to Retire

In the late 1940s, America was moving into a new era. The nation was building a peacetime economy, and a generation of young people entered the business world. Wendell Kelley was part of that generation.

In 1949, he had just graduated from the University of Illinois and joined Illinois Power as an engineer. It was the beginning of a career that spanned four decades with the Company and took him to the highest leadership role — Chairman and Chief Executive Officer.

In June, after 42 years of service, Mr. Kelley will retire. This is in accordance with IP's long-standing policy of mandatory retirement at age 65 for Company officers.

Although Illinois Power will experience a transition in leadership, the contributions Mr. Kelley has made will endure.

For 25 years Mr. Kelley has served as the Company's Chief Executive Officer. In 1966, the same year he was elected to the board, Mr. Kelley became president of the Company. In 1976, he was elected chairman of the board, and functioned as chairman and president until April 1989, when Larry D. Haab became president. Since that time, Mr. Kelley has been the Company's chairman.

Under Mr. Kelley's guidance, Illinois Power has grown into a major corporation with assets of $5.3 billion. Because of his vision, we are positioned to compete in a rapidly changing industry and become one of the nation's top utilities.

During Mr. Kelley's tenure, the Company built four large coal-fired generating units — three at Baldwin and one at Havana — more than doubling IP's generating capacity at the time. The Company also completed the Clinton nuclear plant during a time of rapidly changing federal regulations and spiraling inflation, which forced some other utilities to abandon nuclear construction plans.

Mr. Kelley's contributions have also been recognized outside the Company. In 1972, he was elected a Fellow of the Institute of Electrical and Electronics Engineers. This is the Institute's highest membership level and is conferred only on those with outstanding qualifications and extraordinary performance in their fields.

Also a leader in the business community, Mr. Kelley served as chairman of the National Electric Reliability Council and as president of the Illinois State Chamber of Commerce. He is a member of the Edison Electric Institute's Board of Directors, and is vice chairman of the Illinois Business Round Table, an organization comprised of chief executive officers of major corporations in the state. He also serves on the boards of several industry, banking, insurance, professional, civic, charitable and religious organizations.

As Mr. Kelley's retirement approaches, the highest tribute we at Illinois Power can pay him is to strive to uphold his high standards of integrity and professionalism.

Wendell J. Kelley, Chairman and Chief Executive Officer

Principal Officers

Wendell J. Kelley, 64
Chairman and Chief Executive Officer
Employed 1949.

Larry D. Haab, 53
President
Responsible for customer service, financial matters, marketing, regulatory affairs, nuclear power generation, legal matters and public affairs.
Employed 1965.

Charles W. Wells, 56
Executive Vice President
Responsible for fossil generation, corporate and technical services and gas.
Employed 1956.

Larry F. Altenbaumer, 42
Vice President, Chief Financial Officer and Controller
Responsible for accounting, auditing, budgeting, financial matters, tax matters and corporate development.
Employed 1970.

Larry S. Brodsky, 42
Vice President
Responsible for engineering, electric supply activities and natural gas.
Employed 1975.

Wilfred Connell, 53
Vice President
Responsible for fossil power generation.
Employed 1983.

Larry L. Idleman, 52
Vice President
Responsible for corporate services.
Employed 1969.

Paul L. Lang, 50
Vice President
Responsible for operating divisions, marketing and economic development.
Employed 1986.

J. Stephen Perry, 52
Vice President
Responsible for nuclear power generation.
Employed 1983.

Robert A. Schultz, 50
Treasurer
Responsible for financial matters and risk management.
Employed 1986.

Rodney A. Smith, 43
Vice President
Responsible for public affairs.
Employed 1988.

Leah Manning Stetzner, 42
General Counsel and Corporate Secretary
Responsible for corporate secretary duties and legal matters.
Employed 1989.

Porter J. Womeldorff, 57
Vice President
Responsible for environmental affairs, system planning and planning activities.
Employed 1954.

BOARD OF DIRECTORS

(From left) Richard R. Berry, Wendell J. Kelley, Frank W. Considine, Walter M. Vannoy.

(From left) Walter D. Scott, Grover J. Hansen, Marilou M. Hedlund, Larry D. Haab, Vernon K. Zimmerman.

(From left) Donald E. Lasater, Donald S. Perkins, Charles W. Wells, Boyd F. Schenk, Robert M. Powers.

Richard R. Berry, 59 (2,5)
Retired Executive Vice President and Director of Olin Corporation, Stamford, CT (diversified manufacturer concentrated in chemicals, metals and aerospace/defense products).

Elected 1988.

Frank W. Considine, 69 (4,5)
Chairman of the Executive Committee of American National Can Company, Chicago, IL (packaging manufacturer).

Elected 1988.

Larry D. Haab, 53 (1,4,5)
President of the Company, Decatur, IL.

Elected 1986.

Grover J. Hansen, 67 (1,3)
Retired President and Chief Operating Officer of First Federal Savings and Loan Association of Chicago, Chicago, IL.

Elected 1981.

Marilou M. Hedlund, 53 (1,2)
Executive Vice President and General Manager of Ogilvy & Mather, Incorporated, Chicago, IL (public relations firm).

Elected 1990.

Wendell J. Kelley, 64 (1,4,5)
Chairman and Chief Executive Officer of the Company, Decatur, IL.

Elected 1966.

Donald E. Lasater, 65 (1,5)
Retired Chairman of the Board and Chief Executive Officer of Mercantile Bankcorporation, Inc., St. Louis, MO (bank holding company).

Elected 1981.

Donald S. Perkins, 63 (3,4)
Retired Chairman of the Board and Chief Executive Officer of Jewel Companies, Inc., Chicago, IL (diversified retailer).

Elected 1988.

Robert M. Powers, 59 (3,4)
Retired President and Chief Executive Officer of A.E. Staley Manufacturing Company, Decatur, IL (grain and oil seed processor).

Elected 1984.

Boyd F. Schenk, 68 (3,4)
President of The Boyd Group, Inc., Chicago, IL (private investment and consulting company), and retired Vice Chairman of Whitman Corporation (diversified manufacturer, marketer of consumer and commercial products).

Elected 1977.

Walter D. Scott, 59 (1,2)
Professor of Management and Senior Austin Fellow, J.L. Kellogg Graduate School of Management, Northwestern University, Evanston, IL.

Elected 1990.

Walter M. Vannoy, 63 (2,5)
Chairman of Aggilite Corporation, Charlottesville, VA (environmental services company), and former President and Chief Operating Officer of Babcock & Wilcox (diversified energy equipment and services company).

Elected 1990.

Charles W. Wells, 56 (1)
Executive Vice President of the Company, Decatur, IL.

Elected 1976.

Vernon K. Zimmerman, 62 (1,2)
Director of the Center for International Education Research and Accounting, and Distinguished Service Professor of Accountancy, University of Illinois, Urbana, IL.

Elected 1973.

Board Committees

(1) Finance Committee
(2) Audit Committee
(3) Compensation and Negotiating Committee
(4) Corporate Activities Committee
(5) Nuclear Operations Committee

Management's Discussion and Analysis

Reference is made to the Financial Statements, related Notes to Financial Statements, Selected Financial Data and Selected Statistics for information concerning financial condition and results of operations. The factors having significant impact upon financial condition and results of operations since January 1, 1988 are discussed below.

Liquidity and Capital Resources

Regulatory Matters

1989 Rate Order

The March 30, 1989 rate order from the Illinois Commerce Commission (ICC) rejected the Company's November 1987 proposal for a ten-year rate moderation plan, and granted instead a one-time increase of $60.5 million, or 6.9%, that became effective April 4, 1989. This order also included various disallowances of Clinton Power Station (Clinton)-related costs and found approximately $2.3 billion (72.8%) of the reasonable Clinton costs to be not "used and useful" and denied a common equity return thereon.

The Company, believing that certain of the ICC's conclusions in the rate order were contrary to the law and the evidence in the case, appealed the order to the Illinois Appellate Court, Third District. Other parties also appealed. In February 1991, the Appellate Court issued its decision. The Appellate Court reversed the portion of the order which had found 72.8% of Clinton not "used and useful," and remanded this portion of the order to the ICC to determine whether and/or what portion of Clinton is "used and useful" based on established pre-1986 standards. The Court also reversed the portion of the order which had denied the Company recovery of a common equity return on deferred Clinton post-construction costs after January 1, 1988. However, the Court affirmed the order with respect to the ICC's determination that a portion of the cost of Clinton was "unreasonable cost" and should not be included in rate base.

Following the March 1989 rate order, and after consultation with legal counsel, management believed there was a reasonable possibility of reversing various aspects of the order through the appeals process. The Company, however, recorded a loss in the first quarter of 1989 of $346 million, net of income taxes, or $4.61 per share. Further, as a result of the recent Appellate Court decision, the Company recorded an additional loss in the fourth quarter of 1990 of $137 million, net of income taxes, or $1.82 per share. The losses recorded in both 1990 and 1989 reflect, in total, the ICC's disallowance of Clinton "unreasonable costs" from rate base in the March 1989 order and affirmed by the Appellate Court, which was offset in part by the Court's decision regarding approximately $102 million deferred common equity return.

The Company anticipates that the ICC and other parties will appeal the Appellate Court's determinations on the "used and useful" and deferred Clinton post-construction common equity return issues as well as on several other issues which the other parties had raised in their appeals. In connection with any such appeal, the Company would seek review of the Appellate Court's affirmance of the ICC's "unreasonable cost" disallowance. Any appeals to the Supreme Court will stay the remand to the ICC. If the Supreme Court affirms the Appellate Court decision in all respects, the case will be remanded to the ICC for further proceedings. At that time the Company would seek inclusion of the entire reasonable cost of Clinton in rate base, would seek rate recovery of the previously disallowed common equity return on deferred post-construction costs over the remaining life of Clinton (approximately $102 million), and would propose a rate recovery mechanism addressed to the foregone common equity return on the portion of Clinton which the Commission had found not "used and useful" (approximately $149 million at December 31, 1990). Each month that the Company is not earning a common equity return on 39.3% of the cost of Clinton deemed reasonable but not "used and useful" by the ICC (see 1990 Rate Order below) results in the loss of income of approximately $3.6 million. The Company will seek inclusion of the remainder of the reasonable Clinton costs in rate base as "used and useful" and will seek recovery of the previously disallowed common equity return on deferred post-construction costs in the planned 1991 rate request (described on the following page). None of the outcomes of these proceedings can be predicted at this time.

1990 Rate Order

On June 6, 1990, the ICC issued an order in the Company's 1989 electric rate case approving an annualized increase in electric rates of approximately $75 million, or 7.7%. The order, as amended on July 13, 1990, found that Clinton is 60.7% "used and useful" for rate-making purposes, as compared to 27.2% in the ICC's March 1989 order, but does not allow the Company to earn a common equity return on the 39.3% of Clinton determined to be not "used and useful."

On July 16, 1990 the Company appealed the June 1990 order to the Illinois Appellate Court, Third District. Other parties also appealed.

1991 Rate Request

The Company intends to file an electric retail rate request with the ICC in March 1991 seeking recovery of the remaining reasonable costs resulting from Clinton being fully "used and useful," higher levels of operating and maintenance expenses as reflected in a forecasted 1992 test year and the recovery of the previously disallowed common equity return on deferred Clinton post-construction costs. An order would be due by February 1992.

Dividends

As a result of the March 1989 and June 1990 rate orders, the Company's earnings are depressed and will continue to be until the effects of the Appellate Court's decision on the March 1989 rate order, as well as the impact of the Company's 1991 rate request, are reflected in rates. However, the Company is planning to file a rate request in 1991 that will address the Appellate Court's decision. The Company expects earnings to be favorably impacted as a result of the anticipated order as discussed above. Although the March 1989 and June 1990 rate orders granted the Company only about one-third of the rate relief requested, the Company's projections indicate that current rates will enable it to meet its operating requirements and continue to service its existing debt, preferred stock dividends and sinking fund requirements. However, due to legal prohibitions restricting the Company from declaring dividends if retained earnings are less than zero, together with the uncertainty surrounding the outcome of the March 1989 rate order appeal, the Company's management determined in April 1989 that it was in the best interest of the Company and the stockholders to suspend the common stock dividend. The recent Appellate Court decision should allow the Company to begin rebuilding its retained earnings and to declare a common dividend later in 1991.

The results of the appeal of the March 1989 order could have affected the Company's ability to continue paying its preferred stock dividend. Therefore, the Company filed a petition with the ICC on August 30, 1990 requesting authorization to declare and pay the preferred stock dividend in the event additional regulatory related disallowances necessitated write-offs which would cause retained earnings to be temporarily negative. On October 24, 1990, the ICC issued an order granting the Company this authorization, subject to the satisfaction of certain conditions relating to current net income, cash and cash equivalents and total capitalization, which are intended to ensure that the Company's ability to render reasonable and adequate utility service at reasonable rates is not impaired by the declaration and payment of preferred stock dividends. In December 1990, the Company's Board of Directors declared four quarterly preferred stock dividends (approximately $35 million) to be paid on the normal quarterly payment dates in 1991 if the conditions specified in the ICC order are met.

The Company has established the resumption of the payment of a common stock dividend in 1991 as a corporate goal. This resumption of the common stock dividend and the level of any dividend that would be paid is dependent on three factors: the dividend must be supported by near-term projected earnings; the dividend must be sustainable without interruption; and the dividend must have potential for growth. The Company will continue to rebuild the common equity component of its capital structure by retaining some portion of its current earnings.

1987 Uniform Fuel Adjustment Clause Reconciliation

The Company is currently the subject of an annual uniform fuel adjustment clause reconciliation proceeding initiated by the ICC in a docket pertaining to the twelve months ended December 31, 1987. The ICC Staff filed testimony in December 1990, recommending, among other things, that carrying costs in the amount of $29.3 million incurred by the Company's nuclear fuel affiliate, Illinois Power Fuel Company, between August 1985 and April 1987 and added to the balance of nuclear fuel inventory during the same period in accordance with a previous ICC order (and thus considered probable of recovery), were neither prudent nor reasonable and that the balance of recoverable nuclear fuel should be reduced by this amount. The Company's preliminary analysis of the Staff recommendation indicates that if it were adopted by the ICC and ultimately affirmed on appeal, the Company would be required to record a loss of up to $27 million, net of income taxes. The Company believes the Staff recommendation lacks legal and factual foundation. The Company will oppose the Staff recommendation in the current reconciliation proceeding, and will appeal the ICC's order to the courts should the ICC adopt the Staff position.

The position of the ICC Staff is not binding upon the ICC and the ICC may accept or reject, in whole or in part, any Staff position. A decision by the ICC is expected during the second half of 1991.

Natural Gas Take-or-Pay Charges

In accordance with a Federal Energy Regulatory Commission (FERC) order issued in August 1987, the Company's pipeline suppliers have been allowed to bill the Company for their take-or-pay costs. At December 31, 1990, the Company's obligation for such costs was approximately $50 million. Estimated payments under this obligation are $24 million, $17 million, $8 million and $1 million in 1991, 1992, 1993 and 1994, respectively.

The Company paid approximately $26 million, $24 million and $8 million in 1990, 1989 and 1988, respectively, related to its take-or-pay obligations.

In November 1988, the ICC issued an order that allowed the Company to fully recover take-or-pay costs allocated to it under rate schedules approved by the FERC. In accordance with the ICC order, the Company began billing its customers for such costs on February 1, 1989. On December 5, 1989, the Illinois Appellate Court reversed the ICC order and remanded this matter to the ICC for further proceedings. The Illinois Supreme Court granted petitions filed by the Company, the ICC and certain other utilities for leave to appeal the Appellate Court decision. The matter is now pending before the Supreme Court for decision.

At the federal level, the District of Columbia Court of Appeals has declared illegal the "purchase deficiency" method used by most pipelines for allocating take-or-pay costs to local distribution companies (such as the Company). The U.S. Supreme Court has denied further review. In response to these actions, FERC issued Order No. 528 which stays further collections under the purchase deficiency method and permits pipelines to file new recovery mechanisms.

Pursuant to Order No. 528, the Company's pipeline suppliers have filed new take-or-pay cost recovery mechanisms. Management does not expect that the ultimate outcome of the ICC and FERC proceedings will have a material adverse effect on the Company's financial position or results of operations.

Capital Resources and Requirements — The Company has adequate short and intermediate term bank borrowing capacity, but restricted access to the permanent capital markets. The Company's debt securities and preferred stock were downgraded by major security rating agencies after issuance of the ICC's March 1989 rate order. After the December 1990 Board of Directors declaration of 1991 preferred stock dividends, Standard & Poor's removed the Company's preferred stock from "CreditWatch." Duff & Phelps upgraded the Company's preferred stock rating and Moody's changed its preferred stock rating from a "possible downgrade" to "possible upgrade." The current ratings of the Company's securities by three principal securities rating agencies are as follows:

	Duff & Phelps	Moody's	Standard & Poor's
First mortgage bonds	BBB-	Baa3	BBB
Preferred stock	BB-	ba2	BBB-
Commercial paper	Duff 3	Prime 3	A-2

These ratings are an indicator of the Company's financial integrity, and affect the willingness of investors to invest in the Company's securities. These ratings are currently at levels which could impair the Company's ability to obtain additional funds at reasonable cost.

The Company's future financial integrity depends on a number of factors, including the ultimate outcome of the 1991 rate request and the impact of the recent Appellate Court decision on the Company's appeal of the March 1989 rate order as discussed previously.

Net cash provided by operations amounted to $253 million, $272 million and $223 million for the years 1990, 1989 and 1988, respectively. Funds obtained from external sources during this three-year period totaled $779 million, and funds used for debt retirements and preferred stock redemptions totaled $836 million.

During the three-year period, temporary cash requirements were provided by short-term borrowings. In December 1989, the Company filed a $300 million shelf registration of debt securities with the Securities and Exchange Commission for the purpose of refinancing high cost and maturing debt. At December 31, 1990, the Company had issued $43.5 million of medium-term notes covered by this registration and used the proceeds to refund a portion of its bank debt. In October 1990, the Company's Board of Directors authorized a program to repurchase up to $275 million of high-cost debt and preferred stock before December 31, 1991. These repurchases will be through open market purchases, privately negotiated transactions and redemptions. For the years 1990, 1989 and 1988 the Company's reduction in debt and preferred stock outstanding including normal maturities and elective redemptions, was as follows:

	1990	1989	1988
	(Millions of Dollars)		
Bonds	$ 21	$ 105	$ 30
Revolving loan agreements	77	—	—
Preferred stock	26	—	—
Total	$ 124	$ 105	$ 30

In addition, in February 1991 the Company redeemed $30 million of mandatorily redeemable serial preferred stock. These actions are expected to reduce interest costs and preferred dividend requirements by approximately $2.8 million on an annual basis.

At December 31, 1990, based upon the most restrictive earnings test contained in the Company's Mortgage and Deed of Trust, the Company would be prohibited from issuing additional first mortgage bonds until early 1991. The amount of available unsecured borrowing capacity totaled $211 million at December 31, 1990. At December 31, 1990, the unused portion of the Company's total bank lines of credit was $259 million. On January 7, 1991 the Company borrowed an additional $35 million under its revolving loan agreement for its Incentive Savings Plans, as discussed later in this caption.

improvement in the Company's financial flexibility is dependent upon the results of the Company's 1991 rate request and the impact of the recent Appellate Court decision on the Company's appeal of the March 1989 rate order.

In October 1990, the Board of Directors authorized amendments to the Company's two Incentive Savings Plans (the "Plans") to provide for the implementation of employee stock ownership plan arrangements. Under this arrangement, the Company, pursuant to authorization granted by the ICC in January 1991, loaned $35 million to the Trustee of the Plans, who is currently using the loan proceeds to purchase approximately two million shares of the Company's common stock on the open market. The Company initially financed the loan with funds borrowed under its bank credit agreements and, subject to market conditions, expects to refinance this borrowing by issuing medium-term notes.

Construction expenditures for the years 1988 through 1990 were approximately $343 million, including approximately $10 million of allowance for funds used during construction (AFUDC).

The Company owns 86.79% of Clinton and Soyland Power Cooperative, Inc. owns the remaining 13.21%. The Company's net investment in the plant and related facilities is approximately $3.2 billion, net of recorded disallowed plant costs, excluding depreciation, at December 31, 1990. Additionally, in accordance with an ICC order the Company has a regulatory asset of $400 million at December 31, 1990 relating to Clinton costs that have been previously deferred and will be amortized over the life of the Clinton plant.

The Company estimates that $1.812 billion will be required for construction and capital requirements during the 1991-1995 period as follows:

	1991	1992	1993	1994	1995
	(Millions of Dollars)				
Construction requirements					
Electric generating facilities	$ 36	$ 44	$ 53	$ 50	$ 77
Electric generating facilities—acid rain compliance	16	29	94	131	133
Electric transmission and distribution facilities	59	57	78	58	51
General plant	28	27	26	25	24
Gas facilities	21	19	18	18	20
Total construction requirements	160	176	269	286	305
Nuclear fuel	24	14	27	26	16
Debt retirement	35	134	130	105	5
Preferred stock retirement	30	10	22	22	22
Total	$ 249	$ 334	$ 448	$ 433	$ 348

The above estimates include potential costs required to comply with environmental legislation as discussed further in "Environmental Matters." The Company expects to meet its construction and capital requirements through internal cash generation and external financings.

The amounts shown in the table above for debt retirements do not include all sinking fund requirements. The Company has generally met these requirements by pledging property additions. For additional information see "Note 8 — Debt Retirement Provisions" and "Note 9 — Mandatorily Redeemable Preferred Stock" of the "Notes to Financial Statements."

See "Note 3 — Commitments and Contingencies" of the "Notes to Financial Statements" for information related to coal and gas purchase commitments.

Environmental Matters

Clean Air Act

The Company's current estimates are that capital expenditures, which include installation of scrubbers on certain Company units, necessary to achieve the emission reductions set forth in the acid rain section of the Clean Air Act would be between $250 million and $450 million through the year 2000. Approximately $400 million is expected to be required over the next five years. Switching from high-sulfur to low-sulfur coal or fuel blending at some generating units and the installation of low-nitrogen-oxide burners on several generating units would also be necessary to comply with the legislation. Compliance with the legislation could result in additional annual operating costs, associated with scrubbers, of approximately $40 million beginning in 1996. It is possible that some of these costs would not be recovered from the Company's ratepayers. Capital costs associated with alternative compliance measures not involving installation of scrubbers, such as fuel switching, would be significantly lower than these estimates, although operating costs, primarily associated with higher cost fuels, would increase. If the Company's preferred plan for scrubbers is pursued, the Company will seek federal and state assistance to offset a portion of these capital costs; however, it is uncertain at this time whether any governmental financial assistance will be received. In addition, the estimates noted above are preliminary and will be refined as more detailed analyses are completed.

Gas Manufacturing Sites

The Company, through its predecessor companies, is on a State of Illinois list of owners and operators of former gas manufacturing sites. The Company is investigating to determine whether waste materials are present, whether such materials constitute an environmental or health risk, and whether the Company has any responsibility for remedial action. The clean-up will require substantial effort over a number of years. The overall costs cannot be estimated at this time; however, the Company does not anticipate that such costs will have a material adverse effect on its financial position or results of operations. The Company has notified certain insurance carriers of the situation but has not formally filed claims.

Tax and Accounting Matters — Many aspects of the Tax Reform Act of 1986 (Act) have affected the Company during the period 1988 through 1990. These include the corporate income tax rate reductions, repeal of the investment tax credit, a new depreciation system for tax purposes, and a corporate alternative minimum tax. The Alternative Minimum Tax (AMT) provisions of the Act resulted in an AMT net operating loss carryback in 1989 and the Company received refunds of approximately $23 million in 1990 for a portion of the AMT previously paid in 1987 and 1988. The Company was also subject to the AMT provisions of the Internal Revenue Code for 1990. As a result, the current federal income tax liability was approximately $15 million greater than it would have been under prior law. In accordance with Internal Revenue Code requirements, depreciation-related deferred tax balances will continue to be normalized at the weighted average tax rates at which they were provided.

Pursuant to an ICC order, the Company did not record as income the benefit of lower federal income tax rates collected from its gas utility customers from January 1987 through April 1990. Upon completion of the review of this issue in May 1990, the ICC allowed the Company to record the revenues as income. The current year impact of this decision was $13.2 million ($8.1 million, net of income taxes, or 11¢ per share).

The Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes," dated December 1987. This new standard adopts a "liability method" of tax allocation relating to transactions that affect book and tax income in different reporting periods. Although adopting this standard may result in a significant increase in assets and liabilities, the Company does not expect it to have a material effect on earnings. Mandatory adoption of this statement has been deferred until 1992, and may be further delayed.

In December 1990, the FASB issued Statement of Financial Accounting Standards No. 106 (FAS 106), "Employers' Accounting for Postretirement Benefits Other Than Pensions," which requires the recognition of post retirement benefits, including health and welfare benefits, on an accrual basis. The Company provides health care and life insurance benefits to certain retired employees who attain specified ages and years of service. The cost of such benefits is currently recognized as claims are paid. Adoption of FAS 106 is mandatory for fiscal years beginning after December 15, 1992. The Company anticipates adopting this accounting standard in 1992; however, it does not expect adoption to have a material adverse effect on earnings as any additional estimated costs are expected to be recovered through rates.

