

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

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FILER

CILCORP INC

CIK: 762129 | IRS No.: 371169387 | State of Incorporation: IL | Fiscal Year End: 1231
Type: 10-K405 | Act: 34 | File No.: 001-08946 | Film No.: 99574601
SIC: 4931 Electric & other services combined

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PEORIA IL 61602

Business Address
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CENTRAL ILLINOIS LIGHT CO

CIK: 18651 | IRS No.: 370211050 | State of Incorporation: IL | Fiscal Year End: 1231
Type: 10-K405 | Act: 34 | File No.: 001-02732 | Film No.: 99574602
SIC: 4931 Electric & other services combined

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year ended December 31, 1998

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition period from to

| Commission File Number | Registrant; State of Incorporation; Address; and Telephone Number | IRS Employer Identification No. |
|---------------------------|--|------------------------------------|
|---------------------------|--|------------------------------------|

| | | |
|--------|--|------------|
| 1-8946 | CILCORP Inc. (An Illinois Corporation) 300 Hamilton Blvd., Suite 300 Peoria, Illinois 61602 (309) 675-8810 | 37-1169387 |
|--------|--|------------|

| | | |
|--------|---|------------|
| 1-2732 | CENTRAL ILLINOIS LIGHT COMPANY (An Illinois Corporation) 300 Liberty Street Peoria, Illinois 61602 (309) 675-8810 | 37-0211050 |
|--------|---|------------|

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class so registered | Name of each exchange on which registered |
|---|--|
| CILCORP Inc. Common stock, no par value | New York and Chicago |
| CILCO Preferred Stock, Cumulative \$100 par, 4 1/2% series | New York |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the Registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

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At March 19, 1999, the aggregate market value of the voting stock of CILCORP Inc. (CILCORP) held by nonaffiliates was approximately \$825 million. On that date, 13,610,680 common shares (no par value) were outstanding.

At March 19, 1999, the aggregate market value of the voting stock of Central Illinois Light Company (CILCO) held by nonaffiliates was approximately \$63 million. The voting stock of CILCO consists of its common and preferred stock. On that date, 13,563,871 shares of CILCO's common stock, no par value, were issued and outstanding and privately held, beneficially and of record, by CILCORP Inc.

DOCUMENTS INCORPORATED BY REFERENCE

CILCORP Inc.'s Proxy Statement, to be filed not later than April 30, 1999, in connection with its Annual Meeting to be held in June 1999, is incorporated into Part I and Part III hereof.

Central Illinois Light Company's Proxy Statement, to be filed not later than April 30, 1999, in connection with its Annual Meeting to be held in June 1999, is incorporated into Part I and Part III hereof.

CILCORP Inc.'s Annual Report to Shareholders for the year ended December 31, 1998 -- Management's Discussion and Analysis of Financial Condition and Results of Operations, which will accompany or precede the mailing to shareholders of the above-referenced proxy statement of CILCORP Inc., is incorporated herein by reference into Part II Item 7.

CILCORP Inc.'s Annual Report to Shareholders for the year ended December 31, 1998 -- Financial Statements, Notes to the Financial

Statements and Supplementary Data, which will accompany or precede the mailing to shareholders of the above-referenced proxy statement of CILCORP Inc., is incorporated herein by reference into Part II Item 8.

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CILCORP INC.
and
Central Illinois Light Company
1998 Form 10-K Annual Report

This combined Form 10-K is filed separately by CILCORP Inc. and Central Illinois Light Company (CILCO). Information herein relating to each individual registrant is filed by such registrant on its own behalf. Accordingly, except for its subsidiaries, CILCO makes no representation as to information relating to any other subsidiary of CILCORP Inc.

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GLOSSARY OF TERMS

When used herein, the following terms have the meanings indicated.

AFUDC -- Allowance for Funds Used During Construction

BTU -- British Thermal Unit. The quantity of heat required to raise the temperature of one pound of water one degree Fahrenheit.

Bcf -- Billion cubic feet

CAA -- Clean Air Act

Caterpillar -- Caterpillar Inc., CILCO's largest industrial customer

CECO -- CILCO Energy Corporation, a wholly-owned subsidiary of CILCO

CEDCO -- CILCO Exploration and Development Company, a wholly-owned subsidiary of CILCO

CERCLA -- Comprehensive Environmental Response, Compensation and Liability Act

CESI -- CILCORP Energy Services Inc.