Results of Operations

Earnings will continue to be depressed until the operating and capital costs of Clinton are more fully reflected in the Company's rates. Earnings in 1990 were impacted by higher operating and maintenance expenses due to the Clinton refueling and maintenance outages, the 1990 ice storm and fossil power plant expenses, including the Baldwin Unit 3 outage. As discussed more fully in "Note 2 — Clinton Power Station" of the "Notes to Financial Statements," the Company recorded a loss of $137 million or $1.82 per share, net of income taxes and $346 million or $4.61 per share, net of income taxes in the fourth quarter of 1990 and in the first quarter of 1989, respectively, for disallowed Clinton plant costs as a result of the March 1989 ICC rate order. Earnings for 1988 were impacted by a change in accounting for unbilled revenues and included significant amounts of non-cash items such as AFUDC, allowance for deferred Clinton financing costs and the deferral of Clinton operating costs.

Electric Operations — For the three-year period 1988 through 1990, electric revenues increased 19.1%, the components of which are summarized as follows:

	1990	1989	1988
	(Millions of Dollars)		
Rate increases	$ 75	$ 36	$ 23
Volume and other	10	3	18
Fuel cost recoveries	12	(1)	(2)
Revenue increase (decrease)	$ 97	$ 38	$ 39

During the above periods, kilowatt-hour sales have been affected by weather, economic conditions within the Company's service territory and ongoing conservation efforts. The increase in sales in 1988 reflected the extremely hot weather during the summer, as evidenced by a 4.0% increase in kilowatt-hour sales to residential customers. In 1989, the Company experienced a 4.0% increase in revenue primarily due to the 6.9% rate increase in April and increased sales to industrial customers. The industrial kilowatt-hour sales increase was partially offset by decreased residential sales due to more moderate summer weather in 1989. In 1990, the Company experienced a 9.8% increase in revenue primarily due to the 7.7% rate increase in June 1990 and the 6.9% rate increase in April 1989. Total kilowatt-hour sales were relatively unchanged from 1989. Volume variance in 1990 was due to higher commercial and industrial usage, and related load growth.

The cost of meeting the Company's system requirements was reflected in the cost of fuel for electric plants and power purchased and interchanged-net. Changes in these costs are summarized as follows:

	1990	1989	1988
	(Millions of Dollars)		
Fuel for electric plants			
Volume and other	$ (12)	$ (38)	$ 37
Price	8	1	(15)
Fuel cost recoveries	11	(3)	8
	7	(40)	30
Power purchased and interchanged—net	11	50	(32)
Total increase (decrease)	$ 18	$ 10	$ (2)
Weighted average system generating fuel cost ($/MWH)	$ 15.06	$ 15.10	$ 14.50
Increase (decrease) in MWH generation	(1.4%)	(15.8%)	11.5%
Generation mix			
Coal and other	81%	85%	74%
Nuclear	19%	15%	26%
Plant equivalent availability			
Fossil	76%	81%	82%
Nuclear	47%	40%	75%

Changes in the above costs were caused by system load requirements, availability of generating units to meet those requirements including the start-up of Clinton in 1987, fuel prices, purchased power prices and volumes, power interchange market conditions and recovery of fuel costs through the fuel adjustment clause.

The increase in fuel for electric plants in 1988 reflected increased electric generation, primarily due to the operating availability of Clinton and the ability to make additional interchange sales. During 1989, the decrease in fuel for electric plants reflected reduced generation associated with scheduled and unscheduled plant outages. The equivalent availability of Clinton decreased in 1989 due primarily to the extended refueling and maintenance outage. The decrease in interchange sales was also attributable to decreased available generation and reduced demand due to milder summer weather. The increase in fuel for electric plants in 1990 reflected higher fuel costs, partially offset by lower generation. The decrease in interchange sales was attributable to the lower availability of some of the Company's generating units.

A scheduled Clinton refueling and maintenance outage commenced on October 14, 1990 and is scheduled for completion in March 1991.

Over the period 1991 through 1995 total electric sales are expected to grow approximately 3% per year.

Gas Operations — For the three-year period 1988-1990, gas revenues increased 0.8%; however, the gross margin on gas revenues has decreased as follows:

	1990	1989	1988
	(Millions of Dollars)		
Gas sales	$ 301	$ 314	$ 322
Gas cost	(182)	(203)	(211)
Transportation revenues	10	11	13
Gas revenue credit	(13)	5	7
Gas margin	$ 116	$ 127	$ 131
	(Millions of Therms)		
Therms sold	555	642	669
Therms transported	269	265	235
Total consumption	824	907	904

Even though there have been no revisions to the Company's retail base gas rates, changes in overall gas revenues have resulted from special contracts with large industrial customers. The major factors affecting therm sales for the three-year period were economic conditions, weather, customer conservation, special contracts and gas transportation arrangements. In May 1990, the Company recorded a credit for natural gas revenues collected but, pursuant to an ICC order, not reported as income from January 1987 through April 1990. The current year impact of this credit was an increase of $13.2 million in revenues. This increase to revenue was the result of an ICC decision following its analysis of the effect of a change in the federal corporate income tax rate.

Changes in cost of gas purchased for resale are summarized as follows:

	1990	1989	1988
	(Millions of Dollars)		
Gas purchased for resale			
Cost (excluding take-or-pay)	$ 13	$ (7)	$ (24)
Take-or-pay	(3)	30	—
Volume	(18)	(14)	33
Gas cost recoveries	(13)	(17)	13
Total increase (decrease)	$ (21)	$ (8)	$ 22
Average cost per therm delivered			
Including take-or-pay	32.5¢	30.4¢	27.0¢
Excluding take-or-pay	27.7¢	26.0¢	27.0¢

During 1990, approximately 33% of total natural gas purchased was from spot market sources and it is expected to remain at this level over the next five years. Over the period 1991 through 1995, total gas sales, including therms transported, are expected to grow less than 1% per year. Gas bypass continues to be actively considered by several of the Company's large customers and if implemented would result in a reduction of revenue. The Company is aggressively competing with the bypass options facing these customers to attempt to minimize the potential loss in profitability.

Other Expenses and Taxes — A comparison of increases (decreases) in other expenses and deferred Clinton costs for the last three years is presented in the table on the following page.

	1990	1989	1988
	(Millions of Dollars)		
Other operating expenses	$ 11	$ 9	$ 34
Maintenance	32	4	5
Depreciation	(4)	(7)	36
Amortization of abandoned plant	(3)	—	—
Amortization of excess unprotected deferred taxes	(1)	(4)	—
General taxes	3	(4)	11
Deferred Clinton costs	35	95	(37)

The primary reason for the 1988 increase in other operating expenses, maintenance, depreciation and general taxes was Clinton beginning commercial operations on April 24, 1987. In addition, the Company recorded $115 million and $29 million as reduction to expenses in 1988 and 1989, respectively, to reflect the portion of Clinton depreciation and real estate taxes deferred for future recovery in accordance with an ICC order. After issuance of the March 1989 ICC order, such deferrals ceased and amortization of the previously deferred post-construction costs over a 37.5 year period commenced. Amortization of $8 million and $15 million was recorded in 1989 and 1990, respectively. The increase in 1989 in other operating and maintenance expenses was primarily due to the Clinton refueling and maintenance outages. In 1989, the Company also incurred an early retirement expense of approximately $12 million, which was partially offset by savings realized as a result of the Company's cost reduction program. The decrease in depreciation for 1990 and 1989 was due to the write-offs of disallowed plant costs recorded in December 1990 and March 1989. The increase in 1990 in other operating and maintenance expenses was due to the Clinton refueling and maintenance outages, the 1990 ice storm and fossil power plant expenses, including the Baldwin Unit 3 outage, partially offset by the impact of the early retirement program implemented in 1989. The decrease in amortization of abandoned plant for 1990 was due to the five-year amortization of the Company's investment in Clinton Unit 2 which ended in August 1990.

For a detailed analysis of income tax components, see "Note 6 — Income Taxes" of the "Notes to Financial Statements."

Other Income and Deductions — Total AFUDC, a non-cash item of income, remained relatively unchanged from 1988 to 1990. The AFUDC effective before-tax rate was 10% in 1988, 1989 and 1990.

In accordance with an ICC order, a total of $201 million of Clinton deferred financing costs were recorded for the period April 24, 1987 through March 31, 1989. The amounts recorded were $58 million and $14 million for 1988 and 1989, respectively. After the March 1989 ICC order was issued, deferral of Clinton financing costs ceased and amortization of previously deferred post-construction costs over a 37.5 year period commenced. Such financing costs were calculated on Clinton deferred costs and plant costs not included in retail rate base. In 1988 and 1989, Clinton deferred financing costs were calculated using a 2.75% net of income tax rate reflecting the debt component of the Company's financing costs.

In 1989 and 1990, the reduction in Miscellaneous-net was primarily due to the reduction in the allocation of tax benefits to the stockholders as a result of the March 1989 ICC order that placed the Clinton plant in rate base. The 1989 change also reflected additional interest income on short-term investments, that was partially offset by the settlement of the Soyland ownership percentage in Clinton. The 1990 change also reflected less interest income on short-term investments, partially offset by the settlement expense in 1989 related to Soyland's ownership percentage in Clinton.

Interest Charges — Interest charges increased $9 million in 1988 and 1989. These increases primarily reflected the $499 million of long-term debt issued during the two-year period at a weighted average interest rate of 9.6%. During the three-year period, the Company retired $556 million of long-term debt with a weighted average interest rate of 9.2%. Interest charges decreased $20 million in 1990 due primarily to the early retirement of debt.

Change in Method of Accounting for Revenue — On January 1, 1988, the Company began recording revenue for services provided but not yet billed to more closely match revenues with expenses. See "Note 1 — Summary of Significant Accounting Policies" of the "Notes to Financial Statements" for further information.

Earnings (Loss) per Common Share — The changes in net income (loss) applicable to common stock in 1988 through 1990 resulted from the interaction of all the factors discussed herein, including the retirement of certain shares of preferred stock. Changes in earnings (loss) per common share also reflect the increased number of common shares outstanding in each year. See "Note 9 — Mandatorily Redeemable Preferred Stock" and "Note 10 — Common Stock and Retained Earnings" of the "Notes to Financial Statements" and Statements of Preferred and Preference Stock.

Inflation — Inflation, as measured by the Consumer Price Index, was 4.1%, 4.8% and 5.4% in 1988, 1989 and 1990, respectively. The primary effect of inflation on the Company is that historical plant costs are recovered in the Company's rates rather than current costs.

Responsibility for Information

The financial statements and all information in this annual report are the responsibility of management. The financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis. The financial statements include amounts that are based on management's best estimates and judgments. Management also prepared the other information in the annual report and is responsible for its accuracy and consistency with the financial statements. In the opinion of management, the financial statements fairly reflect the Company's financial position, results of operations and cash flows.

The Company believes that it maintains accounting and internal accounting control systems that 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 the Company's independent accountants, Price Waterhouse, in accordance with generally accepted auditing standards. Such standards include the evaluation of internal accounting controls to establish a basis for developing the scope of the 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. To assure their independence, both Price Waterhouse and the internal auditors have direct access to the Audit Committee of the Board of Directors.

The Audit Committee is composed of not less than three members of the Board of Directors who are not active or retired employees of the Company. The Audit Committee meets with Price Waterhouse and the internal auditors and makes recommendations to the Board of Directors concerning the appointment of the independent accountants and services to be performed. Additionally, the Audit Committee meets with Price Waterhouse to discuss the results of their annual audit, the Company's internal accounting controls and financial reporting matters. The Audit Committee meets with the internal auditors to review the proposed audit plan and assess the internal audit work performed, including tests of internal accounting controls.

Larry D. Haab
President

Larry F. Altenbaumer
Vice President, Chief Financial Officer and Controller

Report of Independent Accountants
Price Waterhouse

To the Board of Directors of Illinois Power Company

In our opinion, the financial statements of Illinois Power Company appearing on pages 25 through 42 of this report present fairly, in all material respects, the financial position of Illinois Power Company at December 31, 1990 and 1989, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1990 in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As described more fully in Note 2, there are significant uncertainties with respect to various matters related to the Clinton Power Station including the determination of the extent, method, and timing of recovery of its related costs, and obtaining rates which provide adequate cash flows to allow the Company to maintain financial integrity. Management is unable to determine the ultimate outcome of these uncertainties. Accordingly, no provision for any liability or additional loss that may result upon resolution of these matters has been made in the accompanying financial statements.

As discussed in Note 1, the Company changed its method of accounting for unbilled revenues in 1988.

Price Waterhouse

St. Louis, Missouri
February 22, 1991

Statements of Income

	For the Years Ended December 31, 1990	1989	1988
	(Thousands of Dollars Except Per Share Amounts)		
Operating Revenues*			
Electric	$ 1,084,620	$ 987,985	$ 949,931
Gas	311,070	324,645	334,789
Total	1,395,690	1,312,630	1,284,720
Operating Expenses and Taxes			
Fuel for electric plants	259,346	252,712	292,772
Power purchased and interchanged—net	(21,996)	(33,276)	(82,798)
Gas purchased for resale	182,070	203,197	210,917
Other operating expenses	244,875	233,784	224,679
Maintenance	120,699	88,988	85,045
Depreciation	172,827	176,383	183,700
Amortization of abandoned plant	3,824	6,379	6,379
Amortization of excess unprotected deferred taxes	(5,582)	(4,254)	—
General taxes	126,789	123,856	127,367
Deferred Clinton costs	14,619	(20,584)	(115,345)
Income taxes	43,731	39,400	106,081
Total	1,141,202	1,066,585	1,038,797
Operating income	254,488	246,045	245,923
Other Income and Deductions			
Allowance for equity funds used during construction	1,663	1,689	1,702
Disallowed Clinton plant costs	(160,377)	(451,244)	—
Income tax effects of disallowed costs	24,759	105,482	—
Miscellaneous—net	323	14,752	60,084
Total	(133,632)	(329,321)	61,786
Income (loss) before interest charges	120,856	(83,276)	307,709
Interest Charges			
Interest on long-term debt	191,559	216,029	195,438
Other interest charges	9,274	4,566	16,307
Allowance for borrowed funds—			
Construction	(1,493)	(1,503)	(1,634)
Deferred Clinton financing costs	—	(13,936)	(57,820)
Total	199,340	205,156	152,291
Income (loss) before cumulative effect of accounting change	(78,484)	(288,432)	155,418
Cumulative effect as of January 1, 1988 of accruing unbilled revenues, net of income taxes of $26.5 million (Note 1)	—	—	34,012
Net income (loss)	(78,484)	(288,432)	189,430
Preferred dividend requirements	36,839	37,365	37,540
Net income (loss) applicable to common stock	$ (115,323)	$ (325,797)	$ 151,890
Weighted average number of common shares outstanding during the period	75,612,759	75,052,141	70,900,081
Earnings (loss) per common share before cumulative effect of accounting change	$(1.53)	$(4.34)	$1.66
Cumulative effect as of January 1, 1988 of accruing unbilled revenues	—	—	.48
Earnings (loss) per common share	$(1.53)	$(4.34)	$2.14
Cash dividends declared per common share	$ —	$ .66	$2.64

**Includes revenue-related taxes added to customer billings in each of the years 1990, 1989 and 1988 in the amount of $59,628,000, $59,333,000 and $62,660,000, respectively.*

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

Balance Sheets

December 31,	1990	1989
	(Thousands of Dollars)	
ASSETS		
Utility Plant, at original cost		
Electric (includes construction work in progress of $70,886 and $58,749, respectively)	$ 5,285,798	$ 5,369,164
Gas (includes construction work in progress of $6,780 and $6,597, respectively)	478,625	459,501
	5,764,423	5,828,665
Less-Accumulated depreciation	1,533,285	1,389,869
	4,231,138	4,438,796
Nuclear fuel in process	5,609	4,035
Nuclear fuel under capital lease	175,188	181,229
	4,411,935	4,624,060
Investments and Other Assets	25,209	10,090
Nuclear Decommissioning Trust Fund	4,161	—
Current Assets		
Cash and cash equivalents	19,569	66,253
Accounts receivable (less allowance for doubtful accounts of $6,500)		
Service	101,958	93,102
Other	13,709	19,738
Accrued unbilled revenue	103,879	90,315
Note receivable	11,978	—
Materials and supplies, at average cost		
Fossil fuel	25,492	17,196
Gas in underground storage	16,122	16,520
Operating materials	76,887	71,881
Prepaid and refundable income taxes	18,712	40,980
Prepayments and other	10,552	12,423
	398,858	428,408
Deferred Charges		
Deferred Clinton costs	400,449	415,116
Deferred purchased gas costs	48,065	75,278
Unamortized deferred abandonment cost	—	3,824
Unamortized debt expense	47,357	50,702
Other	9,459	1,489
	505,330	546,409
	$ 5,345,493	$ 5,608,967

	1990	1989
CAPITAL AND LIABILITIES		
Capitalization		
Common stock—		
No par value, 100,000,000 shares authorized; 75,643,937 and 75,558,263 shares outstanding, respectively, stated at	$ 1,424,607	$ 1,423,230
Other paid-in capital	1,254	—
Retained earnings	1,179	143,046
Less—Capital stock expense	12,146	12,501
Total common stock equity	1,414,894	1,553,775
Preferred and preference stock	308,890	315,171
Mandatorily redeemable preferred stock	140,000	160,000
Long-term debt	2,204,055	2,351,564
Total capitalization	4,067,839	4,380,510
Accumulated Provision for Nuclear Decommissioning Trust Fund	4,161	—
Current Liabilities		
Accounts payable	144,811	125,956
Notes payable	3,000	2,600
Long-term debt and lease obligations maturing within one year	76,423	30,459
Dividends declared	35,137	9,284
Taxes accrued	41,107	38,352
Interest accrued	66,642	67,697
Accrued purchased gas costs	23,507	27,700
Other	28,772	45,677
	419,399	347,725
Deferred Credits		
Accumulated deferred income taxes	567,009	543,682
Accumulated deferred investment tax credits	242,551	252,021
Accrued purchased gas costs	26,270	48,536
Other	18,264	36,493
	854,094	880,732
Commitments and Contingencies (Notes 2 and 3)		
	$ 5,345,493	$ 5,608,967

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

Statements of Cash Flows

	For the Years Ended December 31,		
	1990	1989	1988
	(Thousands of Dollars)		
Cash Flows from Operating Activities			
Net income (loss)	**$ (78,484)**	$(288,432)	$ 189,430
Items not requiring (providing) cash—			
Disallowed Clinton plant costs, net of income taxes	**135,618**	345,762	—
Cumulative effect as of January 1, 1988 of accruing unbilled revenues, net of income taxes	**—**	—	(34,012)
Depreciation and amortization	**178,666**	182,311	193,692
Allowance for funds used during construction	**(3,156)**	(3,192)	(3,336)
Deferred taxes on income, net	**30,786**	75,959	157,638
Deferred investment tax credit	**(14,121)**	(8,787)	(60,371)
Deferred Clinton costs	**14,619**	(20,584)	(115,345)
Deferred Clinton financing costs	**—**	(13,936)	(57,820)
Amortization of deferred gas costs—take-or-pay	**26,867**	29,562	—
Changes in assets and liabilities—			
Accounts receivable	**(2,827)**	6,595	(2,793)
Accrued unbilled revenue	**(13,564)**	(16,585)	(13,219)
Note receivable	**(11,978)**	—	—
Materials and supplies	**(12,904)**	4,416	7,714
Accounts payable	**14,662**	32,859	11,019
Interest accrued	**(1,055)**	(9,164)	7,724
Taxes accrued	**2,755**	902	2,572
Other, net	**(13,274)**	(45,583)	(59,716)
Net cash provided by operating activities	**252,610**	272,103	223,177
Cash Flows from Investing Activities			
Construction expenditures	**(130,647)**	(96,781)	(115,465)
Allowance for funds used during construction	**3,156**	3,192	3,336
Other investing activities	**(13,843)**	921	2,165
Net cash used in investing activities	**(141,334)**	(92,668)	(109,964)
Cash Flows from Financing Activities			
Dividends on preferred and common stock	**(37,253)**	(135,021)	(223,425)
Redemptions —			
Short-term debt	**(37,600)**	(16,765)	(83,805)
Long-term debt	**(213,650)**	(228,350)	(230,000)
Preferred stock	**(26,278)**	—	—
Issuances —			
Short-term debt	**38,000**	—	—
Long-term debt	**116,200**	223,500	275,000
Common stock	**1,377**	33,448	91,575
Other financing activities	**1,244**	(2,849)	(2,409)
Net cash used in financing activities	**(157,960)**	(126,037)	(173,064)
Net Change in Cash and Cash Equivalents	**(46,684)**	53,398	(59,851)
Cash and Cash Equivalents at Beginning of Year	**66,253**	12,855	72,706
Cash and Cash Equivalents at End of Year	**$ 19,569**	$ 66,253	$ 12,855

Statements of Retained Earnings

	For the Years Ended December 31,		
	1990	1989	1988
	(Thousands of Dollars)		
Balance at Beginning of Year	**$ 143,046**	$ 517,910	$ 554,815
Net Income (Loss)	**(78,484)**	(288,432)	189,430
	64,562	229,478	744,245
Less—			
Dividends—			
Preferred stock	**63,106**	37,340	37,472
Common stock	**—**	49,092	188,863
Reacquisition costs of preferred stock	**277**	—	—
	63,383	86,432	226,335
Balance at End of Year	**$ 1,179**	$ 143,046	$ 517,910

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

Statements of Preferred and Preference Stock

			December 31, 1990	December 31, 1989
Serial Preferred Stock, cumulative, $50 par value *(1)(2)*—Authorized 5,000,000 shares; 4,244,150 and 4,280,000 shares outstanding, respectively				
Series	**Shares**	**Redemption prices**	**(Thousands of Dollars)**	
4.08%	300,000	$51.50	$ 15,000	$ 15,000
4.26%	150,000	51.50	7,500	7,500
4.70%	200,000	51.50	10,000	10,000
4.42%	150,000	51.50	7,500	7,500
4.20%	180,000	52.00	9,000	9,000
8.24%	600,000	51.90	30,000	30,000
7.56%	700,000	51.685	35,000	35,000
8.94%*(3)*	964,150	52.90 prior to March 1, 1991; 51.60 thereafter	48,208	50,000
8.00%	1,000,000	53.29 prior to August 1, 1992; 52.29 thereafter	50,000	50,000
Premium on preferred stock			1,167	1,171
Total Preferred Stock, $50 par value			213,375	215,171
Serial Preferred Stock, cumulative, without par value—Authorized 5,000,000 shares; 4,110,300 and 4,600,000 shares outstanding, respectively (including 2,200,000 and 2,600,000 shares, respectively of redeemable preferred stock)*(2)*				
Series	**Shares**	**Redemption prices**		
A*(4)*	1,000,000	$51.50 prior to February 1, 1993; 50.00 thereafter	50,000	50,000
B*(5)*	910,300	51.50 prior to May 1, 1995; 50.00 thereafter	45,515	50,000
Total Preferred Stock, without par value			95,515	100,000
Preference Stock, cumulative, without par value—Authorized 5,000,000 shares; none outstanding			—	—
Total Preferred and Preference Stock			$ 308,890	$ 315,171
Mandatorily Redeemable Serial Preferred Stock, cumulative*(2)*—				
Series	**Shares**	**Par Value**		
11.75%*(6)*	600,000	none	$ 30,000	$ 50,000
8.52%*(7)*	1,000,000	none	50,000	50,000
8.00%*(8)*	600,000	none	60,000	60,000
Total Mandatorily Redeemable Preferred Stock			$ 140,000	$ 160,000

(1) 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.

(2) In December 1990, the Board of Directors declared four quarterly preferred stock dividends. The rates for the Adjustable Rate Series A and B were declared at the maximum rate of $1.50 and $1.8125 per share, respectively for each of the last three quarters. However, the actual amounts paid may be lower, based on market-interest rates on the normal declaration dates.

(3) In November 1990, 35,850 shares were purchased at a price of $43⅞ per share on the open market.

(4) Adjustable Rate Series A issued on March 3, 1983. Quarterly dividend rates are determined based on market interest rates of certain U.S. Treasury securities. Rates for dividends declared in 1990 were $0.75, $0.75, $0.75 and $0.75 in the first, second, third and fourth quarters, respectively. Rates for dividends declared in 1989 were $0.75, $0.75, $0.75 and $0.75 in the first, second, third and fourth quarters, respectively. The dividend rate for any dividend period will not be less than 6% per annum nor greater than 12% per annum applied to the liquidation preference value of $50 per share.

(5) Adjustable Rate Series B issued on May 15, 1985. Quarterly dividend rates are determined based on market interest rates of certain U.S. Treasury securities. Rates for dividends declared in 1990 were $0.875, $0.9375, $0.9313 and $0.9688 in the first, second, third and fourth quarters, respectively. Rates for dividends declared in 1989 were $0.975, $0.9813, $0.875 and $0.875 in the first, second, third and fourth quarters, respectively. The dividend rate for any dividend period will not be less than 7% per annum nor greater than 14½% per annum applied to the liquidation preference value of $50 per share. In November and December 1990, 89,700 shares were purchased on the open market.

(6) Subject to mandatory redemption in an amount sufficient to retire on each November 1, beginning in 1990, 200,000 shares at $50 per share plus accrued dividends. Beginning November 1, 1990, the Company may redeem up to 200,000 additional shares each year at $50 per share. On November 1, 1990, 400,000 shares were redeemed for $50 per share. On February 15, 1991, the remaining 600,000 shares were redeemed for $51.96 per share.

(7) Subject to mandatory redemption in an amount sufficient to retire on each February 1, beginning in 1992, 200,000 shares at $50 per share plus accrued dividends. Beginning February 1, 1992, the Company may redeem up to 200,000 additional shares each year at $50 per share.

(8) Subject to mandatory redemption in an amount sufficient to retire on each February 1, beginning in 1993, 120,000 shares at $100 per share plus accrued dividends. Beginning February 1, 1993, the Company may redeem up to 120,000 additional shares each year at $100 per share.