CILCO -- Central Illinois Light Company

CIM -- CILCORP Investment Management Inc.

CIPS - AmerenCIPS, formerly Central Illinois Public Service Company

CLM -- CILCORP Lease Management Inc.

Company -- CILCORP Inc. and subsidiaries

Cooling Degree Day -- The measure of the extent to which the average of high and low temperatures for a day rises above 65 degrees Fahrenheit (annual degree days above historic average indicate warmer than average temperatures); the historic average provided by U.S. Weather Bureau for 30-year period.

CVI -- CILCORP Ventures Inc.

CWA -- Clean Water Act

DSM -- Demand Side Management. The process of helping customers control how they use energy resources.

FAC -- Fuel Adjustment Clause

FASB -- Financial Accounting Standards Board

FERC -- Federal Energy Regulatory Commission

FIFRA -- Federal Insecticide, Fungicide & Rodenticide Act

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Heating Degree Day -- The measure of the extent to which the average of high and low temperatures for a day falls below 65 degrees Fahrenheit (annual degree days above historic average indicates cooler than average temperatures); the historic average provided by U.S. Weather Bureau for 30-year period.

ICC -- Illinois Commerce Commission

IEPA -- Illinois Environmental Protection Agency

KW -- Kilowatt, a thousand watts

KWH -- Kilowatt-hour, one thousand watts used for one hour (unit of work)

MAIN -- Mid-America Interconnected Network. One of nine regions that make up the North American Electric Reliability Council. Its purpose is to ensure the Midwest region will meet its load responsibility.

MCF -- One thousand cubic feet

MW -- Megawatt, a million watts

MWG -- Midwest Grain Products, Inc.

NEPA -- National Energy Policy Act

NPDES -- National Pollutant Discharge Elimination System

OSHA -- Occupational Safety and Health Act

PGA -- Purchased Gas Adjustment

QST -- QST Enterprises Inc.

QST Communications -- QST Communications Inc.

QST Energy -- QST Energy Inc.

QST Environmental -- QST Environmental Inc.

QST Trading -- QST Energy Trading Inc.

RCRA -- Resource Conservation and Recovery Act

SDWA -- Safe Drinking Water Act

SFAS -- Statement of Financial Accounting Standards

Therm -- Unit of measurement for natural gas; a therm is equal to one hundred cubic feet (volume); a therm is also equal to 100,000 BTUs (energy).

TSCA -- Toxic Substances Control Act

USEPA -- U.S. Environmental Protection Agency

PART I

Item 1. Business

THE COMPANY AND ITS SUBSIDIARIES

CILCORP Inc. (CILCORP or the Company) was incorporated as a holding company in the state of Illinois in 1985. The financial condition and operating results of CILCORP primarily reflect the operations of Central Illinois Light Company (CILCO) and QST Enterprises Inc. (QST), the Company's principal business subsidiaries. A former CILCORP first-tier subsidiary, QST Environmental Inc. (QST Environmental), formerly known as Environmental Science & Engineering, Inc. (ESE) became a subsidiary of QST effective October 29, 1996. The Company also has two other first-tier subsidiaries, CILCORP Investment Management Inc. (CIM) and CILCORP Ventures Inc. (CVI), whose operations, combined with those of the holding company itself (Holding Company), are collectively referred to herein as Other Businesses. CILCORP owns 100% of the common stock of all of its subsidiaries.

On November 23, 1998, the Company announced that The AES Corporation (AES) has offered to buy 100% of the Company's outstanding common stock for \$65 per share, subject to CILCORP shareholder approval and various regulatory approvals. On March 10, 1999, the Illinois Commerce Commission issued its approval of CILCORP's merger with AES. Other required approvals are in process. The Company anticipates that this transaction will close in mid 1999. Refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in CILCORP's 1998 Annual Report to Shareholders incorporated herein by reference for discussion regarding this transaction.

CILCO is engaged in the generation, transmission, distribution and sale of electric energy in an area of approximately 3,700 square miles in central and east-central Illinois, and the purchase, distribution, transportation and sale of natural gas in an area of approximately 4,500 square miles in central and east-central Illinois.

CILCO has two wholly-owned subsidiaries, CILCO Exploration and Development Company (CEDCO) and CILCO Energy Corporation (CECO). CEDCO was formed to engage in the exploration and development of gas, oil, coal and other mineral resources. CECO was formed to research and develop new sources of energy, including the conversion of coal and other minerals into gas. The operations of these subsidiaries are not currently significant.

QST, formed in December 1995, provided energy and energy-related

services to a broad spectrum of retail and wholesale customers through its subsidiary, QST Energy Inc. (QST Energy). QST Energy has one wholly-owned subsidiary - QST Energy Trading Inc. (QST Trading), which purchased and sold energy in the wholesale market. QST provided fiber optic telecommunications services through another wholly-owned subsidiary, QST Communications Inc. (QST Communications). In August 1998, QST sold its 100% interest in QST Communications. In the fourth quarter of 1998, QST decided to discontinue its energy operations and report their results as discontinued. Refer to the caption "QST Enterprises Discontinued Operations" of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and to "Note 10 - QST Enterprises Discontinued Operations" of Item 8. Financial Statements and Supplementary Data included in CILCORP's 1998 Annual Report to Shareholders which is incorporated herein by reference.

ESE was formed in February 1990 to conduct the environmental consulting and analytical services businesses acquired from Hunter Environmental Services, Inc. (Hunter) during that year. Effective October 29, 1996, ESE (now known as

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QST Environmental) became a wholly-owned subsidiary of QST. QST Environmental provides engineering and environmental consulting services to a variety of governmental, industrial and commercial customers. QST Environmental has six wholly-owned subsidiaries: Keck Instruments, Inc., which manufactures geophysical instruments used in environmental applications; QST Architectural Services, Inc., which provides architectural services in Illinois; National Professional Casualty Co., which provides professional and pollution liability insurance to QST Environmental; Chemrox, Inc., which formerly manufactured products and provided engineering services for the safe use and control of ethylene oxide and chlorofluorocarbons; Environmental Staffing Solutions, Inc., which provides temporary staffing services. During the fourth quarter of 1997, QST Environmental completed the sale of substantially all of the assets of ESE Land for cash and continued membership interests in the acquiring companies. In the fourth quarter of 1998, the Company decided to sell its 100% ownership interest in QST Environmental. Refer to the caption "QST Enterprises Discontinued Operations" of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and to "Note 10 - QST Enterprises Discontinued Operations" of Item 8. Financial Statements and Supplementary Data included in CILCORP's 1998 Annual Report to Shareholders which is incorporated herein by reference.

CIM manages the Company's investment portfolio. CIM holds eight leveraged lease investments through three wholly-owned subsidiaries: CILCORP Lease Management Inc. which was formed in 1985, and CIM Leasing Inc. and CIM Air Leasing Inc., which were both formed in 1993. CIM's other wholly-owned subsidiary is CIM Energy Investments Inc., which was formed in 1989 to invest in non-regulated, independent power production facilities (see Other Businesses). CIM also directly owns limited partnership interests in affordable housing portfolios.

CVI primarily invests in ventures in energy-related products and services. CVI has an 80% interest in the Agricultural Research and Development Corporation and has one wholly-owned subsidiary, CILCORP Energy Services Inc. (CESI). CESI was formed to pursue energy-related opportunities in the non-regulated market. CESI's primary business is the sale of gas management services (including commodity purchasing). During 1998, 1997 and 1996 CESI provided certain energy-related services to Caterpillar Inc. Refer to the caption "Competition" of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in CILCORP's 1998 Annual Report to Shareholders which is incorporated herein by reference.

The following table summarizes the relative contribution of each business group to consolidated assets at December 31, 1998, and to revenue and net income for the year ended December 31, 1998.

<TABLE>
<CAPTION>

| | Assets | Revenue | Net Income (Loss) |
|---|-------------|----------------|----------------------|
| | | (In thousands) | |
| <S> | <C> | <C> | <C> |
| CILCO | \$1,024,428 | \$ 534,079 | \$ 41,041 |
| Other Businesses | 170,945 | 24,717 | (2,823) |
| | | | ----- |
| Total Continuing Operations | | | 38,218 |
| QST Enterprises Discontinued Operations | | | (21,908) |
| | | | ----- |
| Net Income | | | \$ 16,310 |
| | | | ===== |

</TABLE>

CILCORP is an intrastate exempt holding company under Section 3(a)(1) of the Public Utility Holding Company Act of 1935 (PUHCA). Federal legislation dealing with the restructuring of the electric utility industry, including repeal of PUHCA, has been introduced in both Houses of Congress. Repeal of PUHCA would, among other things, remove certain presently applicable restrictions to the merger or combination of non-contiguous electric and natural gas utility holding companies. The Company cannot predict whether or when any of these proposals might be enacted at the federal level or the ultimate effect on the Company.