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

Statements of Long-Term Debt

	December 31,	1990	1989
		(Thousands of Dollars)	
First mortgage bonds—			
4⅝% series due 1993		$ 35,000	$ 35,000
5.85% series due 1996		40,000	40,000
6⅜% series due 1998		25,000	25,000
10% series due 1998		75,000	75,000
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
7⅞% series due 2003		60,000	60,000
6.60% series due 2004 (Pollution Control Series A)		7,750	7,900
9⅜% series due 2004		70,000	75,000
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
10¾% series due 2013 (Pollution Control Series C)		125,000	125,000
11⅝% series due 2014 (Pollution Control Series D)		75,000	75,000
10¾% series due 2015 (Pollution Control Series E)		116,245	116,245
10⅝% series due 2016		118,000	125,000
9¼% series due 2016		66,500	75,000
9⅝% series due 2016		125,000	125,000
7⅝% series due 2016 (Pollution Control Series F, G, and H)		150,000	150,000
8.30% series due 2017 (Pollution Control Series I)		33,755	33,755
Total first mortgage bonds		1,640,950	1,661,600
Revolving loan agreements *(1)*		240,000	256,800
10.75% loan agreement due 1992		8,930	8,930
Long-term loan agreement due 1992 *(2)*		—	60,000
8⅜% debt securities due 1994		100,000	100,000
Medium-term notes, series A *(3)*		43,500	43,500
Variable rate long-term debt due 2017 *(4)*		75,000	75,000
		2,108,380	2,205,830
Unamortized premium and discount on debt		(8,543)	(9,080)
		2,099,837	2,196,750
Obligation under capital leases		180,641	185,273
		2,280,478	2,382,023
Long-term debt and lease obligations maturing within one year		(76,423)	(30,459)
Total long-term debt		$ 2,204,055	$ 2,351,564

(1) In 1988, the Company entered into a $375,000,000 three-year revolving loan agreement with the provision for conversion to a two-year term loan. There was a $240,000,000 revolving loan outstanding under the agreement at December 31, 1990. Repayment of the $240,000,000 loan is required to begin December 9, 1991 with seven subsequent quarterly payments. Interest rates on the borrowings are, at the Company's option, based upon the banks' prime rate, their 30-, 60-, 90-day Certificate of Deposit rate, the borrowing rate at key banks in the London interbank market, competitive bid option or commercial paper. The interest rates at December 31, 1990 ranged from 8.375% to 10.000%.

(2) Long-term loan agreement was retired as of July 31, 1990.

(3) In 1989, the Company entered into a series of fixed rate medium-term notes. At December 31, 1990 the maturity dates ranged from 1996-1998 and the interest rates ranged from 9.25% to 9.31%.

(4) Interest rate is adjusted weekly and was 8.35% at December 31, 1990.

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

Notes To Financial Statements

Note 1 — Summary of Significant Accounting Policies:

Regulation — The Company is subject to regulations of the Illinois Commerce Commission (ICC) and the Federal Energy Regulatory Commission (FERC) and accordingly, prepares its financial statements based upon the concepts of Statement of Financial Accounting Standards No. 71 "Accounting for the Effects of Certain Types of Regulation" (FAS 71), which requires that the effects of the rate-making process be recorded. Such effects concern mainly the time at which various items enter into the determination of net income in order to follow the principle of matching costs and revenues. The Company's principal accounting policies are described below.

Principles Applied in Consolidation — The Financial Statements include the accounts of IPF (Illinois Power Finance) Company N.V., a wholly owned subsidiary. All intercompany transactions have been eliminated. In September 1990, IPF was dissolved and the net assets were transferred to Illinois Power Company.

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 (AFUDC) as described below. 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.

Allowance for Funds Used During Construction — The FERC Uniform System of Accounts defines AFUDC as the net costs for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used. AFUDC is capitalized at a rate that is related to the approximate weighted average cost of capital. In 1990, 1989 and 1988, the rate used for all construction projects was 10.0% (pre-tax). Although cash is not currently realized from such allowance, it is realized under the ratemaking process over the service life of the related property through increased revenues resulting from a higher rate base and higher depreciation expenses.

Depreciation — For financial statement purposes, the Company depreciates the various classes of depreciable property over their estimated useful lives by applying composite rates on a straight-line basis. In 1990, 1989 and 1988 provisions for depreciation were 2.786% of the average depreciable cost for the Clinton Power Station (Clinton) and 3.4% of the average depreciable cost for all other electric plant. Provisions for depreciation of gas utility plant, as a percentage of the average depreciable cost, were equivalent to 4.0% in 1990, 1989 and 1988.

Amortization of Nuclear Fuel — The Company leases nuclear fuel from Illinois Power Fuel Company under a capital lease. Amortization of nuclear fuel (including related financing costs) is determined on a unit of production basis. A provision for spent fuel disposal costs is charged to fuel expense based on kilowatt-hours generated.

Deferred Clinton Costs — According to an ICC order, in April 1987 the Company began deferring certain Clinton post-construction operating and financing costs, until rates to reflect such costs were effective (April 1989). After issuance of the March 30, 1989 ICC order, deferred Clinton post-construction costs ceased and amortization of the previously deferred post-construction costs over a 37.5 year period commenced. Although cash was not currently realized from these deferrals, it is realized under the ratemaking process over the service life of Clinton through increased revenues resulting from a higher rate base and higher amortization expense.

During the deferral period, a deferred financing cost was computed on Clinton plant not in rate base and the deferred costs. The deferred financing cost for ratemaking purposes was capitalized at a rate that is similar to AFUDC. Pursuant to generally accepted accounting principles, for financial statement purposes during the period January 1, 1988 through March 31, 1989, the Clinton deferred financing costs were calculated using a 2.75% net of income tax rate reflecting the debt component of the Company's financing costs.

Unamortized Deferred Abandonment Cost — The ICC order of August 7, 1985, authorized the Company to amortize and recover through rates $31.9 million of its investment in Clinton Unit 2 over the five-year period which ended in August 1990. The Company was not allowed a return on the unamortized investment balance.

Unamortized Debt Discount, Premium and Expense — Discount, premium and expense associated with long-term debt are amortized over the lives of the related issues. Costs related to refunded debt are amortized over the lives of the related new debt issues or the remaining life of the old debt issue if no new debt is issued.

Revenue and Energy Cost — Prior to 1988, the Company recorded revenues as billed to its customers on a monthly cycle billing basis. At the end of each month, there was an amount of unbilled electric and gas service that had been rendered from the latest date of each cycle billing to the month end. Effective January 1, 1988, the Company began recording revenues for services provided but not yet billed to more closely match revenues with expenses. This change also serves to conform the Company's accounting treatment with the treatment of unbilled revenues as taxable under the Tax Reform Act of 1986. Previously, the Company recognized revenues when services were billed. Unbilled revenues represent the estimated amount customers will be billed for service delivered from the time meters were last read to the end of the accounting period. The after-tax effect of the accounting change for the twelve months ended December 31, 1988 was an increase in net income of $44 million (61¢ per share). This increase was a combination of an increase of $34 million (48¢ per share), attributable to the cumulative effect of the accounting change to January 1, 1988, and an increase of $10 million (13¢ per share) in the 1988 results of operations. Implementation of this accounting change did not affect cash flow.

The electric fuel adjustment and purchased gas adjustment clauses provide that changes in allowable energy costs from the Company's filed tariffs are passed on to customers. Accordingly, allowable energy costs that are to be passed on to customers in a subsequent accounting period are deferred. The recovery of costs deferred under these clauses are subject to review and approval by the ICC. See "Note 2 — Clinton Power Station" for discussion of 1987 Uniform Fuel Adjustment Clause Reconciliation. Take-or-pay charges from pipeline suppliers are deferred for subsequent recovery from customers. See "Note 3 — Commitments and Contingencies" for discussion of Natural Gas Take-or-Pay Charges.

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

Principal sources of timing differences giving rise to deferred taxes are as follows:

- Use of the most liberalized depreciable lives and methods allowed by the Internal Revenue Code.
- Disallowed Clinton costs not recognized for tax purposes as a current deduction.
- Capitalization of certain construction overheads, dismantling, and other costs for book purposes that are claimed as current deductions for income tax purposes.
- Revenues and energy costs recognized in different periods for financial statement purposes than for income tax purposes.
- Alternative minimum tax payable in the current year that can be used to offset future tax liabilities.

For income tax return purposes, net depreciable utility plant does not include AFUDC that is capitalized for financial statement purposes. However, interest on construction is capitalized for tax purposes in accordance with applicable tax law.

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

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

Preferred Dividend Requirements — Preferred dividend requirements reflected in the income statement are recorded on the accrual basis and relate to the period for which the dividends are applicable.

Statements of Cash Flows — Cash and cash equivalents include cash on hand and temporary investments purchased with initial maturity of three months or less. Capital lease obligations not affecting cash flow increased by $23,942,000, $25,867,000 and $30,029,000 during 1990, 1989 and 1988, respectively. Income taxes and interest paid are as follows:

	Years Ended December 31,		
	1990	1989	1988
	(Thousands of Dollars)		
Income taxes	$ 20,321*	$ 35*	$ 21,124*
Interest	$202,126	$223,805	$207,102

*Excludes refunds of prior years' income taxes in each of the years 1990, 1989 and 1988 in the amount of $35,240,000, $36,779,000 and $45,250,000, respectively.

Financial Statement Reclassification — Certain reclassifications have been made to prior years' financial statements to conform to the 1990 presentation.

Note 2 — Clinton Power Station:

The Company owns 86.79% of the Clinton nuclear power station, which was placed in service in 1987 and represents approximately 19% of the Company's installed generation capacity. During 1990, Clinton provided 19% of the Company's total electric generation. Clinton provided the Company with the lowest fuel cost per megawatt-hour generation. The investment in Clinton and its related deferred costs represented approximately 65% of the Company's total assets at December 31, 1990, and Clinton related costs represented 41% of the Company's total 1990 other operating, maintenance and depreciation expenses. Clinton's equivalent availability was 47%, 40% and 75% for the years 1990, 1989 and 1988, respectively. Clinton's equivalent availability was lower in 1990 and 1989 due, in part, to extended refueling and maintenance outages in those years.

During 1988, Clinton-related deferrals represented 86% of the Company's net income before the effect of an accounting change. Earnings in 1989 were $20 million or 27¢ per share, excluding the $346 million, net of income taxes, or $4.61 per share write-off of Clinton costs. Earnings in 1990 were $22 million or 29¢ per share, excluding the $137 million, net of income taxes, or $1.82 per share write-off of Clinton costs. Management believes that the result of the recent Appellate Court decision on the Company's appeal of the March 1989 rate order, as discussed below, will favorably impact earnings in the future. However, until Clinton is fully included in rate base, earnings will continue to be depressed.

Ownership of an operating nuclear generating unit exposes the Company to significant other risks including increased and changing regulatory, safety and environmental requirements. The Company expects to be allowed to continue to operate Clinton; however, if any unforeseen or unexpected developments would prevent the Company from doing so, the Company could be materially adversely affected.

Rate and Regulatory Matters

1989 Rate Order

The March 30, 1989 rate order from the ICC rejected the Company's November 1987 proposal for a ten-year rate moderation plan, and granted instead a one-time increase of $60.5 million, or 6.9%, that became effective April 4, 1989. In Illinois, the ICC may include in the utility's rates only those costs of a new electric generating plant that are determined to be reasonable. Therefore, an audit of Clinton construction costs was conducted by auditors under contract with the ICC. The ICC order included various disallowances of Clinton-related costs, due to alleged "unreasonable" expenditures, as well as the disallowance of the common equity return component of Clinton post-construction cost deferrals from January 1, 1988 through March 31, 1989. This order also found approximately $2.3 billion (72.8%) of the reasonable Clinton costs to be not "used and useful" and denied a common equity return thereon.

The Company, believing that certain of the ICC's conclusions in the rate order were contrary to the law and the evidence in the case, appealed the order to the Illinois Appellate Court, Third District. Other parties also appealed. In February 1991, the Appellate Court issued its decision. The Appellate Court reversed the portion of the order which had found 72.8% of Clinton not "used and useful," and remanded this portion of the order to the ICC to determine whether and/or what portion of Clinton is "used and useful" based on established pre-1986 standards. The Court also reversed the portion of the order which had denied the Company recovery of a common equity return on deferred Clinton post-construction costs after January 1, 1988. However, the Court affirmed the order with respect to the ICC's determination that a portion of the cost of Clinton was "unreasonable cost" and should not be included in rate base.

Following the March 1989 rate order, and after consultation with legal counsel, management believed there was a reasonable possibility of reversing various aspects of the order through the appeals process. The Company, however, recorded a loss in the first quarter of 1989 of $346 million, net of income taxes, or $4.61 per share. Further, as a result of the recent Appellate Court decision, the Company recorded an additional loss in the fourth quarter of 1990 of $137 million, net of income taxes, or $1.82 per share. The losses recorded in both 1990 and 1989 reflect, in total, the ICC's disallowance of Clinton "unreasonable costs" from rate base in the March 1989 order and affirmed by the Appellate Court, which was offset in part by the Court's decision regarding approximately $102 million deferred common equity return.

The Company anticipates that the ICC and other parties will appeal the Appellate Court's determinations on the "used and useful" and deferred Clinton post-construction common equity return issues, as well as on several other issues which the other parties had raised in their appeals. In connection with any such appeal, the Company would seek review of the Appellate Court's affirmance of the ICC's "unreasonable cost" disallowance. Any appeals to the Supreme Court will stay the remand to the ICC. If the Supreme Court affirms the Appellate Court decision in all respects, the case will be remanded to the ICC for further proceedings. At that time, the Company would seek inclusion of the entire reasonable cost of Clinton in rate base, would seek rate recovery of the previously disallowed common equity return on deferred post-construction costs over the remaining life of Clinton (approximately $102 million), and would propose a rate recovery mechanism addressed to the foregone common equity return on the portion of Clinton which the Commission had found not "used and useful" (approximately $149 million at December 31, 1990). Each month that the Company is not earning a common equity return on 39.3% of the cost of Clinton deemed reasonable but not "used and useful" by the ICC (see 1990 Rate Order below) results in the loss of income of approximately $3.6 million. The Company will seek inclusion of the remainder of the reasonable Clinton costs in rate base as "used and useful" and will seek recovery of the previously disallowed common equity return on deferred post-construction costs in the planned 1991 rate request (described on the following page). None of the outcomes of these proceedings can be predicted at this time.

The increased rates authorized by the March 1989 rate order were billed and collected subject to refund pending the outcome of the appeal. The total amount of revenues billed and collected subject to refund for 1990 and 1989 are approximately $55 million and $36 million, respectively. Based on the Appellate Court decision, the Company would not be required to refund these revenues.

1990 Rate Order

On June 6, 1990, the ICC issued an order in the Company's 1989 electric rate case approving an annualized increase in electric rates of approximately $75 million, or 7.7%. The order, as amended on July 13, 1990, found that Clinton is 60.7% "used and useful" for rate-making purposes, as compared to 27.2% in the ICC's March 1989 order, but does not allow the Company to earn a common equity return on the 39.3% of Clinton determined to be not "used and useful." This "used and useful" determination represents about $71 million of the $141 million difference between the Company's requested $216 million increase and the $75 million increase granted in the order.

On July 16, 1990 the Company appealed the June 1990 order to the Illinois Appellate Court, Third District. Other parties also appealed.

The June 1990 order directed the ICC staff to make a report to the ICC within 90 days regarding the issue of performance standards for nuclear-generating units. Such standards could include a program of financial rewards and penalties based on the operation of Clinton. The ICC staff has issued a report to the commissioners for their review. It is uncertain when the ICC will address operating performance standards for nuclear plants in a rule-making or other proceeding.

1991 Rate Request

The Company intends to file an electric retail rate request with the ICC in March 1991 seeking recovery of the remaining reasonable costs resulting from Clinton being fully "used and useful," higher levels of operating and maintenance expenses as reflected in a forecasted 1992 test year and the recovery of the previously disallowed common equity return on deferred Clinton post-construction costs. An order would be due by February 1992.

Dividends

As a result of the March 1989 and June 1990 ICC rate orders, the Company's earnings are depressed and will continue to be until the effects of the Appellate Court's decision on the March 1989 rate order, as well as the impact of the Company's 1991 rate request, are reflected in rates. However, the Company is planning to file a rate request in 1991 that will address the Appellate Court's decision. The Company expects earnings to be favorably impacted as a result of the anticipated order as discussed above. Although the March 1989 and June 1990 rate orders granted the Company only about one-third of the rate relief requested, the Company's projections indicate that current rates will enable it to meet its operating requirements and continue to service its existing debt, preferred stock dividends and sinking fund requirements. However, due to legal prohibitions restricting the Company from declaring dividends if retained earnings are less than zero, together with the uncertainty surrounding the outcome of the March 1989 rate order appeal, the Company's management determined in April 1989 that it was in the best interest of the Company and the stockholders to suspend the common stock dividend. The recent Appellate Court decision should allow the Company to begin rebuilding its retained earnings and to declare a common dividend later in 1991.

The results of the appeal of the March 1989 order could have affected the Company's ability to continue paying its preferred stock dividend. Therefore, the Company filed a petition with the ICC on August 30, 1990 requesting authorization to declare and pay the preferred stock dividend in the event additional regulatory related disallowances necessitated write-offs which would cause retained earnings to be temporarily negative. On October 24, 1990, the ICC issued an order granting the Company this authorization, subject to the satisfaction of certain conditions relating to current net income, cash and cash equivalents and total capitalization, which are intended to ensure that the Company's ability to render reasonable and adequate utility service at reasonable rates is not impaired by the declaration and payment of preferred stock dividends. In December 1990, the Company's Board of Directors declared four quarterly preferred stock dividends (approximately $35 million), to be paid on the normal quarterly payment dates in 1991 if the conditions specified in the ICC order are met.

1987 Uniform Fuel Adjustment Clause Reconciliation

The Company is currently the subject of an annual uniform fuel adjustment clause reconciliation proceeding initiated by the ICC in a docket pertaining to the twelve months ended December 31, 1987. The ICC Staff filed testimony in December 1990, recommending, among other things, that carrying costs in the amount of $29.3 million incurred by the Company's nuclear fuel affiliate, Illinois Power Fuel Company, between August 1985 and April 1987 and added to the balance of nuclear fuel inventory during the same period in accordance with a previous ICC order (and thus considered probable of recovery), were neither prudent nor reasonable and that the balance of recoverable nuclear fuel should be reduced by this amount. The Company's preliminary analysis of the Staff recommendation indicates that if it were adopted by the ICC and ultimately affirmed on appeal, the Company would be required to record a loss of up to $27 million, net of income taxes. The Company believes the Staff recommendation lacks legal and factual foundation. The Company will oppose the Staff recommendation in the current reconciliation proceeding, and will appeal the ICC's order to the courts should the ICC adopt the Staff position.

The position of the ICC Staff is not binding upon the ICC and the ICC may accept or reject, in whole or in part, any Staff position. A decision by the ICC is expected during the second half of 1991.

Accounting Matters — The Company currently prepares its financial statements in accordance with FAS 71 and, therefore, accounts for the effects of the rate-making process. Accordingly, the Company records various regulatory assets and liabilities, such as deferred Clinton costs and over/under recoveries of fuel costs. In order for a company to report under FAS 71, the company's rates must be designed to recover its costs of providing service, and the company must be able to collect those rates from customers. Management believes that the Company currently meets the criteria for continued application of FAS 71, but will continue to evaluate significant changes in the regulatory and competitive environment to assess the Company's overall consistency with the criteria of FAS 71.

The Company believes that Clinton is needed to meet current demand and that it has managed the construction of Clinton prudently and efficiently. Therefore, the Company believes it should be allowed to recover the cost of that power station and nuclear fuel costs, through its rates.

Management is unable to predict the ultimate outcome of the uncertainties discussed in this note which could have a material adverse effect on the Company's earnings and/or financial position. Accordingly, no provision for any liability or additional loss that may result upon resolution of these matters has been made in the accompanying financial statements.

Note 3 — Commitments and Contingencies:

Commitments — The 1991 construction budget is $184 million, which includes $111 million for electric facilities (including $16 million for acid rain compliance), $21 million for gas facilities, $24 million for nuclear fuel and $28 million for general plant. The five-year construction program for 1991 through 1995 is estimated to be $1.297 billion.

In addition, the Company has substantial commitments for the purchase of coal under long-term contracts. Coal contract commitments for 1991 through 1995 are estimated to be $551 million (excluding contract escalation provisions). The Company also has existing contracts with five pipeline suppliers to provide natural gas supply in addition to spot market purchases. Natural gas contract demand charges are expected to average approximately $39 million annually. These costs are recoverable under the Company's electric fuel and purchased gas adjustment clauses.

Insurance — The Company has property damage, decontamination and decommissioning insurance for loss resulting from damage to Clinton. This insurance is structured through a level of primary coverage provided by nuclear insurance pools and excess coverage from a combination of nuclear insurance pools and an industry-owned mutual insurance company. The primary coverage provides limits of $500 million and the excess coverage currently provides limits of $1.685 billion, for a total available coverage of $2.185 billion. NRC regulations require that, in the event of an accident, whenever the estimated costs of reactor stabilization and site decontamination exceed $100 million, the insurance proceeds must be dedicated to and used, first, to return the reactor to, and maintain it in, a safe and stable condition and, second, to decontaminate the reactor and reactor station site in accordance with a plan approved by the NRC. The insurers then would indemnify the Company for property damage up to $1.985 billion less any amounts used for stabilization and decontamination. The remaining $200 million (reduced by stabilization and decontamination expenditures over $1.985 billion) would cover decommissioning costs in excess of funds already collected for decommissioning, as discussed later in this note. The Company has replacement power insurance coverage through the industry-owned mutual insurance company for the extra cost to purchase replacement power in case of an extended accidental shutdown of Clinton. This insurance does not cover replacement power costs until Clinton has been out of service for 21 weeks. Thereafter, the insurance covers 100% of the estimate of the plant's weekly replacement power costs stated in the policy declarations (Weekly Costs), for up to 52 weeks, 67% of the Weekly Costs for up to the next 52 weeks, and 33% of the Weekly Costs for up to the next 52 weeks.

A major loss covered under the property damage or replacement power insurance coverages involving Clinton or other stations insured by the industry-owned mutual insurance company could result in additional annual premium assessments to the Company of up to approximately $8.4 million. In addition, while the Company has no reason to anticipate a serious nuclear incident at Clinton, if such an incident should occur, the claims for property damage, replacement power costs, and/or other costs and expenses could materially exceed the limits of insurance coverage available.

All nuclear power station operators are subject to the Price-Anderson Act. In accordance with that Act, public liability for a nuclear incident is currently limited to $7.807 billion. Coverage of the first $200 million is provided by private insurance. Excess coverage is provided by retrospective premium assessments against each licensed nuclear reactor in the United States. The Company's liability for such an assessment would be up to $63 million per incident payable in annual installments of not more than $10 million. Additionally, if the sum of all public liability claims and legal costs arising from a nuclear incident exceed the amount of primary and excess coverage in force, each licensee can be assessed an additional 5 percent ($3.15 million) of the maximum retrospective assessment.

A Master Worker Policy covers claims by workers who claim bodily injury, sickness, or disease as a result of initial radiation exposure occurring on or after January 1, 1988. The policy has an aggregate limit of $200 million applying to the commercial nuclear industry as a whole. As claims are paid under the policy, there is a provision for automatic reinstatement of policy limits up to an additional $200 million. There is also a provision for assessment of additional premiums if claims exceed funds available in the insurance company's reserve accounts to pay claims. The Company's maximum share of additional premiums in future years for this contingency could be up to approximately $3.2 million.

Decommissioning and Nuclear Fuel Disposal Costs — The Company is responsible for its ownership share of the costs of decommissioning Clinton and for spent nuclear fuel disposal costs. The establishment of an external trust fund was authorized by the ICC to invest funds for the future dismantlement and decommissioning costs of Clinton, based on current requirements (estimated to be $142 million in 1990 dollars). The Company began recovering decommissioning expense in its rates in April 1989. In accordance with the 1990 ICC rate order, annual decommissioning funding requirements were increased effective June 1990. During 1991 the Company intends to seek recovery of additional decommissioning costs from its rate payers. The Company contributed $2.7 million and $1.4 million to the external trust fund for decommissioning in 1990 and 1989, respectively. The external trust consists of two trust funds, one to receive contributions that qualify for current federal and state income tax deductions and the other to receive contributions that do not qualify for a current income tax deduction.

Under the Nuclear Waste Policy Act of 1982, the U.S. Department of Energy (DOE) is responsible for the permanent storage and disposal of spent nuclear fuel. DOE currently charges one mill per net kilowatt-hour generated for future disposal of spent fuel. The Company is recovering this amount through its rates.

Natural Gas Take-or-Pay Charges — In accordance with a FERC order issued in August 1987, the Company's pipeline suppliers have been allowed to bill the Company for their take-or-pay costs. At December 31, 1990, the Company's obligation for such costs was approximately $50 million. Estimated payments under this obligation are $24 million, $17 million, $8 million and $1 million in 1991, 1992, 1993 and 1994, respectively. The Company paid approximately $26 million, $24 million and $8 million in 1990, 1989 and 1988, respectively, related to its take-or-pay obligations.

In November 1988, the ICC issued an order that allowed the Company to fully recover take-or-pay costs allocated to it under rate schedules approved by the FERC. In accordance with the ICC order, the Company began billing its customers for such costs on February 1, 1989. On December 5, 1989, the Illinois Appellate Court reversed the ICC order and remanded this matter to the ICC for further proceedings. The Illinois Supreme Court granted petitions filed by the Company, the ICC and certain other utilities for leave to appeal the Appellate Court decision. The matter is now pending before the Illinois Supreme Court for decision.