BUSINESS OF CILCO

CILCO was incorporated under the laws of Illinois in 1913. CILCO's principal business is the generation, transmission, distribution and sale of electric energy in an area of approximately 3,700 square miles in central and east-central Illinois, and the purchase, distribution, transportation and sale of natural gas in an area of approximately 4,500 square miles in central and east-central Illinois.

CILCO is continuing to experience, in varying degrees, the impact of developments common to the electric and gas utility industries. These include increased competition in wholesale markets and the prospect of competition in retail markets, changes in regulation and legislation affecting utilities, uncertainties as to the future demand for electricity and natural gas, structural and competitive changes in the markets for these commodities, the high cost of compliance with environmental and safety laws and regulations and uncertainties in regulatory and political processes. At the same time, CILCO has sought to provide reliable service at reasonable rates for its customers and a fair return for its investors. Refer to the caption

"Competition" of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in CILCORP's 1998 Annual Report to Shareholders which is incorporated herein by reference.

ELECTRIC SERVICE

CILCO furnishes electric service to retail customers in 136 Illinois communities (including Peoria, East Peoria, Pekin, Lincoln and Morton). At December 31, 1998, CILCO had approximately 189,000 retail electric customers.

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In 1998, 68% of CILCO's total operating revenue was derived from the sale of electricity. Approximately 37% of electric revenue resulted from residential sales, 31% from commercial sales, 25% from industrial sales, 5% from sales for resale and 2% from other sales. Electric sales, particularly residential and commercial sales during the summer months, fluctuate based on weather conditions.

The electric operating revenues of CILCO were derived from the following sources:

<TABLE>

<CAPTION>

| | 1998 | 1997 | 1996 |
|------------------------|----------------|-----------|-----------|
| | (In thousands) | | |
| <S> | <C> | <C> | <C> |
| Residential | \$133,687 | \$125,071 | \$121,668 |
| Commercial | 111,830 | 103,747 | 100,944 |
| Industrial | 87,895 | 82,318 | 79,065 |
| Sales for resale | 18,866 | 19,966 | 15,206 |
| Street lighting | 1,385 | 1,343 | 1,283 |
| Other revenue | 6,346 | 5,651 | 4,619 |
| | ----- | ----- | ----- |
| Total electric revenue | \$360,009 | \$338,096 | \$322,785 |
| | ===== | ===== | ===== |

</TABLE>

CILCO owns and operates two coal-fired base load generating plants, a natural gas-fired cogeneration plant, and two natural gas combustion turbine generators which are used for peaking service. The 1998 system peak demand was 1,195 MW on June 26, 1998. This was a new all-time system peak demand.

The system peak demand for 1999 is estimated to be 1,228 MW with a planned reserve margin of approximately 20.2%. The planned reserve margin takes into account 150 MW of firm purchased power (see Note 8 - Commitments and Contingencies) and 93 MW of interruptible industrial load and other related Demand Side Management (DSM) programs. CILCO's planned reserve margin is designed to comply with planning reserve margin requirements established by the Mid-America Interconnected Network (MAIN), of which CILCO is a member.

Studies conducted by CILCO indicate that it has sufficient base load generating capacity and purchased capacity to provide an adequate and reliable supply of electricity to satisfy base load demand.

CILCO is interconnected with AmerenCIPS (CIPS), formerly Central Illinois Public Service Company, Commonwealth Edison Company, Illinois Power Company and the Springfield City Water, Light and Power Department to provide for the interchange of electric energy on an emergency and mutual help basis.