At the federal level, the District of Columbia Court of Appeals has declared illegal the "purchase deficiency" method used by most pipelines for allocating take-or-pay costs to local distribution companies (such as the Company). The U.S. Supreme Court has denied further review. In response to these actions, FERC issued Order No. 528 which stays further collections under the purchase deficiency method and permits pipelines to file new recovery mechanisms.

Pursuant to Order No. 528, the Company's pipeline suppliers have filed new take-or-pay cost recovery mechanisms. Management does not expect that the ultimate outcome of the ICC and FERC proceedings will have a material adverse effect on the Company's financial position or results of operations.

Environmental Matters —

Clean Air Act

The Company's current estimates are that capital expenditures, which includes installation of scrubbers on certain Company units, necessary to achieve the emission reductions set forth in the acid rain section of the Clean Air Act, would be between $250 million and $450 million through the year 2000. Switching from high-sulfur to low-sulfur coal or fuel blending at some generating units and the installation of low-nitrogen-oxide burners on several generating units would also be necessary to comply with the legislation. Compliance with the legislation could result in additional annual operating costs, associated with scrubbers, of approximately $40 million beginning in 1996. It is possible that some of these costs would not be recovered from the Company's ratepayers. Capital costs associated with alternative compliance measures not involving installation of scrubbers, such as fuel switching, would be significantly lower than these estimates, although operating costs, primarily associated with higher cost fuels, would increase. If the Company's preferred plan for scrubbers is pursued, the Company will seek federal and state assistance to offset a portion of these capital costs; however, it is uncertain at this time whether any governmental financial assistance will be received. In addition, the estimates noted above are preliminary and will be refined as more detailed analyses are completed.

Gas Manufacturing Sites

The Company, through its predecessor companies, is on a State of Illinois list of owners and operators of former gas manufacturing sites. The Company is investigating to determine whether waste materials are present, whether such materials constitute an environmental or health risk, and whether the Company has any responsibility for remedial action. The clean-up will require substantial effort over a number of years. The overall costs cannot be estimated at this time; however, the Company does not anticipate that such costs will have a material adverse effect on its financial position or results of operations. The Company has notified certain insurance carriers of the situation but has not formally filed claims.

Electric and Magnetic Fields

The possibility that exposure to electric and magnetic fields emanating from power lines and other electric sources may result in adverse health effects have been a subject of increased public, governmental and media attention in recent months. A considerable amount of scientific research has been conducted on this topic with no definitive results. Research is continuing. It is too soon to tell what, if any, impact these actions may have on the Company's financial condition.

Legal Proceedings and Related Matters —

Powell Suit — This suit, filed in September 1986 in an Illinois trial court on behalf of a proposed class of all customers of cooperatives that obtained power from the Company, alleged that such customers would be required to pay increased energy supply costs as a result of the Company's alleged mismanagement of the construction of Clinton. This suit sought damages sufficient to compensate plaintiffs for their injuries, together with the cost of suit. Four of the five counts brought by plaintiffs in the suit have been dismissed by the court, and the fifth count has been voluntarily dismissed by plaintiffs without prejudice.

Soyland Suit — This suit was filed in an Illinois trial court by Soyland Power Cooperative, Inc. (Soyland), the owner of approximately 13% of Clinton, alleging breach of contract, breach of fiduciary duties, negligent or fraudulent misrepresentations, and fraudulent concealment by the Company in connection with the construction of Clinton and the Company's performance under the Clinton Ownership Participation Agreement. The suit sought damages sufficient to compensate plaintiffs for their injuries, together with prejudgment interest and costs of suit. The Company asserted counterclaims against Soyland to recover approximately $276 million in economic benefits obtained by Soyland under a series of interrelated 1984 agreements which the Company alleged Soyland had repudiated in part by asserting its claims against the Company.

On April 18, 1990, the Company and Soyland reached an agreement for settlement of this lawsuit. The settlement agreement provided for the dismissal of all claims brought by each party, an amendment to the Power Coordination Agreement between the parties, and the deposit by the Company of a settlement payment in escrow to be paid to Soyland. The settlement payment will not have a material adverse effect on the Company's financial condition or results of operations. On September 12, 1990 the court granted the parties' joint motion to dismiss the suit pursuant to the settlement.

Three of the plaintiffs in the Powell suit, described earlier, sought leave to intervene in this suit and to compel disclosure of all of the terms of the settlement between the Company and Soyland. On September 12, 1990, the trial court denied the petition to intervene. The petitioners have appealed that order to the Illinois Appellate Court, Fourth District, which has tentatively scheduled the case for oral argument in April 1991.

Weiland Suit — This derivative lawsuit was filed in March 1989 in federal district court in Illinois by a stockholder against the Company as a nominal defendant, 11 of the Company's 14 directors and a director emeritus, alleging that the individual defendants acted in bad faith, with a gross abuse of discretion and in breach of their fiduciary duties in connection with the construction and licensing of Clinton. A Special Committee of the Board of Directors of the Company investigated the allegations (as well as similar allegations contained in a May 1988 demand letter from the attorney for this stockholder and in an April 1989 demand letter from an attorney for another individual who claimed to be a stockholder) and issued a report finding that the best interests of the Company required that the Company seek to terminate the suit and that no claims arising out of the construction of Clinton be maintained against the Company's directors or officers. The Company and the individual defendants then filed motions to terminate the suit, and on September 17, 1990 the court entered a final judgment in favor of the defendants. No appeals were filed.

Hauman Suit — This suit, filed in May 1989 in federal district court in Illinois, was brought by two purchasers of the Company's common stock purporting to act as representatives of a class of such purchasers against the Company, the Company's independent accountants and two current and two former officers of the Company alleging that there were untrue statements in, and omissions of material facts from, the Company's financial statements, reports, news releases and other communications on and after March 31, 1987, concerning the Company and its financial condition, and that as a result the price of the Company's common stock was artificially inflated. Plaintiffs seek compensatory damages in an unspecified amount. The court has certified a class consisting of all persons (other than defendants or their affiliates) who purchased the Company's common stock from March 31, 1987 through April 20, 1988 and who still held such stock on the latter date. Notice of the pendency of this class action was mailed on or about May 1, 1990. The defendants moved for summary judgment on the ground that the one claim certified as a class action was filed after the expiration of the statute of limitations. On December 4, 1990, the District Court denied defendants' motion for summary judgment. The defendants have filed a motion seeking reconsideration of that ruling or permission to appeal the ruling to the Court of Appeals. The Company, after consultation with legal counsel, believes that this legal proceeding will have no material adverse effect on its financial condition or results of operations.

Other — The Company is involved in legal or administrative proceedings before various courts and agencies with respect to matters occurring in the ordinary course of business, some of which involve substantial amounts. Management believes that the final disposition of these proceedings will not have a material adverse effect on the financial position or results of operations of the Company.

Note 4 — Lines of Credit and Short-Term Loans:

The Company had total lines of credit represented by bank commitments amounting to $502 million, of which $259 million was unused at December 31, 1990. These bank commitments support the amount of commercial paper outstanding at any time and are available to support other Company activities. For additional information on lines of credit refer to the following table:

Lines of Credit	At December 31, 1990				
	Total	Used	Available	Weighted Average Borrowings	Weighted Average Rate
	(Millions of Dollars)				
5-year revolving loan agreements*	$100	$ —	$100	$ —	—
3-year revolving loan agreements**	375	240	135	234	8.9%
Commercial banks for short-term borrowings***	27	3	24	3	9.0%
Total	$502	$243	$259		

*Effective through June 4, 1992. For the unused portion of the commitment, the Company pays a fee of 3/16% per annum. The interest rate on borrowings under these agreements is, at the Company's option, based upon the lending banks' reference rate, their Certificate of Deposit rate, the borrowing rate of key banks in the London interbank market or a bid option. The total amount outstanding under these agreements was reduced from $60 million to zero during 1990.

**Includes a provision for conversion to a two-year term loan. Fees for these agreements are 1/16% on the unused portion and 1/8% on the entire facility amount. Interest rates on the borrowings are, at the Company's option, based upon the banks' prime rate, their 30-, 60-, 90-day Certificate of Deposit rate, the borrowing rate at key banks in the London interbank market, competitive bid option or commercial paper. The total amount outstanding under these agreements was reduced from $256.8 million to $240 million during 1990. In January 1991, the Company borrowed $35 million under this revolving loan agreement to finance its loan to the Trustee of the Company's new incentive compensation employee stock ownership plan. The Company, subject to market conditions, expects to refinance this borrowing by issuing medium-term notes. For further discussion of this matter refer to "Note 10 — Common Stock and Retained Earnings."

***Bank borrowings under such commitments have a maximum 360-day maturity from the time of issuance and at the Company's option, 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 or at a lower rate agreed to by the banks.

In addition, the Company has letters of credit in the total amount of $80,547,948 from the Mitsubishi Bank that support $75 million Pollution Control Variable Rate Debt. The Company pays a fee of 0.3% per annum on the unused amount of the credit. Interest rates on unreimbursed drawings under the letters of credit are at the Federal Funds rate as defined by the bank plus 0.5% per annum for up to 30 days, at the bank's prime rate for 31 days through one year and at the bank's prime rate plus 1% per annum for over one year.

To reduce costs, the Company cancelled a $50 million revolving loan agreement on November 1, 1990. The agreement was to expire on November 13, 1992. No borrowings were made under this agreement during 1990. The Company paid a fee of 0.15% per annum for the unused line of credit.

For the years 1990, 1989 and 1988, the Company had short-term borrowings consisting of bank loans and commercial paper outstanding at various times (year end borrowings mature within 30 days) as follows:

	1990	1989	1988
	(Millions of Dollars, except rates)		
Balance at December 31			
Bank loans	$ 3	$ 3	—
Commercial paper	—	—	$ 19
Interest rate at December 31	8.8%	9.1%	9.9%
Maximum amount outstanding at any month end	$ 38	$ 11	$120
Average daily borrowings outstanding during the year	$ 12	$ 6	$ 73
Weighted average interest rate during the year	8.8%	9.5%	7.6%

The Company calculated the weighted average interest rates by dividing the interest expense during the period for such borrowings by the average short-term borrowings indicated above.

Note 5 — Facilities Agreements:

The Company and Soyland Power Cooperative, Inc. (Soyland) reached a final agreement on the ownership percentages in Clinton on November 1, 1989. This agreement established an ownership in Clinton of 13.21% for Soyland. Soyland has an investment of $450 million in the direct costs of placing Clinton in commercial operation. The Company's ownership percentage of 86.79% is reflected in utility plant (at original cost) and in accumulated depreciation on the balance sheet. Each participant is responsible for its share of nuclear fuel, decommissioning, ongoing construction and operating and maintenance costs. The Company's share of Clinton operating expenses is included in the corresponding operating expenses on its income statement. See "Note 3 — Commitments and Contingencies" for information relating to settlement of a lawsuit filed by Soyland against the Company.

The Company's net investment in Clinton including AFUDC, land and related facilities at December 31, 1990, was approximately $3.2 billion, net of recorded disallowed plant costs, excluding depreciation. Agreements between the Company and Soyland provide that the Company has control over construction and operation of the generating station, that the parties share electricity generated in proportion to their ownership interests, and that the Company will have certain obligations to provide replacement power to Soyland at certain times if the Company ceases to operate or reduces output from Clinton.

Under the provisions of a Power Coordination Agreement between Soyland and the Company dated October 5, 1984 as amended on October 16, 1985, April 12, 1989 and May 30, 1990 the Company provides Soyland with 10.7% (372 megawatts) of electrical capacity from its fossil-fueled generating plants through 1992, 8% in 1993 and 1994 and 12% in 1995 until the agreement expires or is terminated. This is in addition to the capacity Soyland receives as an owner of Clinton. The Company is compensated with capacity charges and for energy costs and variable operating expenses. The Company transmits energy for Soyland through the Company's transmission and subtransmission systems. At any time after December 31, 2004, either the Company or Soyland can terminate the Power Coordination Agreement, by giving not less than seven years' prior written notice to the other party. The party to whom termination notice has been given may designate an earlier effective date of termination which shall be not less than twelve months after the date of receipt of such notice.

Note 6 — Income Taxes:

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

	Years Ended December 31, 1990	1989	1988
	(Thousands of Dollars)		
Current taxes—			
Included in Operating Expenses and Taxes	$ 21,308	$ (43,577)	$ 35,194
Included in Other Income and Deductions — Miscellaneous—net	8,367	6,499	(53,690)
Total current taxes	29,675	(37,078)	(18,496)
Deferred taxes—			
Book-tax depreciation differences—net	72,742	91,086	129,072
Disallowed Clinton plant costs	(7,465)	(80,977)	—
Certain overhead, dismantling and other costs capitalized—net	5,803	1,300	(10,520)
Deferred Clinton costs	(3,094)	7,236	34,708
Alternative minimum tax	(22,516)	36,401	(9,773)
Book-tax revenue and expense recognition differences	(6,045)	(4,005)	13,928
Clinton Unit 2 abandonment	(1,470)	(2,629)	(3,173)
Take-or-pay charges	(4,482)	20,529	3,396
Net operating loss carryforward	(23,193)	(81,360)	—
Total deferred taxes	10,370	(12,419)	157,638
Deferred investment tax credit—net	(14,121)	(8,787)	(60,371)
Deferred investment tax credit— Disallowed Clinton plant costs	(4,343)	(17,104)	—
Total investment tax credit	(18,464)	(25,891)	(60,371)
	$ 21,581	$(75,388)	$ 78,771

Income taxes are different than the amount which would be computed by applying the statutory federal and state income tax rates to pre-tax income (38.7% in 1990, 38.5% in 1989 and 38.2% in 1988), the principal differences are as follows:

	Years Ended December 31, 1990	1989	1988
	(Thousands of Dollars)		
Computed tax expense at statutory federal and state income tax rates	$ (22,043)	$(140,003)	$ 102,517
Reductions (increases) in income taxes resulting from—			
Allowance for funds used during construction, disallowed Clinton plant costs	(45,007)	(84,538)	—
Allowance for funds used during construction	644	650	651
Deferred Clinton financing costs	—	5,363	3,101
Investment tax credit, disallowed Clinton plant costs	4,343	17,104	—
Investment tax credit	8,167	7,700	3,250
Depreciation not normalized	(11,428)	(11,683)	(11,110)
Deferred Clinton costs	(2,569)	684	9,381
Other—net	2,226	105	(527)
Total income taxes	$ 21,581	$ (75,388)	$ 78,771

Combined federal and state effective income tax rates were (37.9)%, 20.7% and 29.4%, for the years 1990, 1989 and 1988, respectively. Investment tax credit carryforwards, unrecorded at December 31, 1990, were approximately $35 million. These credits are available to offset future income tax liabilities. Of these credits, approximately $25 million expire in 2002 and approximately $10 million expire in 2003. At December 31, 1990, the Company had approximately $241 million of federal income tax net operating loss carryforwards available to offset future taxable income. Approximately $35 million of these carryforwards expire in 2004, $156 million expire in 2005 and $50 million expire in 2006. The Company also has a minimum tax credit at December 31, 1990, of approximately $29 million which may carried forward indefinitely. This credit, is available to offset future regular income tax liabilities in excess of the tentative minimum tax.

Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" adopts a liability method of tax allocation relating to transactions that affect book and tax income in different reporting periods. Mandatory adoption of this statement has been deferred until 1992, and may be further delayed.

Note 7 — Capital Leases:

Illinois Power Fuel Company (Fuel Company), which is 50% owned by the Company, was formed in January 1981 for the purpose of leasing nuclear fuel to the Company for Clinton. Lease payments are equal to the Fuel Company's cost of fuel as consumed (including related financing and administrative costs). Billings under the lease agreement during 1990, 1989 and 1988 were $33 million, $29 million and $59 million, respectively, including $7 million, $8 million and $8 million, respectively, of financing costs. The Company is obligated to make subordinated loans to the Fuel Company at any time the obligations of the Fuel Company that are due and payable exceed the funds available to the Fuel Company. At December 31, 1990 the Company had a note receivable from the Fuel Company in the amount of $11,978,000. The Company has an obligation for spent nuclear fuel disposal costs of leased nuclear fuel.

At December 31, 1990 and 1989, current obligations under capital lease for nuclear fuel are $45,037,000 and $28,760,000, respectively. At December 31, 1990 and 1989, current obligations for other property under capital leases were $1,386,000 and $1,699,000, respectively.

Over the next five years estimated payments under capital leases are as follows:

	(Thousands of Dollars)
1991	$ 46,423
1992	32,411
1993	30,694
1994	25,487
1995	15,913
Thereafter	29,713
Total	$180,641

Note 8 — Debt Retirement Provisions:

Certain supplemental indentures to the Mortgage and Deed of Trust require that the Company make annual deposits, as a sinking and property fund, in amounts not to exceed $7,100,000 in 1991 and 1992, $7,500,000 in 1993, $8,750,000 in 1994 and $11,000,000 in 1995. These amounts are subject to reduction and historically have generally been met by pledging property additions, as permitted by the Mortgage and Deed of Trust.

During the five years after December 31, 1990, the amounts of debt maturing annually are as follows:

	Maturities	Cash Sinking Fund Requirements	Total
		(Thousands of Dollars)	
1991	$ 30,000	$ 5,175	$ 35,175
1992	128,930	5,175	134,105
1993	125,000	5,200	130,200
1994	100,000	5,200	105,200
1995	—	5,225	5,225
Total	$383,930	$25,975	$409,905

These amounts exclude capital lease requirements. See "Note 7 — Capital Leases."

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, 1990, was approximately $1,303,000,000.

Note 9 — Mandatorily Redeemable Preferred Stock:

In 1990, the Company redeemed $20 million of 11.75% mandatorily redeemable serial preferred stock. In February 1991, the Company redeemed the remaining $30 million of 11.75% mandatorily redeemable serial preferred stock. During the five years after December 31, 1990, the amounts of mandatorily redeemable preferred stock outstanding at such date (including the February 1991 redemption), required to be redeemed at stated value are as follows:

	(Thousands of Dollars)
1991	$ 30,000
1992	10,000
1993	22,000
1994	22,000
1995	22,000
Thereafter	34,000
Total	$140,000

Note 10 — Common Stock and Retained Earnings:

The Company has an Automatic Reinvestment and Stock Purchase Plan and an Employees Stock Ownership Plan (ESOP) for which at December 31, 1990, 3,270,236 and 29,115 shares, respectively, of common stock were designated for issuance.

The Company has an Incentive Savings Plan (Plan) for salaried employees. The Company's matching contribution is used to purchase common stock. Under this Plan, 27,545 shares of common stock were designated for issuance at December 31, 1990.

The Company has an Incentive Savings Plan for employees covered under a Collective Bargaining Agreement. At December 31, 1990, 69,167 shares of stock were designated for issuance. Effective January 1, 1991 the Company matching contribution has been extended to include the employees covered under a Collective Bargaining Agreement.

In October 1990, the Board of Directors authorized amendments to the Company's two Incentive Savings Plans to provide for the implementation of employee stock ownership plan arrangements. These arrangements include incentive compensation features which are tied to employee achievement of specified performance goals, with no incentives awarded until the Company has reinstated a common stock dividend. Under this arrangement, the Company, pursuant to authorization granted by the ICC in January 1991, loaned $35 million to the Trustee of the Plans, who is currently using the loan proceeds to purchase approximately two million shares of the Company's common stock on the open market. These shares will be held in suspense accounts under the Plans and then distributed to the accounts of participating employees as the loan is repaid by the Trustee with funds contributed by the Company, together with dividends on the shares acquired with the loan proceeds. The Company initially financed the loan with funds borrowed under its bank credit agreements and, subject to market conditions, expects to refinance this borrowing by issuing medium-term notes.

In February 1989, the Company terminated the Tax Reduction Act Stock Ownership Plan (TRASOP). Under this plan, Company contributions of common stock were based on a percentage of payroll costs. Due to the 1986 Tax Reform Act repeal of tax benefits for Company contributions, 1987 was the last year the Company contributed stock to the plan. At termination, all assets of the plan were either distributed to the participants or transferred to the participant's account in the Company's Incentive Savings Plans at the election of the participants. The 72,250 unissued shares of common stock remaining in the plan at termination were transferred to the Company's Incentive Savings Plan for salaried employees.

In September 1990, the Company assumed the responsibility for administering both the stock purchase plan for employees and the automatic reinvestment and stock purchase plan. These two plans were also amended to allow purchases of shares on the open market as well as purchases of new issue shares directly from the Company. Additionally, the 5% discount on stock purchased with reinvested dividends was eliminated.

Changes in common stock during 1990, 1989 and 1988 were as follows:

	1990		1989		1988	
	Shares	Amount*	Shares	Amount*	Shares	Amount*
Balance beginning of year	75,558,263	$ 1,423,230	73,463,988	$ 1,389,782	68,588,901	$ 1,298,207
Automatic Reinvestment and Stock Purchase Plan	56,607	913	1,917,973	30,456	4,575,719	85,536
ESOP	11,157	182	34,238	555	46,251	885
TRASOP	—	—	63,647	1,262	230,434	4,699
Incentive Savings Plans	17,910	282	78,417	1,175	22,683	455
Balance end of year	75,643,937	$ 1,424,607	75,558,263	$ 1,423,230	73,463,988	$ 1,389,782

* *Thousands of dollars*

The provisions of Supplemental Indentures to the Company's Mortgage and Deed of Trust contain certain restrictions with respect to the declaration and payment of dividends. The Company was not limited by any of these restrictions at December 31, 1990. Under the Restated Articles of Incorporation, common stock dividends are subject to the preferential rights of the holders of Preferred and Preference Stock. For further discussion of common and preferred dividends refer to "Note 2 — Clinton Power Station."

Note 11 — Pension and Other Post-Employment Benefit Costs:

The Company has defined benefit pension plans covering all officers and employees. Benefits are based on years of service and the employee's earnings. The Company's funding policy is to contribute annually at least the minimum amount required by government funding standards, but not more than can be deducted for federal income tax purposes.

Pension costs, a portion of which has been capitalized, for 1990, 1989 and 1988 included the following components:

	Years Ended December 31,		
	1990	1989	1988
	(Thousands of Dollars)		
Service cost on benefits earned during the year	$ 8,028	$ 9,021	$ 8,225
Interest cost on projected benefit obligation	15,540	14,076	12,033
Return on plan assets	15,664	(41,410)	8,965
Net amortization and deferral	(41,368)	16,680	(33,180)
Total pension cost (benefit)	$ (2,136)	$ (1,633)	$ (3,957)

The 1989 pension cost does not include approximately $12 million for the enhanced retirement program as more fully discussed later in this note.

The estimated funded status of the plans at December 31, 1990 and December 31, 1989, using measurement dates of September 30, 1990 and September 30, 1989, discount rate of 9% and 8½%, respectively, and rate of increase of future compensation levels of 6%, were as follows:

	December 31,	
	1990	1989
	(Thousands of Dollars)	
Actuarial present value of Vested benefit obligation	$162,312	$143,606
Accumulated benefit obligation	$167,651	$151,690
Projected benefit obligation	$(192,272)	$(189,937)
Plan assets at fair value	229,291	256,923
Excess of assets over projected benefit obligation	37,019	66,986
Unamortized net gain	(3,884)	(32,560)
Unrecognized net asset at transition	(55,723)	(59,950)
Prior service costs	13,081	13,881
Accrued pension cost included in Accounts Payable	$ (9,507)	$ (11,643)

The plan assets consist primarily of common stocks, fixed income securities, cash equivalents, and real estate. The actuarial present value of accumulated plan benefits at January 1, 1990 and January 1, 1989, were $153,244,000 and $141,934,000, respectively (including vested benefits of $146,254,000 and $133,759,000, respectively).

The pension cost for 1990, 1989 and 1988 was calculated using measurement dates of December 31, 1989, January 1, 1989 and January 1, 1988, respectively, a discount rate of 8½%, rate of increase of future compensation levels of 6%, and return on assets of 9%. The Company did not make any cash contributions during 1990, 1989 and 1988 for the pension plan due to its overfunded status.

In 1989, the Company offered an enhanced retirement program as a special incentive for early retirement to all employees who met certain eligibility requirements. The offer was accepted by 285 employees. Employees who accepted the offer will receive increased pension benefits to be paid from the Company's pension trust fund. In accordance with the requirements of Statement of Financial Accounting Standards No. 88 "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," the Company recorded $12 million of additional pension cost in 1989, representing the estimated present value of the cost of the program.

In addition, the Company provides certain health care and life insurance benefits for substantially all active and retired employees. These benefits are provided through an insurance company and premiums are based on actual claims experience. The Company recognizes the cost of these benefits as premiums are paid. Costs for 1990, 1989 and 1988, net of contributions by both active and retired employees, were $15,077,000, $12,613,000 and $11,050,000, respectively. The cost of providing those benefits for 1,292 retirees is not separable from the cost of providing benefits for 4,157 active employees.

In December 1990, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 106 (FAS 106), "Employers' Accounting for Postretirement Benefits Other Than Pensions," which requires the recognition of postretirement benefits, including health and welfare benefits, on an accrual basis. The Company provides health care and life insurance benefits to certain retired employees who attain specified ages and years of service. The cost of such benefits is currently recognized as claims are paid. Adoption of FAS 106 is mandatory for fiscal years beginning after December 15, 1992. The Company anticipates adopting this accounting standard in 1992; however, it does not expect adoption to have a material adverse effect on earnings as any additional estimated costs are expected to be recovered through rates.