GAS SERVICE

CILCO provides gas service to customers in 128 Illinois communities (including Peoria, East Peoria, Pekin, Lincoln and Springfield). At December 31, 1998, CILCO had approximately 197,000 gas customers, including 837 industrial, commercial and residential gas transportation customers that purchase gas directly from suppliers for transportation through CILCO's system. For further discussion of gas transportation, refer to the caption "CILCO Gas Operations" of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in CILCORP's 1998 Annual Report to Shareholders, incorporated herein by reference.

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In 1998, 32% of CILCO's total operating revenue was derived from the sale or transportation of natural gas. Approximately 58% of gas revenue resulted from residential sales, 25% from commercial sales, 4% from industrial sales, 3% from transportation and 10% from other sales. Gas sales, particularly residential and commercial sales during the winter months, fluctuate based on weather conditions.

The gas operating revenues of CILCO were derived from the following sources:

<TABLE>
<CAPTION>

| | 1998 | 1997 | 1996 |
|-----------------------|----------------|-----------|-----------|
| | (In thousands) | | |
| <S> | <C> | <C> | <C> |
| Residential | \$100,010 | \$124,440 | \$125,869 |
| Commercial | 42,713 | 51,204 | 44,695 |
| Industrial | 6,627 | 8,276 | 5,670 |
| Transportation of gas | 5,911 | 6,484 | 8,388 |
| Other revenue | 17,066 | 18,354 | 11,148 |
| | ----- | ----- | ----- |
| Total gas revenue | \$172,327 | \$208,758 | \$195,770 |
| | ===== | ===== | ===== |

</TABLE>

CILCO's all-time maximum daily send-out of 443,167 MCF occurred on January 15, 1972. The 1998 peak day send-out of 327,328 MCF occurred on January 13, 1998. CILCO has been able to meet all of its existing customer requirements during the 1998-1999 heating season. CILCO believes that its present and planned supplies of gas will continue to be sufficient to serve all of its existing customer requirements during the 1999-2000 heating season.

REGULATION

CILCO is a public utility under the laws of the State of Illinois and is subject to the jurisdiction of the ICC. The ICC has general power of supervision and regulation with respect to services and facilities, rates and charges, classification of accounts, valuations of property, determination of depreciation rates, construction, contracts with any affiliated interest, the issuance of stock and evidences of indebtedness and various other matters. In Illinois, the Electric Service Customer Choice and Rate Relief Law of 1997 (Customer Choice Law) began a transition process to a fully competitive market for electricity. Large industrial customers and customers representing one-third of remaining non-residential Kwh sales will be able to choose their electric supplier beginning October 1, 1999. CILCO, as required by the Customer Choice Law, filed its delivery service tariffs pertaining to these customers on March 5, 1999. The ICC must act on CILCO's tariffs by September 1, 1999. The ICC's supervision and regulatory oversight of certain transactions by electric utilities is reduced or suspended during the mandatory transition period (which terminates on January 1, 2005) and, for certain non-utility transactions, is permanently eliminated under the Customer Choice Law. Refer to the caption "Competition" of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in CILCORP's 1998 Annual Report to Shareholders, which is incorporated herein by reference, for changes in the Illinois regulatory environment enacted in 1997.

With respect to certain electric matters, CILCO is subject to regulation by the FERC. CILCO is exempt from the provisions of the Natural Gas Act, but is affected by orders, rules and regulations issued by the FERC with respect to certain gas matters.

ELECTRIC FUEL AND PURCHASED GAS ADJUSTMENT CLAUSES

CILCO's tariffs provide for adjustments to its electric rates through the fuel adjustment clause (FAC) to recover the cost of energy purchased from other suppliers and to reflect increases or decreases in the cost of fuel used in its generating stations. The transportation costs of coal are not currently included in the FAC, but are collected through base rates.

CILCO's current tariffs also provide for adjustments to its gas rates through the purchased gas adjustment clause (PGA) to reflect increases or decreases in the cost of natural gas purchased for sale to customers.

FUEL SUPPLY - COAL

Substantially all of CILCO's electric generation capacity is coal-fired. Approximately 2.7 million tons of coal were burned during 1998. Existing coal contracts with suppliers in central Illinois are expected to supply 100% of the 1999 requirements.

During the years 1998, 1997, and 1996, the average cost per ton of coal burned, including transportation, was \$33.56, \$34.01, and \$31.82, respectively. The cost of coal burned per million BTU's was \$1.54, \$1.56, and \$1.44, respectively (see Electric Fuel and Purchased Gas Adjustment Clauses).