Note 12 — Segments of Business:

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

	1990			1989			1988		
	Electric	Gas	Total Company	Electric	Gas	Total Company	Electric	Gas	Total Company
	(Thousands of Dollars)			(Thousands of Dollars)			(Thousands of Dollars)		
Operation information—									
Operating revenues	$ 1,084,620	$ 311,070	$ 1,395,690	$ 987,985	$ 324,645	$ 1,312,630	$ 949,931	$ 334,789	$ 1,284,720
Operating expenses, excluding provision for income taxes and deferred Clinton costs	815,500	267,352	1,082,852	757,540	290,229	1,047,769	748,744	299,317	1,048,061
Deferred Clinton costs	14,619	—	14,619	(20,584)	—	(20,584)	(115,345)	—	(115,345)
Pre-tax operating income	254,501	43,718	298,219	251,029	34,416	285,445	316,532	35,472	352,004
Allowance for funds used during construction (AFUDC)	2,867	289	3,156	2,952	240	3,192	3,165	171	3,336
Deferred Clinton financing costs	—	—	—	13,936	—	13,936	57,820	—	57,820
Disallowed Clinton plant costs	(135,618)	—	(135,618)	(345,762)	—	(345,762)	—	—	—
Pre-tax operating income, including AFUDC, deferred Clinton financing costs and disallowed Clinton plant costs	$ 121,750	$ 44,007	165,757	$ (77,845)	$ 34,656	(43,189)	$ 377,517	$ 35,643	413,160
Other (income) and deductions			(323)			(14,752)			(60,084)
Interest charges			200,833			220,595			211,745
Provision for income taxes			43,731			39,400			106,081
Net income (loss) before cumulative effect of accounting change			$ (78,484)			$ (288,432)			$ 155,418
Net income (loss) after cumulative effect of accounting change			$ (78,484)			$ (288,432)			$ 189,430
Other information—									
Depreciation	$ 154,704	$ 18,123	$ 172,827	$ 159,224	$ 17,159	$ 176,383	$ 167,260	$ 16,440	$ 183,700
Capital expenditures	$ 105,958	$ 24,689	$ 130,647	$ 76,174	$ 20,607	$ 96,781	$ 91,996	$ 23,469	$ 115,465
Investment information—									
Identifiable assets*	$ 4,613,477	$ 369,189	$ 4,982,666	$ 4,837,372	$ 379,025	$ 5,216,397	$ 5,345,882	$ 361,337	$ 5,707,219
Nonutility plant and other investments			18,509			9,688			9,318
Assets utilized for overall Company operations			344,318			382,882			336,551
Total assets			$ 5,345,493			$ 5,608,967			$ 6,053,088

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

Note 13 — Quarterly Financial Information and Common Stock Data (Unaudited):

	First Quarter 1990	Second Quarter 1990	Third Quarter 1990	Fourth Quarter 1990
	(Thousands of Dollars Except Earnings (Loss) Per Common Share, Common Stock Prices and Dividends)			
Operating revenues	$315,851	$305,155	$425,458	$349,226
Operating income	36,517	53,479	128,521	35,971
Net income (loss)	(13,080)	3,667	80,724	(149,795)
Net income (loss) applicable to common stock	(22,363)	(5,659)	71,383	(158,684)
Earnings (loss) per common share	$ (.30)	$ (.07)	$ .94	$ (2.10)
Common Stock Prices and Dividends				
High	$ 19 3/8	$ 19	$ 16 3/8	$ 16 3/4
Low	$ 17 1/8	$ 14 1/2	$ 12 3/4	$ 12 7/8
Dividends Declared	$ —	$ —	$ —	$ —

	First Quarter 1989	Second Quarter 1989	Third Quarter 1989	Fourth Quarter 1989
	(Thousands of Dollars Except Earnings (Loss) Per Common Share, Common Stock Prices and Dividends)			
Operating revenues	$327,354	$280,319	$391,813	$313,144
Operating income	26,084	54,687	119,948	45,326
Net income (loss)	(348,450)	(1,238)	62,425	(1,169)
Net income (loss) applicable to common stock	(357,826)	(10,625)	53,106	(10,452)
Earnings (loss) per common share	$ (4.83)	$ (.14)	$ .70	$ (.14)
Common Stock Prices and Dividends				
High	$ 21 3/4	$ 16 3/4	$ 17 1/8	$ 19 3/8
Low	$ 13 7/8	$ 13 3/8	$ 15 5/8	$ 16
Dividends Declared	$ .66	$ —	$ —	$ —

Quarterly earnings (loss) 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 (loss) per common share.

The 1990 fourth quarter loss reflects recording the provision for disallowance of Clinton plant costs of $137 million or $1.82 per share, net of income taxes. See "Note 2 — Clinton Power Station."

The 1989 first quarter loss reflects recording the provision for disallowance of Clinton plant costs of $346 million or $4.67 per share, net of income taxes. See "Note 2 — Clinton Power Station."

The common stock is listed on the New York Stock Exchange and the Midwest Stock Exchange. The stock prices above are the prices reported on the Composite Tape. There were 60,251 registered holders of common stock at January 10, 1991. The Company's management determined in April 1989 that it was in the best interest of the Company and its stockholders to suspend the common stock dividend.

Selected Financial Data*

	1990	1989	1988	1987	1986	1985	1980
Operating revenues							
Electric	$ 1,085	$ 988	$ 950	$ 911	$ 814	$ 766	$ 567
Gas	311	325	335	309	370	401	316
Total operating revenues	$ 1,396	$ 1,313	$ 1,285	$ 1,220	$ 1,184	$ 1,167	$ 883
Net income (loss) before accounting change	$ (78)	$ (288)	$ 155	$ 290	$ 293	$ 240	$ 114
Net income (loss) after accounting change	$ (78)	$ (288)	$ 189	$ 290	$ 293	$ 240	$ 114
Effective income tax rate	(37.9)%	20.7%	29.4%	19.1%	20.5%	26.2%	36.2%
Net income (loss) applicable to common stock before accounting change	$ (115)	$ (325)	$ 118	$ 252	$ 256	$ 207	$ 94
Net income (loss) applicable to common stock after accounting change	$ (115)	$ (326)	$ 152	$ 252	$ 256	$ 207	$ 94
Earnings (loss) per common share before accounting change	$ (1.53)	$ (4.34)	$ 1.66	$ 3.75	$ 3.98	$ 3.48	$ 2.87
Earnings (loss) per common share after accounting change	$ (1.53)	$ (4.34)	$ 2.14	$ 3.75	$ 3.98	$ 3.48	$ 2.87
Cash dividends declared per common share	$ —	$ 0.66	$ 2.64	$ 2.64	$ 2.64	$ 2.64	$ 2.355
Dividend payout ratio (declared)	—	N/A	124.3%	70.9%	66.7%	76.6%	84.3%
Book value per common share	$ 18.70	$ 20.56	$ 25.80	$ 26.85	$ 25.79	$ 24.51	$ 21.77
Price range of common shares							
High	$ 19 3/8	$ 21 1/4	$ 25 1/8	$ 31 1/2	$ 32	$ 27 1/2	$ 22 1/2
Low	$ 12 3/4	$ 13 3/8	$ 16 1/2	$ 21 1/4	$ 23 1/8	$ 21 3/8	$ 15 3/4
Weighted average number of common shares outstanding during the period (thousands)	75,613	75,052	70,900	67,251	64,503	59,619	32,906
Total assets**	$ 5,345	$ 5,609	$ 6,053	$ 5,923	$ 5,623	$ 4,894	$ 2,467
Capitalization							
Common stock equity	$ 1,415	$ 1,554	$ 1,896	$ 1,842	$ 1,692	$ 1,539	$ 751
Preferred stock	309	315	315	315	315	315	215
Mandatorily redeemable preferred stock	140	160	160	160	196	86	36
Long-term debt**	2,204	2,352	2,341	2,279	2,246	2,013	992
Total capitalization**	$ 4,068	$ 4,381	$ 4,712	$ 4,596	$ 4,449	$ 3,953	$ 1,994
Embedded cost of long-term debt	9.3%	9.4%	9.5%	9.3%	9.1%	10.0%	8.4%
Retained earnings	$ 1	$ 143	$ 518	$ 555	$ 481	$ 399	$ 183
Capital expenditures	$ 131	$ 97	$ 115	$ 238	$ 706	$ 870	$ 316
Cash flows from operations	$ 253	$ 272	$ 223	$ 251	$ 246	$ 319	$ 169
AFUDC as a percent of earnings applicable to common stock	N/A	N/A	40.3%	80.3%	85.5%	78.2%	54.2%
Return on average common equity	(7.8)%	(18.9)%	8.1%	14.3%	15.9%	14.4%	13.4%
Ratio of earnings to fixed charges***	0.70	(0.52)	1.83	2.51	2.57	2.66	3.25

* Millions of dollars except earnings (loss) per common share, cash dividends declared per common share, book value per common share, and price range of common shares.

** Restated for the effect of capitalized nuclear fuel lease.

*** 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 deferred Clinton financing costs and are before the deduction of income taxes and fixed charges that include interest on long-term debt, related amortization of debt discount, premium and expense, other interest, and that portion of rent expense that is estimated to be representative of the interest component. Earnings available for fixed charges excludes the cumulative effect as of January 1, 1988 of accruing unbilled revenues. See "Note 1—Summary of Significant Accounting Policies." The ratio of earnings to fixed charges for 1990 and 1989 of 0.70 and (0.52), respectively indicates that earnings were inadequate to cover fixed charges. The dollar amount of the coverage deficiency for 1990 and 1989 was approximately $68 million and $375 million, respectively. Excluding the loss on disallowed plant costs of $137 million, net of income taxes recorded in the fourth quarter of 1990, the ratio of earnings to fixed charges would have been 1.41 for 1990. Excluding the loss on disallowed plant costs of $346 million, net of income taxes recorded in the first quarter of 1989, the ratio of earnings to fixed charges would have been 1.31 for 1989.

Selected Statistics

	1990	1989	1988	1987	1986	1985	1980
Electric Sales in KWH (Millions)							
Residential	**4,223**	4,283	4,411	4,241	4,198	3,927	4,004
Commercial	**2,981**	2,962	2,938	2,862	2,821	2,706	2,493
Industrial	**7,751**	7,653	7,415	7,323	7,341	6,933	6,507
Other	**328**	333	338	322	320	315	291
Sales-ultimate consumers	**15,283**	15,231	15,102	14,748	14,680	13,881	13,295
Rural cooperatives, municipal and other utilities*	**658**	610	626	588	555	546	1,191
Total electric sales	**15,941**	15,841	15,728	15,336	15,235	14,427	14,486
Electric Revenues (Millions)							
Residential	**$ 411**	$ 373	$ 373	$ 352	$ 293	$ 276	$ 199
Commercial	**246**	225	215	209	187	180	124
Industrial	**373**	339	312	325	290	277	198
Other	**24**	22	21	20	17	16	10
Revenues-ultimate consumers	**1,054**	959	921	906	787	749	531
Rural cooperatives, municipal and other utilities*	**25**	23	24	24	22	21	33
Miscellaneous	**6**	6	5	(19)	5	(4)	3
Total electric revenues	**$ 1,085**	$ 988	$ 950	$ 911	$ 814	$ 766	$ 567
Gas Sales in Therms (Millions)							
Residential	**322**	379	367	332	357	365	420
Commercial	**134**	149	148	137	161	166	175
Industrial	**99**	114	154	96	198	136	382
Sales-ultimate consumers	**555**	642	669	565	716	667	977
Transportation of customer owned gas	**269**	265	235	327	253	297	—
Total gas sold and transported	**824**	907	904	892	969	964	977
Interdepartmental sales	**18**	10	9	5	1	1	9
Total gas delivered	**842**	917	913	897	970	965	986
Gas Revenues (Millions)							
Residential	**$ 180**	$ 201	$ 207	$ 192	$ 206	$ 228	$ 144
Commercial	**62**	68	71	66	78	89	55
Industrial	**42**	46	48	34	73	68	109
Sales-ultimate consumers	**284**	315	326	292	357	385	308
Transportation of customer owned gas	**10**	11	13	15	11	14	—
Interdepartmental revenues	**3**	3	2	1	—	—	2
Miscellaneous	**14**	(4)	(6)	1	2	2	6
Total gas revenues	**$ 311**	$ 325	$ 335	$ 309	$ 370	$ 401	$ 316
System peak demand (native load) in kw (thousands)*	**3,394**	3,245	3,508	3,083**	3,176	2,929	3,150
Firm peak demand (native load) in kw (thousands)*	**3,180**	3,009	3,077	2,923**	2,949	2,771	3,150
Net generating capability in kw (thousands)	**3,891**	3,885	3,938	3,400	3,397	3,424	3,872
Electric customers (end of year)	**560,033**	548,726	546,431	542,836	540,595	537,047	522,166
Gas customers (end of year)	**398,891**	386,960	385,336	384,091	383,201	382,442	381,849
Employees (end of year)	**4,402**	4,242	4,663	4,616	4,593	4,550	3,949

* Beginning in 1985, peak demands have decreased compared to prior years due to the Power Coordination Agreement between Illinois Power Company and Soyland Power Cooperative, Inc. Sales to Soyland are now classified as power interchanged-net rather than electric revenues.

**System peak and firm peak demand for 1987 did not occur on the same hour.

Annual Meeting

The annual meeting of stockholders will be held at 10:00 a.m. on Wednesday, April 10, 1991, at the Company's headquarters, 500 South 27th Street, Decatur, Illinois.

Stock Exchange Listings

Illinois Power's common and preferred stocks are listed on the New York Stock Exchange and the Midwest Stock Exchange. The official New York Stock Exchange symbol is "IPC" but the Company's stocks are also listed in the newspaper under "IllPwr."

Stockholders Inquiries

Illinois Power maintains a toll-free telephone number for stockholders to use when making inquiries about stock transactions. The number is 1-800-800-8220. Shareholder Services office hours are 8:15 a.m. to 4:45 p.m., Central Time, Monday through Friday.

Tax Information

Illinois Power estimates that 100 percent of the dividends paid to stockholders in 1990 are fully taxable as dividend income for Federal Income Tax purposes.

The Company mailed all registered preferred stockholders a Form 1099 in January 1991 showing dividends paid during the year. Participants of the Automatic Reinvestment and Stock Purchase Plan who reinvested cash dividends or made optional cash payments for shares which were purchased on the open market were mailed a Form 1099 to recognize as federal taxable income the allocable share of any brokerage fees and commissions incurred to purchase such shares as stated in the Plan prospectus.

Stockholders should consult with their own tax advisors for further information with respect to tax consequences.

Transfer Agent and Registrar

Continental Bank N.A.
Shareholder Services Division
180 North LaSalle Street, Suite 600
Chicago, Illinois 60601

Transfer of Stock

To transfer or to change the registration, send the stock certificate along with a transmittal letter to our transfer agent. The certificate must be endorsed on the back exactly as the name(s) appears on the face of the certificate and the signature(s) must be guaranteed by a national bank or a stock broker; a notary public is not sufficient.

To obtain a proper signature guarantee, you must visit a qualified bank or a member firm of one of the nationally recognized stock exchanges. While providing a signature guarantee may be an inconvenience in some cases, its purpose is to safeguard against unauthorized attempts to gain access to the assets in a stockholder's account.

We recommend the mailing be insured for two percent of the market value of the stock to cover certificate replacement should it be lost in the mail.

The requirements and documentation necessary to transfer stock from an estate vary depending upon the state of residence. Contact Shareholder Services for more information.

Sale of Stock

Except for shares held in the Automatic Reinvestment and Stock Purchase Plan, Illinois Power does not buy or sell its own securities. Such transactions must be handled through a registered securities dealer.

Certificate Replacement

To replace lost, stolen or destroyed stock certificates, notify our transfer agent in writing. The cost is approximately two percent of the market value of the stock being replaced.

Change of Address

Requests for address change must be submitted in writing to Shareholder Services and should include old and new addresses, exact name(s) in which the stock is registered, and the Social Security or tax identification number on the account. An address change card is mailed quarterly.

Duplicate Mailings

Because of a slight difference in your name, address or tax identification number, we may have more than one account for you. We will consolidate these accounts for which you hold the stock certificates, upon written request to Shareholder Services signed by all registered owners of the stock.

Automatic Reinvestment and Stock Purchase Plan

If you hold certificates in your own name, rather than through a broker, you are eligible to participate in the Automatic Reinvestment and Stock Purchase Plan. The Plan allows common and preferred stockholders to reinvest their dividends in the purchase of Illinois Power common stock. Through an optional cash feature, stockholders also may purchase additional shares of common stock whether or not they reinvest dividends on their certificated shares. Transactions are subject to limitations set forth in the Plan prospectus.

Illinois Power Shareholder Services is responsible for administering the Plan and performs all functions related to the Plan, except for open market sales and purchases of Plan shares. These brokerage functions are performed by an independent agent.

If you are a stockholder of record and are interested in participating in the Automatic Reinvestment and Stock Purchase Plan, contact Shareholder Services for more information.

Principal and Executive Offices

500 South 27th Street
Decatur, Illinois 62525-1805
(217) 424-6600

Stockholder Records and Dividend Disbursing Office

Patricia E. Perkins
Supervisor-Shareholder Services
500 South 27th Street
Decatur, Illinois 62525-1805
Toll-free 1-800-800-8220

Investor Relations

Michael R. Heneghan
Director-Investor Relations
500 South 27th Street
Decatur, Illinois 62525-1805
(217) 424-8715

As required by the Securities and Exchange Commission, the Company files an Annual Report on Form 10-K. The Company will supply a copy of Form 10-K, without charge to any stockholder or to any beneficial owner of stock of the Company who sends a written request to the Corporate Secretary.

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.

SOYLAND POWER COOPERATIVE, INC.

1990 Annual Report

Diversity
with a
common purpose.

Diversity with a Common Purpose

Soyland Power Cooperative is a member-owned, not-for-profit electric generation and transmission cooperative which supplies wholesale electricity to 21 member distribution cooperatives. These distribution cooperatives provide retail electric service to approximately one-half million persons within their local service territories. Soyland is one of more than 60 generation and transmission (G&T) cooperatives that supply wholesale electric power to rural utilities in the United States.

Soyland was organized by six distribution cooperatives in September 1963, under the General Not-For-Profit Corporation Act of the State of Illinois. Leaders of those cooperatives saw Soyland as a way to gain energy independence and control over electric power costs. In 1975, nine additional cooperatives joined the original six (two have since merged), and plans were launched to develop a reliable and economical power supply system. Western Illinois Power Cooperative, with seven member distribution cooperative systems, merged into Soyland in March 1989, to form the cooperative federation that today supplies the electric power needs of nearly two-thirds of the land mass of the State of Illinois.

Applied Energy Systems, Inc., the parent company of WaterFurnace of Illinois, Inc., is a wholly owned for-profit subsidiary of Soyland Power Cooperative. WaterFurnace of Illinois is marketing geothermal heat pumps throughout the 21 member cooperative service areas. This year Applied Energy executed a distributor agreement with Steffes ETS, Inc., a leading manufacturer of electric thermal storage heaters. Applied Energy Systems is pursuing other opportunities to assist Soyland's members to meet the needs of the consumers they serve.

Soyland and its 21 member distribution cooperatives are continuing to pursue opportunities to make rural Illinois a better place in which to live. We remain committed to enhancing economic development opportunities to attract businesses to rural service areas to, in turn, provide jobs for rural consumers.

Since its inception in 1963, Soyland's goal has been to provide a dependable source of wholesale electric power to its members at the lowest possible cost. Today, through its unique blend of fuels and generating plants, Soyland has built a stable base from which to meet the electric energy requirements of its member systems.

President
Joseph J. Fellin

Executive Vice President and General Manager
E. H. Williams

Diversity with a common purpose. Soyland is a combination of 21 member cooperatives, each having a diverse and unique operation, yet all having a common tie that binds. We are all in the business of providing reliable electric power to our members at the lowest possible cost.

However, we don't just stop at providing electric service. Soyland and its member cooperatives are committed to improving the quality of life for the people we serve in rural America. We care about jobs for rural people; we care about health care for rural people; we care about improving the infrastructure of communities in rural areas; we care about the health of our rural economy. And our cooperatives are tuned into the needs of the rural people we serve.

Our member cooperative employees know the heartbeat of the communities they serve, and our cooperatives are willing to get involved and help people.

Rural Partners

Soyland took a leadership role in creating and organizing RURAL PARTNERS, the Illinois coalition for rural community development, and has continued to foster its growth. Soyland is part of the three year program entitled, "Helping Rural Communities Prepare for Economic Development," which is funded by a $602,000 grant from the W. K. Kellogg Foundation of Battle Creek, Michigan, with additional funding from the University of Illinois, Soyland and members of RURAL PARTNERS. The purpose of RURAL PARTNERS is to empower local community leaders to design and manage the change and development of their communities. Economic development can bring jobs, people, and new energy to a community, but economic development projects will fail if local people are not ready for change, or cannot manage the changes that affect a community's social, political, and economic fabric.

In February 1991, RURAL PARTNERS announced the selection of six counties which will participate in a three year program to develop communities through local volunteer efforts. Five of the six counties are in the Soyland service area and have local cooperative involvement and support. Each of these counties have identified four to six county coordinators who will participate over the next 30 months in a series of self-help learning programs developed by universities throughout the state.

Community Development Corporations

Soyland has also joined forces with community banks in three areas of the state to help promote economic development with emphasis on projects to create jobs and stimulate local business growth. Soyland's leadership role in the Bank Community Development Corporations (CDC's) once again demonstrates our commitment to the health of our rural communities. Soyland is an equity partner in Rural Adams Development Corporation, Illini Community Development Corporation, and Tri-County Community Development Corporation.

Under the cooperative plan, the banks, utilities and other private partners share the risks no individual institution could consider, and they share the benefits too, namely, they build a stronger customer base and positively influence economic growth. That means additional jobs, heightened consumer demand, stronger public funds through an increased tax base and a more diverse economy.

Rural Bond Bank

Soyland actively supports the newly created Illinois Rural Bond Bank. The Illinois Rural Bond Bank helps finance infrastructure projects for local governments in 96 rural Illinois counties. The Bond Bank was organized to assist local governments in borrowing funds at reasonable interest rates. In the past, the smaller towns and counties were infrequent issuers of bonds and were not known to the bond-buying marketplace. As a result many opportunities to make infrastructure improvements in small and rural communities were missed. By pooling the needs of these smaller units of local government, the Bond Bank can offer the same credit advantages enjoyed by larger cities.

By serving as a Commissioner on the Illinois Rural Bond Bank, by chairing the Illinois Food Processing Task Force, by participating in the Illinois State Chamber's Task Force on Economic Policy, by presiding over the state association of economic development professionals, Soyland staff continues to exhibit support for rural economic development.

Attorney
French L. Fraker

Legal Issues

The year 1990 also saw many important developments in the area of legal activities of the cooperative. Of single-most importance, Soyland management, the board of directors and legal counsel negotiated a very favorable settlement in the litigation Soyland initiated against Illinois Power Company for damages resulting from the construction of the Clinton Power Station. The major component of the settlement was a substantial amendment to Soyland's Power Supply Agreement with Illinois Power.

The original Power Supply Agreement between Illinois Power and Soyland went into effect in January 1985. The agreement gave Soyland the right to 10.7% of the output of Illinois Power's fossil fueled power plants, use of IP's transmission system, and joint economic dispatching of Soyland and Illinois Power generating capacity. Under its terms, Soyland would have been required to secure new sources of generating capacity to provide for the cooperatives' future power supply beginning in the year 1995.

The recently-negotiated amendment to the Power Supply Agreement provides Soyland and its 21 member cooperatives with a broad mix of generating capacity, use of the transmission system, and economic dispatching of generating units at a reasonable cost for the next 20 years or longer. Among the significant changes, the amendment increases the amount of electric generating capacity Soyland receives from each of Illinois Power's fossil fueled power plants, eliminating the need for Soyland to spend millions of dollars as early as 1995 to build a major electric generating plant of its own.

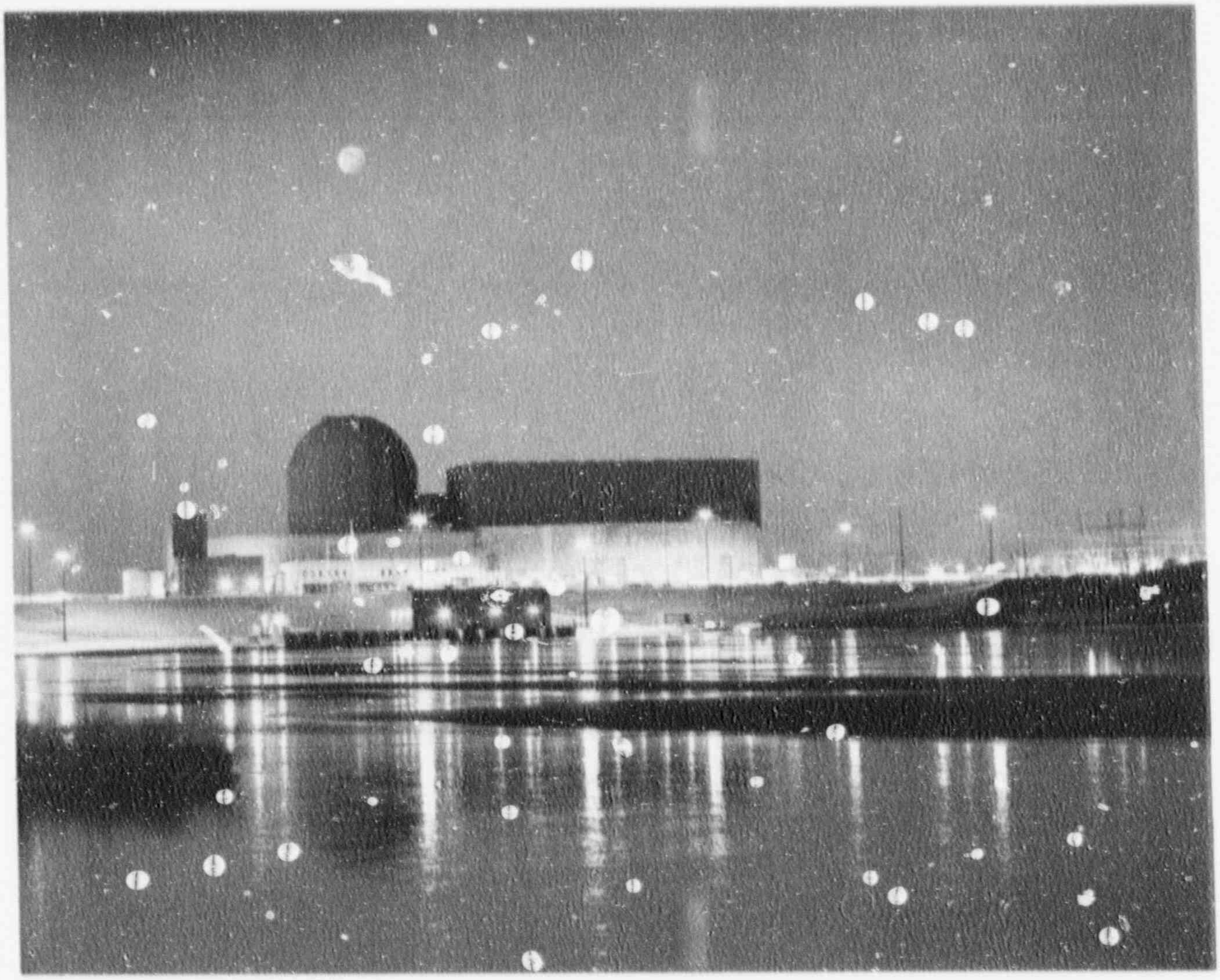
Other significant legal developments involved the dismissal of litigation which a small number of consumers calling themselves the Federation of Rural Illinois Electric Ratepayers initiated against many of the Soyland directors and officers for personal liability arising from Soyland's participation in the Clinton Power Station. The Illinois Supreme Court refused to review the matter any further, thus rendering the dismissal final and unappealable.

In other developments, 1990 saw no real change in the status of litigation which Soyland initiated against Rural Electric Convenience Cooperative Co. (RECC). Soyland filed suit for recovery of certain monies withheld by RECC under Soyland's equity funding plan. The suit also asked for declaratory relief in the form of a judgment holding that the wholesale power contract entered into between RECC and Western Illinois Power Cooperative, Inc. (WIPCO) is a binding and legal obligation which now inures to the benefit of Soyland by reason of the merger of WIPCO into Soyland in 1989. Both the Rural Electrification Administration (REA) and the National Rural Utilities Cooperative Finance Corporation (CFC) have joined Soyland in this litigation. The case is currently before the United States Circuit Court of Appeals for the Seventh Circuit on an appeal of an earlier ruling from the trial judge on the REA's motion to enjoin a state court proceeding which RECC initiated against Soyland seeking to void the wholesale power contract. It is anticipated that the litigation will soon be allowed to proceed and that the parties will be able to engage in discovery starting in mid-1991.

Generation Mix

Soyland has a broad mix of generating capacity to meet its needs through at least 2011. Supplying about 25% of our total energy requirements, the nuclear Clinton Power Station provides Soyland with 125 megawatts of base load generation. When the full financial impact of the 1990 Clean Air Act hits our coal fired generating plants, we should begin to appreciate the environmental advantages our nuclear plant offers.

Clinton's second refueling outage was completed in March 1991, with the next refueling outage scheduled for the spring of 1992. During the refueling outage, one third of the fuel bundles in the reactor core were replaced. Corrective and preventative maintenance were also performed and modifications were made to enhance the plant's performance.



The 950-megawatt Clinton Power Station provides Soyland with 125 megawatts of base load generating capacity.

The Pearl Station continued to be an excellent performer in 1990. Although the 22-megawatt unit is very small, its operating record has proven to be well above average. Because of its economical operation, the unit was on line more than 11 months last year. Soyland has a good, lean operating staff at Pearl which has kept costs down when compared to other generating sources.

Clean Air Act

The Clean Air Act, passed by Congress and signed into law by President Bush in late 1990, will have a financial impact on Soyland and other midwestern utilities. Although the Pearl Station will not be affected, our participation share in four of Illinois Power Company's fossil fueled units will require reductions in sulfur dioxide emissions.

Through our Power Coordination Agreement with Illinois Power, Soyland will pay for its share of compliance costs

Management Staff: Left to right Stephen E. Parr, Manager of Engineering & Operations; Jim Greenwood, Manager of Power Supply; Michael S. Beer, Attorney; Petricia S. Reynolds, Director of Public & Government Relations; Douglas A. Dougherty, Director of Economic Development; Robert K. Harbour, Vice President and Assistant Manager; Kenneth W. Kammeier, Manager of Finance & Administration. Not pictured: Lee Wilmes, Staff Engineer.

Although we prefer to continue using high-sulfur Illinois coal as the primary fuel, switching to low-sulfur Western coal cannot be ruled out as an option. Illinois Power will apply to the U.S. Department of Energy to host a Clean Coal Technology Project at the Baldwin Station. DOE funding could significantly reduce the cost of constructing a high-technology clean air system at Baldwin.

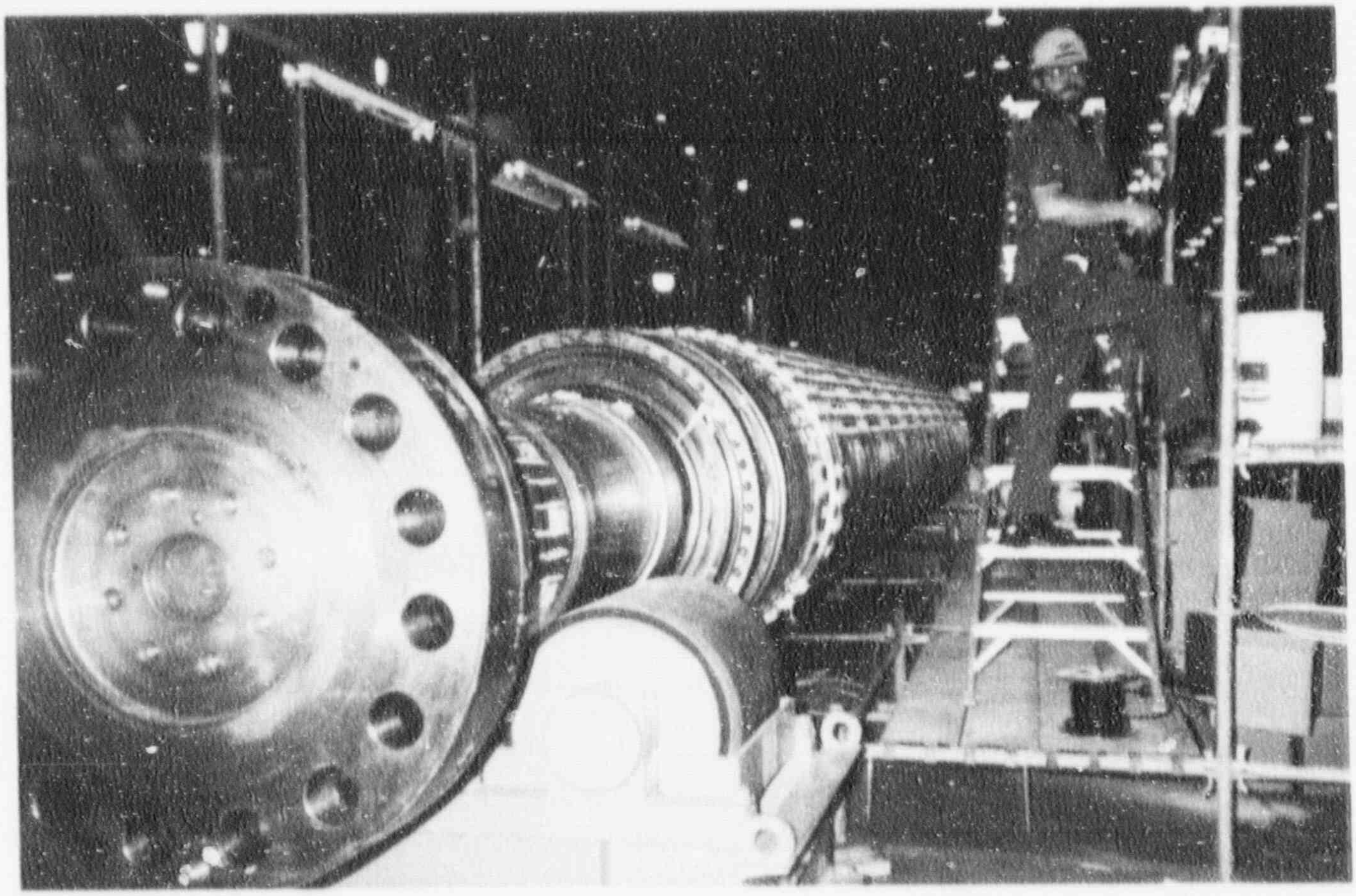
Subsidiary Operations

Applied Energy Systems, Inc., the wholly-owned subsidiary of Soyland, showed an increase in sales of WaterFurnace geothermal units with a total of 365 units sold through the dealer network.

Applied Energy renegotiated the distributor agreement with WaterFurnace International, adding several counties in Missouri to its service territory.

This year, Applied Energy executed a distributor agreement with Steffes ETS, Inc., a leading manufacturer of electric thermal storage (ETS) heaters. The ETS heaters offer cooperative members the benefits of electric heat with the advantage of incentive electric heat rates.

Through our subsidiary operations we are a recognized leader in marketing. Applied Energy will continue to assist the member distribution cooperatives in the promotion of geothermal systems and ETS heaters.



The Baldwin Power Station, Unit 3, rotor was sent to General Electric for repair in 1990.

Forward Looking

We are fortunate to have a new vice president and assistant general manager with over 30 years of electric utility experience. Robert K Harbour joined our organization in December 1990, after leaving Iowa Southern Utilities Company in Centerville, Iowa.

Harbour adds a valued dimension to our organization with a broad base of experience from all avenues of the electric utility business.

Soyland hit the ground running in 1990. Our team of officers, directors, management and employees have brought us to where we are today. We are well equipped to meet the challenges of the future and look forward to it with optimism.

E. H. Williams
Executive Vice President
and General Manager

Joseph Fellin
President, Board of Directors

BOARD OF DIRECTORS

Adams Electrical
Roger C. Mohrman
Robert D. Smith

Clay Electric
James E. Campbell
H. Clifford Cammon

Clinton County
James B. Riddle
Kenneth G. Heinzmann

Adams Electrical Co-Operative

A diverse group of businesses and industries have come onto the Adams Electrical system in recent years and several longtime businesses have expanded, providing new job opportunities. Doyle Equipment Manufacturing of Quincy has added a new product line, providing fertilizer blending and spraying equipment for agricultural services companies. This company is on an interruptible rate provided by the cooperative.

Adams works closely with the Great Rivers Economic Development Foundation, (GREDF), local chambers of commerce and other area development organizations. Roger Mohrman was elected president of GREDF for 1991 and Adams staff members are active in several other organizations such as the Regional Economic Development Consortium. Adams Electrical is taking a leadership role in developing several industrial sites across its six-county service area. One of the more important sites is a parcel of land at the Quincy airport, which was the site of a well publicized Air National Guard exercise in August. This week long exercise of an F-16 fighter jet squadron demonstrated the physical capability of the airport and has been portrayed in several major aviation magazines.

Adams Electrical offers a number of promotional and incentive programs and rates to its members. Adams has been a leader in the promotion of time-of-day rates and the use of electric thermal storage units.

Several rural Adams County banks, along with Soyland, have joined forces to boost economic development projects in Adams County. The Rural Adams Development Corporation announced in December has been formed to help businesses in need of additional capital. Assets pledged by each bank, along with a contribution from Soyland, have been matched by a grant from the State of Illinois to create a pool of loan money for business start-ups, expansions, modernizations, relocations and retentions in Adams County.

Clay Electric Co-operative, Inc.

Clay Electric Co-operative serves a truly rural service area. However, in addition to the residential services, the cooperative serves numerous oil wells, which collectively make up 10-15% of its system load.

Clay Electric offers a fall grain drying rate as an incentive for farmers to use electricity at a reduced cost. The cooperative also offers an interruptible rate to its larger members, providing the member with a reduced electric rate if the member curtails load during peak demand times.

The cooperative's staff is involved in local chamber of commerce and service organization activities.

Clinton County Electric Cooperative, Inc.

Clinton County Electric Cooperative offers a broad array of marketing programs to its members. Although Clinton County Electric serves primarily residential loads, it has experienced growth in the industrial sector recently. The cooperative management believes it is extremely important to offer the member a choice.

Clinton County Electric actively promotes geothermal heating and cooling systems to its members by offering [illegible] interest

BOARD OF DIRECTORS

Coles-Moultrie Electric
Malcolm O'Neill
David G. Finley

Corn Belt
Jeffrey D. Reeves
Stephen Schertz

financing for up to 60 months.

The cooperative also offers a time-of-day rate to both the residential and commercial sector. Six major members are on an interruptible rate. And the cooperative implemented a new interruptible rate available to the more than 200 dairy farms it serves.

The cooperative's water heater program allows each participating member a water heater at no cost; however, the member must agree to allow the cooperative to interrupt electric use by radio control for a period of 10 years.

During the summer of 1990 the cooperative launched an electric load retention and expansion program which provides each participating member with a free Electric Thermal Storage Unit (ETS). An ETS unit is designed to store off-peak energy at a reduced rate which will then be utilized during high demand hours. This program allows the cooperative to reduce its peak demand.

The cooperative works to promote Clinton County and produced a videotape called "Gateway to Growth," which promotes the Clinton County area to business and industry.

Clinton County Electric has also received approval for a $100,000 no-interest Rural Electrification Administration loan for economic development.

Coles-Moultrie Electric Cooperative

A diverse group of new businesses has recently located in the service area of CMEC. Vogel Microwave Foods is a storage and production facility for microwave popcorn providing a market for the eastern Illinois popcorn producers. The cooperative also serves the new regional cancer center at Sarah Bush Lincoln Health Center, which is one of CMEC's largest loads. Mid-State Tank Co., an agriculture tanker manufacturer, is new to CMEC's lines, as well as Carle Clinic and the headquarters of Coles-Together.

The cooperative provides low interest loans for members replacing existing fossil fuel furnaces with a heat pump or geothermal heating system. It also offers four new optional rates and a monthly incentive program for water heaters. Each of these rates is designed to lower the cost of heating and cooling homes or businesses. These rates include a dual heat and air conditioning rate, dual heat-only rate, geothermal heating and cooling rate, and an air conditioning-only rate.

The cooperative is active in several economic development organizations including Coles-Together, an organization recently developed to collectively promote all of the communities within Coles County, and the East-Central Illinois Development Corporation, a participant in the Illinois Corridors of Opportunity Program.

Corn Belt Electric Cooperative Inc.

The cooperative serves in and around Bloomington-Normal, one of the fastest developing areas in downstate Illinois. The Twin Cities are home to State Farm insurance, Country Companies, Illinois State University and Diamond-Star Motors, a joint auto manufacturing operation owned by Chrysler Corp. and Mitsubishi Motors. Corn Belt and other

power suppliers in the area have kept pace with these growing firms, posting impressive growth in load and energy sales. Corn Belt's system load has grown 39 percent since 1985.

Much of this growth is centered on the outskirts of Bloomington-Normal. It's there that the cooperative serves growing subdivisions and a diverse group of business operations. New loads include an Internal Revenue Service distribution center that employs 250 persons year-round and an additional 950 people during the peak tax season from October to April.

Unit Distribution is another fairly new facility on Corn Belt's system. Unit Distribution, which provides "just-in-time" delivery of parts to Caterpillar, Diamond-Star and other companies, employs 325 persons. Another facility on Normal's west side, near Diamond-Star, is Vuteq, which provides windshields and other auto parts to the auto plant. Vuteq has brought about 80 new jobs to the area. Also nearby is the Pittsburgh Paint and Glass (PPG) facility, which employs 18 and supplies the auto plant with paint.

The cooperative actively promotes a time-of-day rate by supplying each interested member with an efficient water heater at no cost. The cooperative then controls the use of these water heaters for 2-4 hours per day. Corn Belt offers a unique low cost air conditioning rate if the member is willing to interrupt 15 minutes out of each hour when the temperature hits 88 degrees. The cooperative also offers an economic development rate to new or expanding businesses such as its newest member, the Days Inn south of Clinton, Illinois.

BOARD OF DIRECTORS

Eastern Illini Electric
Wm. David Champion, Jr.
Gene P. Warmbir

Edgar Electric
Thomas J. Hentz
Joe Welsh

Farmers Mutual Electric
Robert L. Delp
Darwin J. Mann

Eastern Illini Electric Cooperative

Eastern Illini Electric Cooperative actively pursued ways to allow the member to take control of his electric bill by offering a comprehensive set of innovative rate structures and promotional programs. A theme which runs through most of these incentives is to shift the operation and usage of kilowatt-hours from peak to off-peak and at the same time increase kilowatt-hour sales. The cooperative promotes the latest in home heating system technologies including geothermal, thermal storage and dual system designs. The success in member acceptance of these programs is a testimony to the cooperative's commitment to member communication.

The cooperative currently offers an economic development rate and interruptable rate to satisfy the growing needs of their commercial and industrial members. Concurrently, EIEC is actively involved with several organizations throughout its service area which encourage economic growth through business expansion and location.

EIEC played a key role in Ford County submitting a RURAL PARTNERS application which was chosen as one of the first six counties to participate in the program.

In some cases EIEC has gone beyond providing electric service to assist members to maintain a quality of life equal to metropolitan areas. For example, the cooperative is providing entertainment programming through satellite services offered through the National Rural Telecommunications Cooperative. Manager Dave Champion is on the board of directors of NRTC.

Edgar Electric Co-operative Association

Edgar Electric Co-operative Manager Tom Hentz was instrumental in the development of a local Community Development Corporation, Illini CDC, which works to retain and create high quality employment opportunities in east central Illinois. The Illini CDC, a private partnership between local area banks, the local cooperatives and Soyland, provides seed capital for expansion and development efforts.

A planned Illinois Department of Corrections prison work camp will bring a major new electric load to the cooperative and a projected 110 new jobs to the area. Construction on the minimum security prison facility at the north edge of Paris is underway, with completion scheduled for late summer.

An expansion at Northrup King's Paris seed corn processing facility has created six new full time jobs and 35-40 seasonal jobs. The facility has provided a major load for the cooperative for 20 years and energy sales will increase dramatically because of the expansion. Edgar Electric serves the expanded facility on a special rate designed by the cooperative.

The cooperative offers economic development and interruptible rates to industrial loads as well as time-of-day rates in the residential and commercial sector.

Edgar Electric is active in the area's economic development organizations, which include the Paris Economic Development Corp. (PEDCO), the Paris Chamber of Commerce, Promote Paris, the East Central Illinois Development Corp. and the Illinois Development Council.

Farmers Mutual Electric Company

The cooperative basically serves farms and rural homes in some 10 subdivisions in the Farmers Mutual service territory. The small cooperative doesn't serve any major industrial or commercial accounts, but Farmers Mutual did see some growth in 1990.

Farmers Mutual's electric sales have remained flat during the past 10 years. Grain drying is a main contributor to the cooperative's energy sales.

The cooperative is an involved and active supporter of the Geneseo Chamber of Commerce and the Geneseo Development Group. The cooperative is supporting Henry County's application for community development assistance from the RURAL PARTNERS program.

BOARD OF DIRECTORS

Illinois Rural Electric
Robert E. Gant
William Griswold

Illinois Valley Electric
Timothy L. Christensen
Joe Danielson

McDonough Power
William C. Lemons
Lyndall Pigg

Illinois Rural Electric Co.

The cooperative was an active supporter and participant in the effort to bring an Illinois Department of Corrections minimum security work camp to north Greene County. Construction of the work camp, which will be served by the cooperative, is scheduled to begin sometime this year.

The cooperative has worked closely with the Greene County Economic Development Corporation and received approval for a $75,000 interest-free economic development loan from the Rural Electrification Administration. A 20-acre industrial park will be located adjacent to the prison work camp. Illinois Rural and Soyland will actively promote the park to prospective businesses.

IREC continues to offer a reduced rate during the heating season to all-electric members. Energy audits are conducted by the cooperative and used to size WaterFurnace systems for members. Rebates for the installation of new geothermal units and ERC loans for replacement units are available to all members.

The cooperative sells both small and major appliances to its members with financing available. It also sells satellite TV equipment and programming to members.

Several of the cooperative's large power members are operating under a new time-of-day rate. This rate provides significant savings to the business while lowering the cooperative's overall cost of operation.

IREC is active in a wide variety of organizations working to promote development in western Illinois. The cooperative is a member of both the Winchester and Pike County chambers of commerce and participates in the Western Illinois Corridor Council. Manager Ed Gant is a member of the board of the Tri-County Community Development Corporation representing Soyland Power, an equity partner.

Illinois Valley Electric Cooperative, Inc.

Illinois Valley Electric, with service territory in north central Illinois, has several new loads on its system. The cooperative serves a major silica sand mining operation, an FM radio broadcasting facility, a television station and a seed corn drying operation. Each of these loads is on a specially designed rate benefiting both the member and the cooperative.

IVEC offers a number of load management programs which have reduced IVEC's peak demand costs and have helped to stabilize rates. The cooperative offers a dual heat plan that provides a reduced

electric rate for off-peak home heating, as well as a cash bonus for the installation of an all-electric heating system. The cooperative also offers advantages for using electric water heaters, water heater timers, security light rental, air conditioner load levelers, and off-peak irrigation.

Through its affiliation with Soyland, IVEC is a partner in an aggressive economic improvement program. It has contributed financially and participated in a number of activities with various regional economic development groups. Illinois Valley Electric works with its membership and all communities within its service area to promote economic growth, jobs and business expansion in north central Illinois.

McDonough Power Cooperative

The cooperative has been an active participant in the Macomb Area Industrial Development

BOARD OF DIRECTORS

M.J.M. Electric
Dennis A. Keiser
Eldon E. Moore

Menard Electric
Dorland W. Smith
Michael E. Carls

Monroe County Electric
Joseph J. Fellin
Donald L. Gleiber

Company (MAIDCO), which has helped bring several new industrial facilities to the area in recent years, creating some 300 new jobs. Manager Bill Lemons, who sits on the board of MAIDCO, recognizes that the spin-off benefits of some new home construction and increased commercial demand are helping the cooperative.

The cooperative will provide electrical service to a series of cellular telephone towers being constructed in the area. Partnerships to assist small and emerging businesses have been formed with Western Illinois University, the Western Illinois Corridor Council, and the State of Illinois. McDonough Power and Soyland are active participants in these collaborative efforts.

M.J.M. Electric Cooperative, Inc.

M.J.M. offers a rebate to members who install new whole-house, permanently installed electric heating systems such as ground source heat pumps or storage heating systems coupled with individual warm-room units. M.J.M. offers a rebate program to encourage the use of high efficiency electric water heaters and has implemented a rental program for high efficiency security lights. The cooperative has promoted these programs through a variety of marketing efforts.

Menard Electric Cooperative

Supplying electric power to the many irrigation systems in its service territory is a key element of Menard Electric's business. The cooperative offers an interruptible rate to farms as an incentive for continued electric use.

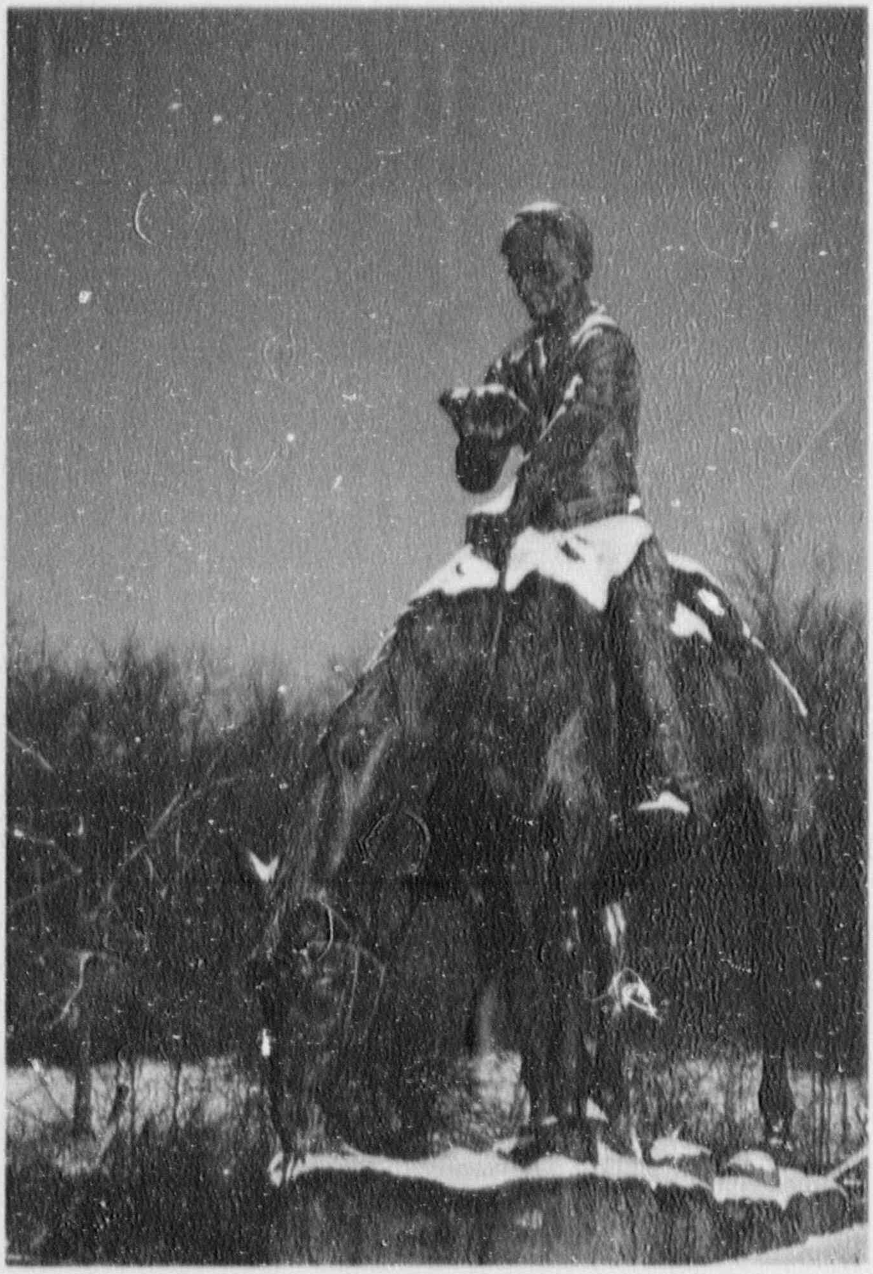
The cooperative extended service to Grosch Irrigation Co. of rural Mason City this summer. The 60-year-old company has been in the Mason City area for 12 years. The company, which provides services across the entire state, has 13 full-time employees. Grosch and its competitors service and install irrigation systems, many of them in the cooperative's service territory.