CILCO has a long-term contract with Freeman United Coal Mining Company (Freeman) for the purchase of high-sulfur, Illinois coal used predominantly at the Duck Creek Station. The contract gives CILCO the flexibility to purchase between 500,000 and 1,000,000 tons annually. Under the terms of the contract, CILCO's obligation to purchase coal could be extended through 2010; however, Freeman has the option of terminating the contract (with two years' notice). The contract requires CILCO to pay all variable coal production costs on tons purchased and certain fixed costs not affected by the volume purchased. On August 8, 1997, CILCO filed a demand for arbitration with Freeman alleging

that Freeman has failed to keep and perform its prudent mining obligations, as required by the parties' contract. The relief sought by CILCO through this arbitration includes damages and confirmation of CILCO's termination rights under this contract. CILCO and Freeman have agreed to continue operating under the present contract until a ruling on CILCO's claims is reached by the arbitrators, which is expected in late 1999. CILCO cannot at this time predict the ultimate outcome of this dispute or whether its resolution will have a material impact on CILCO's operating results.

NATURAL GAS SUPPLY

During 1998, CILCO continued to maintain a widely diversified and flexible natural gas supply portfolio. This portfolio is structured around firm and interruptible gas transportation service provided by five interstate pipeline suppliers and firm and interruptible gas purchase arrangements of varying terms made directly with approximately 20 gas suppliers. Reliability is enhanced through natural gas injections and withdrawals at CILCO's two natural gas storage fields and contracted storage facilities. The supply and pipeline capacity portfolio continues to provide reliable supplies at prevailing market prices. CILCO believes that its present and planned supply of gas will continue to be sufficient to serve all of its present and projected firm customer requirements.

During 1998, CILCO purchased and delivered approximately 37,828,000 MCF of natural gas at a cost of approximately \$101.0 million, or an average cost of \$2.67 per MCF. The average cost per MCF of natural gas purchased and delivered was \$3.03 in 1997 and \$3.05 in 1996 (see Electric Fuel and Purchased Gas Adjustment Clauses).

FINANCING AND CAPITAL EXPENDITURES PROGRAMS

CILCO's ongoing capital expenditures program is designed to maintain reliable electric and gas service and to meet the anticipated demands of its customers. Capital expenditures for 1999 are estimated to be \$56.6 million, including pollution control expenditures of \$4.9 million. Expenditures include \$30.8 million for the electric business, \$12.7 million for the gas business and \$13.1 million for general and miscellaneous purposes. Electric expenditures include \$13.7 million for additions and modifications to generating facilities and \$17.1 million for transmission and distribution system additions and improvements. Gas expenditures are primarily for necessary

additions, replacements and improvements to existing facilities. Anticipated gas and electric capital expenditures for 2000-2003 are \$202.4 million.

The above estimates for 1999 capital expenditures include \$11.8 million for information technology projects. Included in 1999 information technology projects is replacement of existing computer software containing two-digit date fields which will not be able to distinguish the year 2000 from the year 1900. Refer to the caption "Year 2000" of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in CILCORP's 1998 Annual Report to Shareholders which is incorporated herein by reference.

CILCO expects to finance its 1999 capital expenditures with funds provided by operating activities. Future funds provided by operations may be affected by the deregulation of the electric and natural gas utility industries. CILCO's short-term debt increased to \$40.6 million at December 31, 1998, from \$21.3 million at December 31, 1997. CILCO retired \$10.65 million of medium-term notes in June 1998 and \$20 million of first mortgage bonds in March 1997. Also, in 1998, CILCO paid \$20 million of dividends to CILCORP in addition to regular quarterly dividends. At December 31, 1998, CILCO had bank lines of credit aggregating \$45 million, all of which were unused, except in support of commercial paper issuance. CILCO expects the support of commercial paper issuance to be the only use of these bank lines during 1999. Refer to the caption "Capital Resources and Liquidity - CILCO" of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in CILCORP's 1998 Annual Report to Shareholders which is incorporated herein by reference.

ENVIRONMENTAL MATTERS

Refer to the caption "Environmental Matters" of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in CILCORP's 1998 Annual Report to Shareholders which is incorporated herein by reference.