The cooperative is positioned to extend service to the site for the proposed Jumers Hotel, just north of Springfield. Menard Electric has also experienced new home growth and actively promotes geothermal heating and cooling systems.

Menard Electric took the lead in developing a joint television advertising campaign with several other cooperatives, Soyland and WaterFurnace of Illinois also participating. The advertising campaign resulted in direct inquiries to the cooperative regarding electric geothermal heating and cooling systems.

The cooperative is very active in local community service organizations, with employees holding leadership positions in the Petersburg Chamber of Commerce, the Menard County Board, Lincoln Land Community College, the Zoning Board, the Petersburg Fire Department, Petersburg city government and various economic development organizations.

Monroe County Electric Co-Operative, Inc.



Monroe County Electric Co-Operative is active in a variety of local organizations working to promote economic development, including the Monroe County Economic Development Commission, the Waterloo Chamber of Commerce, the St. Louis Regional Commerce and Growth Association and the Southwestern Illinois Planning Commission.

The cooperative has been involved in the proposed creation of the Fountain Water District in rural Monroe County which would greatly enhance local economic development efforts. Cooperative service territory not currently covered by a water district would become suitable acreage for business location. The cooperative continues to participate with its local communities in business retention activities.

Monroe offers a significant rebate for the pur-

BOARD OF DIRECTORS

Shelby Electric
James E. Coleman
L. Eugene Boldt

Southwestern Elec.
Gary Wobler
Alan G. Libbra

chase of an Electric Thermal Storage Unit. By installing an ETS unit, a member of Monroe can take advantage of a low dual electric heat rate. The cooperative has used this program to retain residential usage of previously-installed electric heat while controlling the growth of electric consumption in the winter during peak times.

Rural Electric Convenience Coop. Co.

Located just south of the Illinois state capitol, Rural Electric provides service to rural areas and expanding subdivision areas. The cooperative has seen diverse load growth in recent years, ranging from a massive frozen food warehousing facility to a 2,000 square foot antique mall.

The cooperative aggressively markets the use of heat pumps, electric water heaters, baseboard heat and electric clothes dryers through significant rebate programs. The cooperative also offers its members energy loans of up to $5,000 at 5% interest over a seven-year term.

The cooperative supports an aggressive member services and marketing program.

Rural Electric is involved in the activities of its area chambers of commerce and economic development commissions.

Shelby Electric Cooperative

Shelby Electric Cooperative practiced what it preaches and installed a WaterFurnace geothermal heating and cooling system in its headquarters building this year. The cooperative will use the system to demonstrate energy savings to its members.

The new Department of Corrections medium security prison near Taylorville is a major new load for Shelby Electric. The facility is providing several hundred new jobs for the Christian County area. When it's full, the facility will house some 800 inmates. Shelby Electric built a new substation at the prison to serve the facility.

Shelby Electric also serves the Eagle Creek Resort and Conference Center at Eagle Creek State Park. In addition to a luxurious 138-room Clarion Inn hotel, restaurants and conference facility, the resort also features an 18-hole championship golf course. The resort has helped create 170 new jobs for the area.

The cooperative helped sponsor the Festival of Lights, a lighted holiday display on both sides of a mile-long road to the resort.

The cooperative recently assisted two longtime members in expanding their operations. Blevins Concessions, a popcorn processing and packing firm near Assumption, expanded its operations, adding a new 500 kv service. Garwood Seed Co., a locally-operated seed company, added a 500 kv service for new grain drying and storage facilities. Shelby Electric is also providing service to a new golf course near Pana. That facility will open next year.

Shelby Electric is involved in a variety of regional economic development activities. The cooperative is a member of the Shelbyville Industrial Development Committee and area chambers of commerce and manager Jim Coleman serves on the Shelby County Visitor's Association.

Coleman is also the Shelby County contact for the East-Central Illinois Development Corporation. Employees serve on county and local government boards and commissions and area service organizations.

Southwestern Electric Cooperative, Inc.

Southwestern Electric Cooperative serves one of the fastest growing regions in the state. With much of its service territory located in the greater St. Louis metropolitan area, the coop-

erative has experienced significant commercial and residential growth.
In order to keep pace with this demand for

BOARD OF DIRECTORS

Spoon River Electric
Gregory A. Campbell
Wayne Bollinger

Tri-County Electric
James E. Hinman
Irvin Stanford

reliable and economic electric service, the cooperative implemented a wide range of end use programs. They include time-of-day rates, home energy system rebates, electric water heater incentives, interruptible and economic development rates. The cooperative currently has 11 businesses on its economic development rate which is indicative of the cooperative's involvement in local economic development activities.

Southwestern participates in a wide variety of economic development programs across its 10 county service territory, including the Madison County Leadership Council, three regional "Corridors of Opportunity" councils, RURAL PARTNERS and local chambers of commerce. The Mayor of Greenville is an employee of Southwestern.

Spoon River Electric Co-operative, Inc.

A few new homes were built on the cooperative's system this past year, which is a big improvement over the past few years. This may be an indicator that the economy is slowly improving in the Spoon River Electric area. Manager Greg Campbell noted that five coal mines in Fulton County have closed since the early 1980s, taking approximately 1,000 jobs away from area residents.

Although the economy in the Spoon River area has suffered, the cooperative has aggressively supported area development activities. The cooperative supported Fulton County's application for the RURAL PARTNERS program and has offered to provide a staff member to serve as a community coordinator.

The cooperative offers a rebate program to the members on both electric water heaters and geothermal heating and cooling systems. Interruptible rates are available to qualified members and a water pumping station is currently benefiting from the rate.

The cooperative is active in the area's promotional activities.

Greg Campbell, the cooperative manager, serves on the board of the Fulton County Economic Development Corporation and a staff member is a board member of the Canton Chamber of Commerce.

Tri-County Electric Cooperative, Inc.

Tri-County Electric Cooperative has a multi-faceted marketing program designed to increase load while controlling costs by spreading the benefits of additional electric consumption among all members of the cooperative. Efforts to attract new industrial and commercial loads to its service area have resulted in several plant expansion and new business start-ups.

Manager Jim Hinman and the cooperative staff work closely with the Mt.

Vernon Industrial Development Board and Hinman is chairman of the board's jobs retention committee. That group meets monthly with local businesses and companies.

The cooperative is a strong supporter of the Salem Industrial Park and contributes to the park's promotional and marketing efforts. Tri-County also works closely with the Rend Lake Conservancy District which holds several industrial sites along I-57 that are served by the cooperative.

Tri-County and Illinois Power also recently signed agreements that clearly designate territories for serving all future loads, including large loads. This agreement will save time, confusion and disagreements between power suppliers for any future development in the area, Hinman said.

The residential marketing program of Tri-County has been extremely successful in providing members with a variety of options to improve efficiency and lower costs. The cooperative actively promotes geothermal heat pumps and is among the leaders in cooperative member installations in the state.

BOARD OF DIRECTORS

Wayne-White Counties
Dale Warren
Larry L. Hosselton

Western Illinois Electrical
Paul M. Dion
Haven D. Vaughn

Wayne-White Counties Electric Cooperative

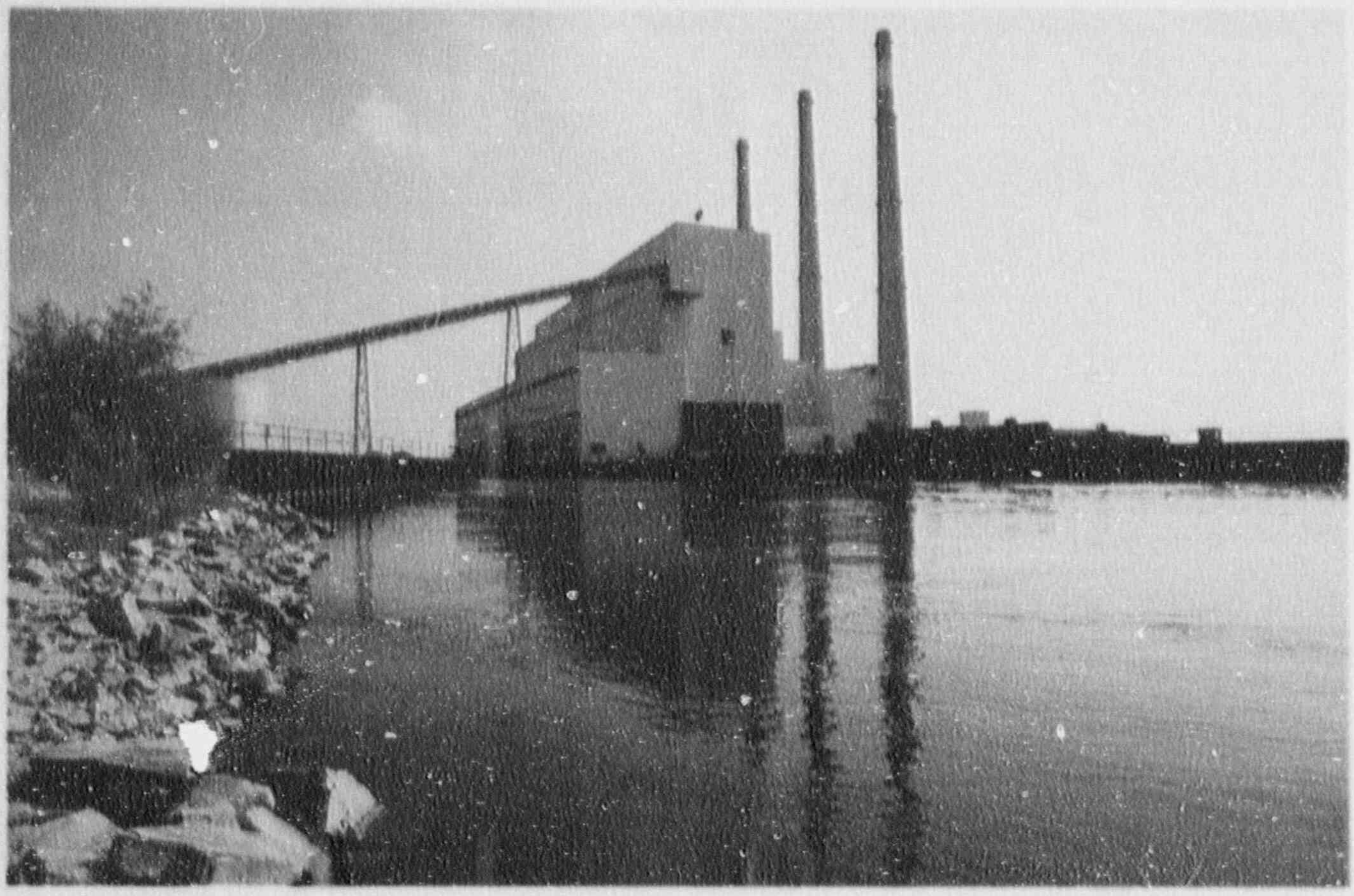
The cooperative is an active member in a number of community development organizations throughout its service area. The cooperative staff members hold leadership positions in regional corridor councils and individual community economic development organizations. The cooperative assisted two counties, Wayne and Hamilton, in the preparation of applications for selection in the RURAL PARTNERS program, "Helping Rural Communities Prepare for Economic Development." Both counties were among the first six counties selected in the program and Wayne-White Counties Electric Cooperative will continue its leadership position for both counties.

During the past year the cooperative has expanded its load retention and expansion promotional activities and has attended fairs, trade shows and community events with displays and handouts. Four times a year, the cooperative sends its members information on incentive programs provided by the cooperative.

Western Illinois Electrical Coop.

WIEC's membership consists primarily of residential and farm services. In recent years, the cooperative's energy sales have remained relatively constant, and even though building projects in the cooperative's service area have increased, its membership base remains fairly steady.

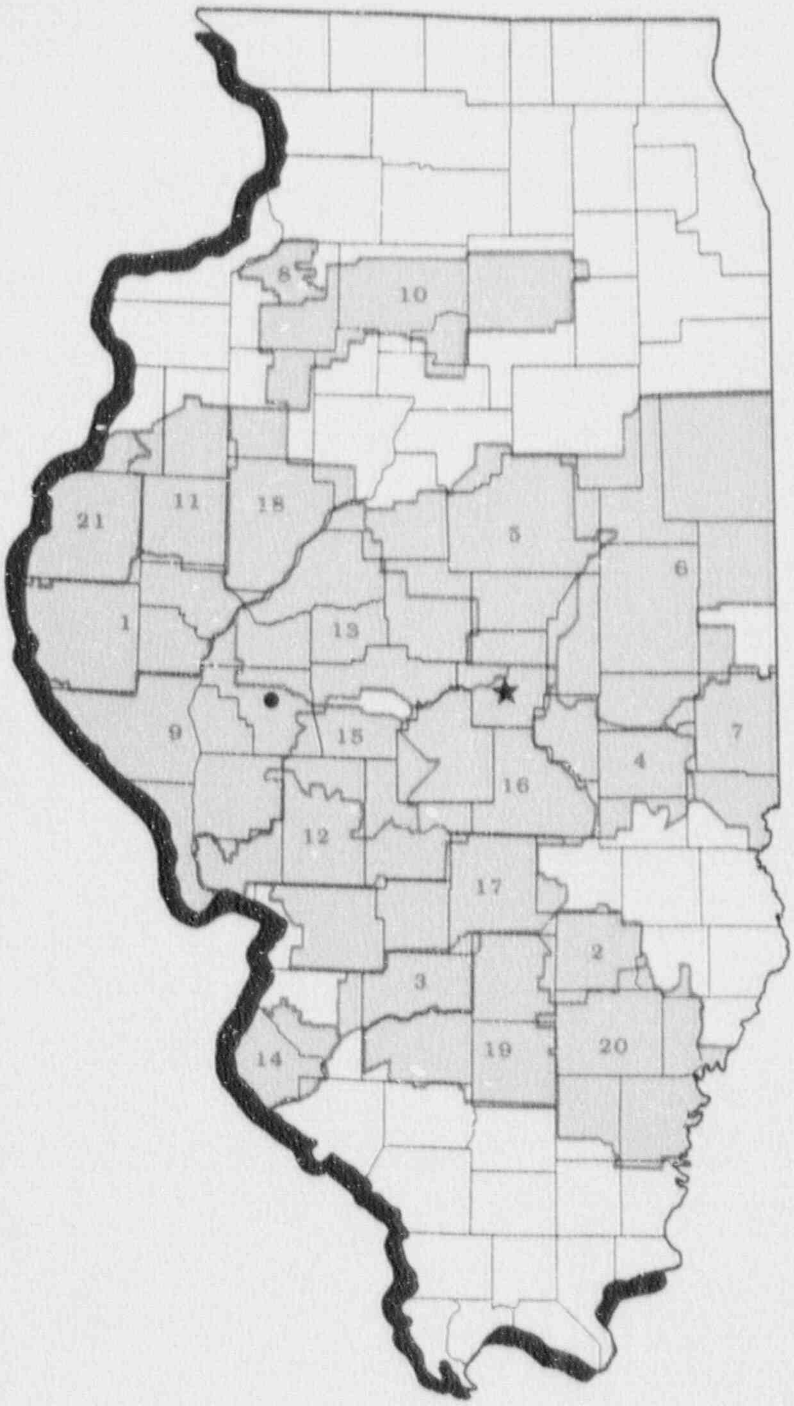
The cooperative has developed a marketing program called Service Plus. Among the programs offered are a geothermal heat pump program, a low-interest financing program, an electric water heater rebate program, an air source heat pump/resistance electric heat program, a dual fuel program with a rebate, and a reduced rate for electric



grain drying. WIEC also offers an economic development rate to new or expanding businesses.

Economic development activity is on the increase in WIEC's area. The Hancock County Economic Development Association was formed recently and the cooperative joined with Soyland to support the group. Western Illinois provides leadership by serving as the head of the Carthage Chamber of Commerce. There is also interest in forming a bank community development corporation and initial meetings have been held.

1. **ADAMS ELECTRICAL CO-OPERATIVE**
   P.O. Box 247, Camp Point 62320
2. **CLAY ELECTRIC CO-OPERATIVE, INC.**
   P.O. Box 517, Flora 62839
3. **CLINTON COUNTY ELECTRIC COOPERATIVE, INC.**
   P.O. Box 40, Breese 62230
4. **COLES-MOULTRIE ELECTRIC COOPERATIVE**
   P.O. Box 709, Mattoon 61938
5. **CORN BELT ELECTRIC COOPERATIVE, INC.**
   P.O. Box 816, Bloomington 61702-0816
6. **EASTERN ILLINI ELECTRIC COOPERATIVE**
   P.O. Box 96, Paxton 60957
7. **EDGAR ELECTRIC CO-OPERATIVE ASSOCIATION**
   P.O. Box 190, Paris 61944
8. **FARMERS MUTUAL ELECTRIC COMPANY**
   P.O. Box 43, Geneseo 61254
9. **ILLINOIS RURAL ELECTRIC CO.**
   2-12 S. Main Street, Winchester 62694
10. **ILLINOIS VALLEY ELECTRIC COOPERATIVE, INC.**
    P.O. Box 70, Princeton 61356
11. **McDONOUGH POWER COOPERATIVE**
    P.O. Box 352, Macomb 61455
12. **M.J.M. ELECTRIC COOPERATIVE, INC.**
    P.O. Box 219, Carlinville 62626
13. **MENARD ELECTRIC COOPERATIVE**
    P.O. Box 279, Petersburg 62675
14. **MONROE COUNTY ELECTRIC CO-OPERATIVE**
    P.O. Box 128, Waterloo 62298
15. **RURAL ELECTRIC CONVENIENCE COOPERATIVE CO.**
    P.O. Box 19, Auburn 62615
16. **SHELBY ELECTRIC COOPERATIVE**
    P.O. Box 166, Shelbyville 62565
17. **SOUTHWESTERN ELECTRIC COOPERATIVE, INC.**
    P.O. Box 409, Greenville 62246
18. **SPOON RIVER ELECTRIC CO-OPERATIVE, INC.**
    P.O. Box 340, Canton 61520
19. **TRI-COUNTY ELECTRIC COOPERATIVE, INC.**
    P.O. Drawer 309, Mt. Vernon 62864
20. **WAYNE-WHITE COUNTIES ELECTRIC COOPERATIVE**
    P.O. Drawer E, Fairfield 62837
21. **WESTERN ILLINOIS ELECTRICAL COOP.**
    P.O. Box 33C, Carthage 62321



★ **SOYLAND HEADQUARTERS**
Decatur

• **DISTRICT OFFICE**
Jacksonville

KPMG Peat Marwick

Certified Public Accountants

1000 Davenport Bank Building
220 Main Street
Davenport, IA 52801

Independent Auditor's Report

The Board of Directors
Soyland Power Cooperative, Inc.
and Subsidiary:

We have audited the accompanying consolidated balance sheets of Soyland Power Cooperative, Inc. and subsidiary as of December 31, 1990 and 1989, and the related consolidated statements of revenues and expenses, members' deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Soyland Power Cooperative, Inc. and subsidiary at December 31, 1990 and 1989, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

KPMG Peat Marwick

February 12, 1991

Soyland Power Cooperative, Inc.

	December 31, 1990	December 31, 1989
ASSETS (note 4)		
ELECTRIC UTILITIY PLANT, at cost (note 3):		
In service	$ 1,005,496,776	$ 1,002,131,022
Less accumulated depreciation	89,691,123	64,449,781
	915,805,653	937,681,241
Construction work in progress	2,194,791	3,671,757
Nuclear fuel, at cost less accumulated amortization of $12,611,170 in 1990 and $9,348,100 in 1989	20,136,530	21,616,517
Plant site held for future use	7,262,285	7,260,346
Net electric utility plant	945,399,259	970,229,861
INVESTMENTS:		
Investment in associated organization, at cost	16,020,811	13,245,370
Notes receivable (note 7)	8,930,000	8,930,000
Marketable securities — decommissioning trust fund, at cost	521,058	—
Total investments	25,471,869	22,175,370
CURRENT ASSETS:		
Cash	120,092	784,323
Temporary investments	4,187,792	33,850,000
Accounts receivable, members	15,671,221	13,837,577
Other receivables	8,444,884	3,698,852
Inventories	9,521,030	8,447,692
Prepayments and other	294,016	273,013
Recoverable energy costs	4,042,191	2,152,271
Total current assets	42,281,226	63,043,728
DEFERRED CHARGES:		
Costs deferred under phase-in plan (note 3)	23,432,677	18,738,677
Deferred interest (note 4)	51,328,416	52,721,041
Total deferred charges	74,761,093	71,459,718
	$ 1,087,913,447	$ 1,126,908,677

See accompanying notes to consolidated financial statements.

Soyland Power Cooperative, Inc.

CAPITALIZATION AND LIABILITIES	December 31, 1990	1989
CAPITALIZATION:		
Members' deficit:		
Membership fees	$ 1,675	$ 1,675
Patronage capital	2,779,263	2,779,263
Other equity	191,929	191,929
Deficit	(48,675,238)	(48,727,674)
Total members' deficit	(45,702,371)	(45,754,807)
Long-term debt, excluding current installments (note 4)	1,004,162,842	1,020,556,635
Total capitalization	958,460,471	974,801,828
CURRENT LIABILITIES:		
Current installments of long-term debt (note 4)	20,641,000	19,105,000
Accounts payable	16,342,302	14,164,459
Advances from members	17,610,724	18,083,882
Accrued interest	15,020,378	14,703,376
Accrued expenses	2,578,910	2,442,193
Total current liabilities	72,193,314	68,498,910
OTHER LIABILITIES—decommissioning reserves	521,058	400,000
DEFERRED CREDITS (notes 1 and 3):		
Equity funding payments	56,738,604	71,398,162
Deferred revenue	—	11,809,777
Total deferred credits	56,738,604	83,207,939
COMMITMENTS AND CONTINGENCIES (notes 7 and 8)		
	$ 1,087,913,447	$ 1,126,908,677

See accompanying notes to consolidated financial statements.

Soyland Power Cooperative, Inc.

	Years ended December 31, 1990	1989
OPERATING REVENUES:		
Electric energy sales	$ 181,607,405	$ 169,150,042
Sales of ground source heat pumps, net	1,184,477	906,976
Distribution revenue	617,000	737,009
Rent of electric property	66,113	29,636
Other	23,282	28,173
Total operating revenues	183,498,277	170,851,836
OPERATING EXPENSES:		
Operation:		
Purchased capacity (note 7)	49,538,140	43,773,219
Energy costs (note 7)	39,804,228	40,191,334
Production — other	10,065,702	9,449,694
Transmission	2,135,260	2,109,274
Distribution	258,736	119,082
Cost of ground source heat pumps sold	864,685	647,396
Maintenance	6,174,957	4,915,438
Administrative and general	3,936,916	6,186,726
Depreciation and amortization	26,762,659	25,344,002
Property and other taxes	2,573,404	2,294,812
Decommissioning provision	121,058	200,000
Costs deferred under phase-on plan (note 3)	(4,694,000)	(13,448,081)
Total operating expenses	137,541,745	121,782,896
Net operating margin	45,956,532	49,068,940
OTHER REVENUE, principally related to plant ownership settlements (note 7)	8,385,156	7,966,110
Net margin before interest charges	54,341,688	57,035,050
INTEREST CHARGES:		
Interest on long-term debt	54,055,446	57,066,491
Other	2,006,630	1,457,612
Allowance for borrowed funds used during construction	(1,772,824)	(1,803,068)
Net interest charges	54,289,252	56,721,035
Net margin	$ 52,436	$ 314,015

See accompanying notes to consolidated financial statements.

Soyland Power Cooperative, Inc.

	Years ended December 31, 1990	1989
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net margin	$ 52,436	$ 314,015
Adjustments to reconcile net margin to net cash provided (used) by operating activities:		
Depreciation and amortization of electric utility plant	25,531,827	25,516,175
Amortization of deferred interest and recoverable energy costs	1,351,624	4,077,631
Amortization of nuclear fuel	3,263,070	2,170,430
Amortization of equity funding payments	(14,659,558)	(6,293,270)
Amortization of deferred revenue	(11,809,777)	(12,215,000)
Decommissioning provision	121,058	200,000
Increase in deferred interest and recoverable energy costs	(1,848,919)	(2,795,422)
Accretion of investment discount	(17,712)	(17,712)
Patronage capital allocations not received in cash	(3,144,389)	(2,917,432)
(Increase) decrease in accounts and other receivables	(6,579,676)	3,278,391
Increase in inventories	(1,073,338)	(1,817,478)
(Increase) decrease in prepayments and other	(21,003)	350,062
Costs deferred under phase-in plan	(4,694,000)	(13,448,081)
Increase in accounts payable and accrued liabilities	2,631,562	4,827,565
Net cash provided (used) by operating activities	(10,896,795)	1,229,874
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to electric utility plant, net	(2,181,212)	(8,350,150)
Additions to investment in associated organizations	(43,000)	(39,243)
Additions to decommissioning trust fund	(521,058)	—
Purchases of nuclear fuel	(1,783,083)	(7,238,738)
Receipt of prior years' patronage capital allocations	411,948	371,886
Net cash used in investing activities	(4,116,405)	(15,256,245)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(18,976,888)	(15,216,241)
Proceeds from long-term borrowings	4,136,807	3,365,000
Repayment of notes receivable	—	16,174,890
(Decrease) increase in advances from members	(473,158)	10,083,685
Net cash provided (used) by financing activities	(15,313,239)	14,407,334
Net (decrease) increase in cash and cash equivalents	(30,326,439)	380,963
Cash and cash equivalents at beginning of year	34,634,323	34,253,360
Cash and cash equivalents at end of year	$ 4,307,884	$ 34,634,323
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	$ 56,068,660	$ 59,749,299

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

The Cooperative made several reclassifications of costs in 1989 related to the Clinton facility as follows:

	Increase(decrease)
Electric utility plant in service	$ 4,384,325
Nuclear fuel	(3,754,667)
Inventories	(629,658)

In connection with the debt restructuring agreement with REA (see note 4), the Cooperative increased interest and restructured debt by $11,315,725 relating to interest on the restructured debt for the period January 1, 1989, to March 29, 1989.

See accompanying notes to consolidated financial statements.

Soyland Power Cooperative, Inc.

Years ended December 31, 1990 and 1989

	Membership fees	Patronage capital	Other equity	Deficit	Total members' deficit
Balance December 31, 1988	$1,675	2,779,263	191,929	(49,041,689)	(46,068,822)
Net margin	—	—	—	314,015	314,015
Balance December 31, 1989	1,675	2,779,263	191,929	(48,727,674)	(45,754,807)
Net margin	—	—	—	52,436	52,436
Balance December 31, 1990	$1,675	2,779,263	191,929	(48,675,238)	(45,702,371)

See accompanying notes to consolidated financial statements.

Soyland Power Cooperative, Inc.

December 31, 1990 and 1989

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

The consolidated financial statements reflect the accounts of Soyland Power Cooperative, Inc. and its wholly owned subsidiary (the Cooperative). The subsidiary was created in 1987 for the purpose of selling ground source heat pumps to rural consumers. All significant intercompany transactions have been eliminated in consolidation.

B. BASIS OF ACCOUNTING

The accounting records of the Cooperative are maintained in accordance with the Uniform System of Accounts prescribed by the Rural Electrification Administration. The Cooperative is a generation and transmission cooperative providing wholesale electric service to its twenty-one members located in central and southern Illinois.

The Cooperative's rates are established by the Board of Directors and are subject to approval by the Rural Electrification Administration. The Cooperative is not subject to the regulatory authority of the Illinois Commerce Commission.

The Cooperative has entered into wholesale power agreements with each of its members which require the members to buy and receive from the Cooperative all their power and energy requirements and require the Cooperative to sell and deliver power and energy in satisfaction of such requirements. The wholesale power agreements with the members extend to various years from 2015 to 2017.

C. ELECTRIC UTILITY PLANT

Depreciation of electric utility plant in service is provided over the estimated useful lives of the respective assets on the straight-line basis at rates ranging from 2.5% to 20%.

Based upon guidelines provided by the Nuclear Regulatory Commission and in conjunction with Illinois Power (principal owner and operator of the Clinton generating facility), the Cooperative estimates that its portion of the costs to decommission Clinton will be approximately $17,400,000 (in 1986 dollars) which will not begin until 2027. The present value of the future decommissioning costs is being recovered over the life of the facility using the sinking fund method.

Maintenance and repair of property and replacements and renewals of items determined to be less than units of property are charged to expense. Replacement and renewals of items considered to be units of property are charged to the property accounts. At the time properties are disposed of, the original cost, plus cost of removal less salvage of such property, is charged to accumulated depreciation.

D. ALLOWANCE FOR BORROWED FUNDS USED DURING CONSTRUCTION

The allowance for borrowed funds used during the period of construction represents the estimated interest cost of borrowed funds used for construction purposes. The composite rate used to calculate the allowance approximated 9.7% for 1990 and 8.4% for 1989.

E. NUCLEAR FUEL

The cost of nuclear fuel, including capitalized interest and overheads, is being amortized to fuel expense on the basis of the number of units of thermal energy produced in relationship to the total thermal units expected to be produced over the life of the fuel. Nuclear fuel expense includes a provision for estimated spent nuclear fuel disposal cost which is being collected currently from members and remitted to the Department of Energy which is responsible of the disposal of the spent nuclear fuel.

F. TEMPORARY INVESTMENTS

Temporary investments consist of CFC commercial paper, treasury bills, and an interest bearing sweep account and are stated at cost which approximates market.

The Cooperative considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

G. INVENTORIES

Inventories consist of material and supplies and are stated at moving average cost.

H. PENSION PLAN

The Cooperative makes annual contributions to the plan equal to the amount accrued for pension expense.

I. POWER SUPPLY PAYMENTS

Payments made under power supply agreements (see note 7) are classified as purchased capacity, energy costs and transmission expense in the statements of revenues and expenses.

J. DEFERRED ITEMS

Deferred credits consist of equity funding payments and other deferred revenue. The equity funding payments were collected from members and were used to reduce borrowings related to the Clinton generating facility. These payments are being amortized to revenue over a seven year period beginning in 1988. The deferred revenue represents payments collected from members during 1987 and 1988 which primarily relate to estimated 1987 operating expenses of the Clinton generating facility that were not incurred due to Clinton not being placed into commercial operation until December 1987. These payments have been amortized to revenue over a three year period ending in 1990.

Deferred charges consist of costs deferred under a phase-in plan (see note 3), deferred interest (see note 4) and recoverable energy costs in excess of revenue generated from the sale of power. These costs will be recovered through rates in future periods. The amount of these costs to be amortized in 1991 has been reflected as a current asset in the balance sheets.

K. RECLASSIFICATION

Certain accounts for 1989 have been reclassified to conform to the presentation for 1990.

NOTE 2 — MERGER

In March 1989, the Cooperative and Western Illinois Power Cooperative, Inc. (WIPCO) merged into one cooperative retaining the name Soyland Power Cooperative, Inc. The merger was accounted for as a pooling of interests effective January 1, 1989.

NOTE 3 — ELECTRIC UTILITY PLANT IN SERVICE

The major classes of electric utility plant in service at December 31, 1990 and 1989, are as follows:

	1990	1989
Nuclear plant and related facilities	$ 962,030,386	$ 959,077,083
Steam and other production plant	12,992,114	12,989,275
Transmission plant	16,302,261	15,974,002
Distribution plant	7,232,467	7,164,230
General plant	6,939,548	6,926,432
Electric utility plant in service	$1,005,496,776	$1,002,131,022

The Cooperative (including WIPCO) has a 13.21% interest in the 950 megawatt Clinton nuclear generating facility located in Clinton, Illinois which was completed and placed in service in 1987. The Cooperative's share of operating expenses associated with this facility is included with the appropriate operating expenses in the statements of revenues and expenses.

Prior to 1989, the Cooperative estimated its ownership percentage in the Clinton facility was 13.38% subject to adjustment based on the final direct cost to construct the facility. In 1989, the Cooperative negotiated a final settlement with Illinois Power Company (majority owner and operator of the Clinton facility) which established the Cooperative's final ownership percentage at 13.21%. The settlement resulted in a net reimbursement from Illinois Power Company of $12,018,154, (including interest of approximately $5.6 million) to reimburse the Cooperative for its proportionate share of the costs of Clinton based on the lower ownership percentage.

In 1990, the Cooperative and Illinois Power Company (IP) settled litigation initiated by the Cooperative against IP (as project Manager) concerning the construction of the Clinton Power Station and the related counter claims asserted by IP against the Cooperative. The terms and conditions of the settlement agreement provided that Soyland and IP dismiss all pending litigation and release each other from all claims resulting from the construction of the Clinton Power Station. The settlement also provided for an extension, and other modifications, of the Cooperative's power supply agreement with IP (see note 7). Also, as a part of the settlement, the Cooperative will receive a cash payment from IP which has been included in other revenue in the statements of revenues and expenses. The settlement is subject to final approval by the applicable district court.

In 1988, the Cooperative developed a rate phase-in plan in accordance with Statement of Financial Accounting Standards No. 92 which is designed to moderate rate increases related to the completion and commercial operation of the Clinton facility. The plan, which has been approved by the REA and the Cooperative's Board of Directors, includes the deferral of certain costs for future recovery and the amortization of equity funding and deferred revenue payments. Under the plan, the Cooperative originally intended to defer approximately $47 million of certain operating costs of Clinton from 1988 through 1992 which will be recovered from members through rates from 1993 through 1997. Through 1990, the Cooperative has deferred approximately $19,000,000 less in costs that anticipated in the original phase-in plan. The Cooperative estimates that its rates under the plan, net of equity funding and deferred revenue amortization, will increase yearly by approximately 3%-6% from 1991 through 1994 and remain level or decrease each year thereafter through 1999. Management believes that this plan will result in the full recovery of its investment in Clinton over the life of the facility as well as providing adequate funds to meet its operating needs.

NOTE 4 — LONG-TERM DEBT

Long-term debt at December 31, 1990 and 1989, consists of the following:

	1990	1989
Restructured debt — imputed interest at 2.703%, due in various quarterly installments through 2028	$ 497,485,003	$ 507,796,875
Federal Financing Bank (FFB) — 7.337% — 9.607% mortgage notes payable, guaranteed by the Rural Electrification Administration (REA), due in various quarterly installments through 2018	196,176,488	193,527,949
Rural Electric Cooperative Grantor Trust Certificates — 7.3% to 9.7% notes payable, guaranteed by the Rural Electrification Administration (REA), maturing in various amounts through 2017	276,300,000	278,200,000
National Rural Utilities Cooperative Finance Corporation (CFC) — variable rate (currently 8.75%) mortgage notes payable, due in various quarterly installments through 1998	49,387,640	53,767,312
Rural Electrification Administration (REA) — 2% and 5% notes payable, due in quarterly installments through 2018	20,434,097	21,301,173
Notes payable — 7.375% due in equal installments through 1992	60,000	90,000
Total long-term debt	1,039,843,228	1,054,683,309
Less:		
Current installments	20,641,000	19,105,000
Reacquired Grantor Trust Certificates, net of discount	15,039,386	15,021,674
Long-term debt, excluding current installments and reacquired debt	$1,004,162,842	$1,020,556,635

Concurrent with the WIPCO merger, the Cooperative negotiated a restructuring agreement on March 29, 1989, with REA relating to approximately $515,000,000 of outstanding debt (including accrued interest) owed by WIPCO on various loans guaranteed by REA. The loans were obtained to finance construction costs relating to the Clinton generating facility. Under the restructuring agreement, WIPCO's debt was restructured into two notes payable to REA: Note A, for $211,172,525 and Note B for $304,066,284. The Note A bears interest at 10.06% and is due in quarterly installments through 2028.

The Note B bears interest at 10.06% and requires the Cooperative to make annual Energy Sales Payments (for principal and interest) on Note B beginning in 1993 through 2028. The amount of the Energy Sales Payment is based on a load growth formula (as determined by the agreement) which will result in a payment if, and only if, future load growth is achieved. To the extent that interest on Note B for any calendar year is not required to be paid, such unpaid interest is added to the unpaid principal balance of Note B. The amount of the Note B not repaid by December 31, 2028 is forgiven. Management of the Cooperative projects a stable load in future years and therefore anticipates that payments under Note B will be minimal, if any. Because of the uncertainty relating to the Cooperative's obligation to make principal and interest payments on Note B, only the required principal and interest payments on Note A have been used to compute the implicit interest rate of 2.703% on the restructured debt. In the event that the Cooperative's load growth is such that payments on Note B are probable, the implicit interest rate will be adjusted prospectively.

As part of the restructuring agreement, REA has included in Note B $107,366,810 of prior period unpaid interest on the restructured debt. The Cooperative has included $53,294,999 of this amount in electric plant (relating to the period the plant was under construction) and $54,071,811 as deferred interest. The deferred interest will be amortized and collected through rates over the life of the restructured debt.

Annual maturities of long-term debt for each of the five years subsequent to December 31, 1990, are as follows: 1991, $20,641,000; 1992, $21,802,000; 1993, $23,008,000; 1994, $24,097,000 and 1995, $25,313,000.

At December 31, 1990, the Cooperative had $2,076,000 of unadvanced funds available from long-term loans approved by FFB and $28,000,000 of unadvanced funds available from short-term loans approved by CFC.

All assets of the Cooperative are pledged to secure the long-term debt to REA, FFB and CFC.

NOTE 5 — PENSION PLANS

The Cooperative participates in a multi-employer defined benefit pension plan and a 401(K) defined contribution plan which covers substantially all employees. Total pension expense for both plans amounted to $128,921 and $146,726 for the years ended December 31, 1990 and 1989, respectively.

NOTE 6 — INCOME TAX STATUS

The Cooperative is a nonprofit corporation under the laws of Illinois and is exempt from Federal and state income taxes under applicable tax laws.

NOTE 7 — COMMITMENTS

The Cooperative anticipates that the Clinton generating station will furnish approximately 30% of its energy requirements. The current and additional long-term energy requirements will be furnished through power supply agreements with Illinois Power Company (IP) and Central Illinois Public Service Company (CIPS) as discussed below.

The Cooperative has contracted to purchase capacity from IP's fossil-fueled generating plants through 2011 as follows:

1991 - 1992 — 372 MW
1993 - 1994 — 278 MW
1995 - 2011 — 417 MW

The Cooperative has also contracted to purchase capacity from CIP's coal-fueled units through 1999 as follows:

1991 - 1994 — 214 MW
1995 - 1999 — 101 MW

Soyland Power Cooperative, Inc.

The contract payments to IP and CIPS are determined on an "as if owned" basis and include capacity charges (consisting of production, operation and maintenance costs) and energy charges. Total contract payments made to IP and CIPS amounted to approximately $49,400,000 and $32,400,000, for 1990 and $50,300,000 and $26,900,000 for 1989, respectively.

The cooperative has a note receivable from IP for $8,930,000 for working capital advances relating to the fossil-fueled plants under the power supply agreement described above. The note bears interest at 10.75% and is due in 1992.

NOTE 8 — CONTINGENCIES

Under the Price-Anderson Act (as amended in 1988), all nuclear power station operators are subject to public liability for a nuclear incident which is currently limited to $7.279 billion per incident. Coverage of the first $200 million is provided by private insurance with the balance provided by retrospective premium assessments against each licensed nuclear unit in the United States. As a joint owner of the Clinton nuclear facility, the Cooperative is a party to the insurance policies which are maintained by Illinois Power Company (86.79% owner and operator of Clinton) and is charged for its proportionate share of such insurance costs. In the event of an incident at any nuclear plant in the United States in excess of $200 million, the Cooperative could be assessed a maximum of $8,322,300 per incident, with a maximum assessment of $1,321,000 per year.

The Cooperative is a defendant in various claims and lawsuits arising in the ordinary course of business. Based on discussions with legal counsel, management believes that the final settlement of these actions will not have a material adverse effect on the Cooperative's financial position or results of operations.

Soyland Power Cooperative, Inc.

STATEMENT OF OPERATIONS: (In $1,000)	ADAMS	CLAY	CLINTON COUNTY	COLES-MOULTRIE	CORN BELT
Operating Revenue	$ 8,932	$ 3,955	$ 7,911	$ 10,974	$ 17,348
Purchased Power	$ 6,035	$ 2,598	$ 6,069	$ 8,048	$ 11,886
Operating Expenses	1,663	752	1,174	1,902	2,716
Depreciation Expenses	461	246	303	412	1,024
Tax Expense	132	62	81	157	351
Interest	535	203	332	359	1,340
Total Cost—Electric Service	$ 8,826	$ 3,861	$ 7,959	$ 10,878	$ 17,317
Operating Margins	$ 106	$ 94	$ (48)	$ 96	$ 31
Non-Operating Margins & Capital Credits	295	82	231	328	230
Total Patronage Capital or Margins	$ 401	$ 176	$ 183	$ 424	$ 261
ASSETS & OTHER DEBITS					
Total Utility Plant	$18,225	$ 9,915	$10,613	$ 16,145	$ 39,149
Accumulated Provision for Depreciation & Amortization	5,134	3,240	3,362	5,152	9,486
Net Utility Plant	$13,091	$ 6,675	$ 7,251	$ 10,993	$ 29,663
Total Other Property & Investments	$ 3,222	$ 473	$ 1,790	$ 1,182	$ 1,676
Current & Accrued Assets	1,423	710	1,893	4,560	.885
Deferred Debits	24	66	160	1	173
Total Assets	$17,760	$ 7,924	$11,094	$ 16,736	$ 35,397
LIABILITIES & OTHER CREDITS					
Margins & Equities	$ 5,262	$ 3,426	$ 4,082	$ 9,305	$ 11,671
Long-Term Debt	9,640	3,908	5,583	6,569	21,075
Current & Accrued Liabilities	991	469	181	409	2,289
Deferred Credits	1,867	121	1,248	453	362
Total Liabilities	$17,760	$ 7,924	$11,094	$ 16,736	$ 35,397
OTHER STATISTICS					
Miles of Line	2,068	917	962	1,772	2,846
Consumers Served	6,861	2,948	4,644	7,638	12,530
Consumers Per Mile	3.32	3.21	4.83	4.31	4.40
KWH Sold Per Consumer	11,316	12,610	19,449	14,704	13,660
Total MWH Sales	77,641	37,175	90,319	112,311	171,166
Annual Revenue Per Consumer	1,302	1,342	1,703	1,437	1,385
Plant Investment Per Consumer	2,656	3,363	2,285	2,114	3,124

EASTERN ILLINI	EDGAR	FARMERS	ILLINOIS RURAL	ILLINOIS VALLEY	McDONOUGH	M.J.M.
$18,006	$ 6,003	$ 1,672	$10,720	$ 7,133	$ 6,178	$ 8,929
$11,631	$ 4,037	$ 1,152	$ 7,115	$ 4,387	$ 4,647	$ 6,603
3,746	1,277	261	2,110	1,609	913	1,363
1,153	236	92	516	78	230	415
156	110	27	131	126	89	133
1,315	199	102	646	1,205	122	431
$18,001	$ 5,859	$ 1,634	$10,518	$ 7,405	$ 6,001	$ 8,945
$ 5	$ 144	$ 38	$ 202	$(272)	$ 177	$ (16)
750	152	46	154	89	181	240
$ 755	$ 296	$ 84	$ 356	$(183)	$ 358	$ 224
$42,063	$10,474	$ 3,489	$22,751	$32,983	$ 8,407	$15,802
11,538	3,555	1,098	6,822	1,758	3,838	4,301
$30,525	$ 6,919	$ 2,391	$15,929	$31,225	$ 4,569	$11,501
$ 2,301	$ 1,971	$ 212	$ 1,540	$ 804	$ 425	$ 1,225
7,870	1,241	406	2,408	2,505	2,414	3,072
74	86	5	209	5	19	415
$40,770	$10,217	$ 3,014	$20,086	$34,539	$ 7,427	$16,213
$14,673	$ 5,923	$ 1,140	$ 5,628	$ 3,725	$ 5,075	$ 6,321
24,190	3,342	1,777	12,350	30,275	2,216	8,813
1,868	900	97	953	506	113	590
39	52	—	1,155	33	23	489
$40,770	$10,217	$ 3,014	$20,086	$34,539	$ 7,427	$16,213
4,510	1,469	338	2,817	1,743	1,366	1,710
12,568	4,914	1,258	9,660	5,575	4,622	7,411
2.79	3.35	3.72	3.43	3.20	3.38	4.33
13,549	11,504	11,756	9,975	11,445	13,702	10,887
170,280	56,533	14,789	96,363	63,807	63,332	80,681
1,433	1,222	1,329	1,110	1,279	1,337	1,205
3,347	2,131	2,773	2,355	5,916	1,819	2,132

Soyland Power Cooperative, Inc.

STATEMENT OF OPERATIONS: (In $1,000)	MENARD	MONROE	RURAL ELECTRIC	SHELBY	SOUTH-WESTERN
Operating Revenue	$12,107	$ 6,281	$ 8,039	$ 13,226	$ 21,934
Purchased Power	$ 8,153	$ 4,426	$ 5,902	$ 10,245	$ 15,067
Operating Expenses	2,486	803	1,274	1,904	3,200
Depreciation Expenses	633	342	344	524	1,115
Tax Expense	144	64	77	658	333
Interest	541	415	454	16	1,526
Total Cost—Electric Service	$11,957	$ 6,050	$ 8,051	$ 13,347	$ 21,241
Operating Margins	$ 150	$ 231	$ (12)	$ (121)	$ 693
Non-Operating Margins & Capital Credits	229	83	232	167	146
Total Patronage Capital or Margins	$ 379	$ 314	$ 220	$ 46	$ 839
ASSETS & OTHER DEBITS					
Total Utility Plant	$21,125	$13,061	$13,235	$ 16,997	$ 46,350
Accumulated Provision for Depreciation & Amortization	4,833	3,446	4,078	7,852	12,036
Net Utility Plant	$16,292	$ 9,615	$ 9,157	$ 9,145	$ 34,314
Total Other Property & Investments	$ 1,377	$ 488	$ 944	$ 1,881	$ 1,761
Current & Accrued Assets	4,[illegible]33	1,105	3,719	367	5,116
Deferred Debits	75	22	26	300	110
Total Assets	$22,137	$11,230	$13,846	$ 11,693	$ 41,301
LIABILITIES & OTHER CREDITS					
Margins & Equities	$ 7,083	$ 3,193	$ 3,093	$ 10,700	$ 12,835
Long-Term Debt	13,663	7,902	7,567	—	26,363
Current & Accrued Liabilities	1,307	72	3,057	896	1,962
Deferred Credits	84	63	129	97	141
Total Liabilities	$22,137	$11,230	$13,846	$ 11,693	$ 41,301
OTHER STATISTICS					
Miles of Line	2,437	1,001	1,279	2,078	3,055
Consumers Served	8,352	4,938	4,785	8,562	14,197
Consumers Per Mile	3.43	4.93	3.74	4.12	4.65
KWH Sold Per Consumer	14,505	12,011	15,504	17,735	14,418
Total MWH Sales	121,146	59,311	74,185	151,846	204,697
Annual Revenue Per Consumer	1,450	1,272	1,680	1,545	1,545
Plant Investment Per Consumer	2,529	2,645	2,766	1,985	3,265

SPOON RIVER	TRI-COUNTY	WAYNE-WHITE	WESTERN	TOTAL	AVERAGE
$ 4,636	$ 21,190	$ 19,251	$ 3,988	$ 218,413	$ 10,401
$ 2,811	$ 15,786	$ 15,228	$ 2,473	$ 154,299	$ 7,348
963	2,670	2,708	806	36,300	1,728
309	953	923	273	10,582	504
202	218	279	61	3,591	171
335	1,159	705	383	12,323	587
$ 4,620	$ 20,786	$ 19,843	$ 3,996	$ 217,095	$ 10,338
$ 16	$ 404	$ (592)	$ (8)	$ 1,318	$ 63
163	178	152	78	4,206	200
$ 179	$ 582	$ (440)	$ 70	$ 5,524	$ 263
$11,560	$ 33,905	$ 32,506	$ 9,682	$ 428,437	$ 20,402
3,187	8,439	10,845	2,105	116,105	5,529
$ 8,373	$ 25,466	$ 21,661	$ 7,577	$ 312,332	$ 14,873
$ 2,264	$ 1,776	$ 1,428	$ 706	$ 29,446	$ 1,402
1,054	735	2,973	1,431	53,280	2,537
—	34	59	17	1,880	90
$11,691	$ 28,011	$ 26,121	$ 9,731	$ 396,938	$ 18,902
$ 3,998	$ 8,138	$ 12,894	$ 2,597	$ 140,762	$ 6,703
5,721	18,989	12,242	6,740	228,925	10,902
525	884	657	389	19,115	910
1,447	—	328	5	8,136	387
$11,691	$ 28,011	$ 26,121	$ 9,731	$ 396,938	$ 18,902
1,170	2,66[illegible]	3,225	1,168	40,592	1,933
4,039	12,[illegible]30	13,257	3,237	154,926	7,377
3.45	4.86	4.11	2.77	—	3.82
8,831	17,412	16,414	10,062	—	13,920
35,669	225,142	217,603	32,570	2,156,566	102,694
1,148	1,639	1,452	1,232	—	1,410
2,862	2,622	2,452	2,991	—	2,765

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