Since the adoption of the United Nations Framework on Climate Change in 1992, there has been a worldwide effort to reduce greenhouse gas (GHG) emissions to 1990 levels or below. In December of 1997, the Clinton administration participated in the Kyoto, Japan negotiations, where the basis of a Climate Change treaty was formulated. Under the treaty, the United States would have an overall reduction target of 7% in GHG emissions from 1990 levels by 2008-2012. A key part of the initiative is a trading program for GHG emissions, which at this time is undefined. CILCO estimates that reducing GHG emissions to 7% below the 1990 levels during the period 2008-2012 could require significant

capital outlays and increases in annual operating expenses associated with electric generation which could have a material adverse impact on the Company.

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The U.S. Senate passed a resolution in 1997 indicating the Senate would not ratify an agreement that does not involve commitments from developing nations to limit GHG emissions or one that would damage the U.S. economy. The Clinton administration has approved a program for U.S. GHG emissions reductions. The administration's program has not yet been approved by the U.S. Senate.

Many urban areas around the country face the major challenge of achieving compliance with ozone air quality standards. Ozone is formed when volatile organic compound (VOC) emissions and/or nitrogen oxide (NOx) emissions photochemically react in the atmosphere. Strategies for reduction of ozone levels have targeted mobile, area and stationary sources (including power plants) of VOCs and NOx.

Under Title I of the Clean Air Act, states are required to develop and implement State Implementation Plans (SIP) for ozone compliance by September 2003. CILCO has been targeted by the U.S. Environmental Protection Agency (USEPA) for additional NOx emission reductions of 85% at its power plants, by May 2003, pursuant to regional ozone compliance programs, despite the fact that CILCO's plants are in attainment areas. Illinois has until September 1999 to finalize a SIP to achieve this target. CILCO's capital expenditures to meet the NOx emission requirements could total \$59 million by 2003.

CILCO is currently in the process of investigating and implementing potential beneficial re-use for ash (a coal combustion by-product) generated at both generating stations. Providing alternate uses for the ash will allow CILCO to avoid potential costs associated with the construction of additional facilities to store and manage this by-product.

SIGNIFICANT CUSTOMER

Caterpillar Inc. is CILCO's largest industrial customer. Aggregate gas and electric revenues from sales to Caterpillar were 7.6%, 7.5%, and 7.5% of CILCO's total operating revenue for 1998, 1997 and 1996, respectively. Sales to Caterpillar from all

CILCORP subsidiaries represent 4.0%, 4.4%, and 6.3% of CILCORP consolidated revenue for 1998, 1997 and 1996, respectively. See CILCO's Consolidated Statements of Segments of Business under Item 8. Financial Statements and Supplementary Data.

FRANCHISES

CILCO negotiates franchise agreements which authorize it to provide utility services to the communities in its service area. The franchises are for various terms, usually 10 to 25 years. Based on past experience, CILCO anticipates that, as franchises expire, new franchises will be granted in the normal course of business.

COMPETITION

CILCO, as a regulated public utility, has an obligation to provide service to retail customers within its defined service territory; thus, CILCO has not generally been in competition with other public utilities for retail electric or gas customers in these areas. However, the passage of the Electric Service Customer Choice and Rate Relief Law of 1997 began a transition process to a fully competitive market for electricity in Illinois. In addition, electricity and natural gas compete with other forms of energy available to customers. For example, within the City of Springfield, CILCO's natural gas business competes with the City's municipal electric system to provide customer energy needs.

Refer to the caption "Competition" of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in CILCORP's 1998

Annual Report to Shareholders, incorporated herein by reference, for discussion regarding CILCO's electric and gas pilot programs (collectively known as Power Quest), Illinois' Electric Service Customer Choice and Rate Relief Law of 1997, and other competitive trends which may affect CILCO's electric and gas operations.

EMPLOYEES

The number of full-time and part-time employees at December 31, 1998, was 1,274, excluding employees assigned to the Holding Company. Of these, 389 gas and electric department employees were represented by Local 51 of the International Brotherhood of Electrical Workers (IBEW), and 200 power plant employees were

represented by Local 8 of the National Conference of Firemen and Oilers (NCF&O).

CILCO'S UNION CONTRACTS

The IBEW ratified its current agreement on October 10, 1997. The contract expires on July 1, 2000. The NCF&O ratified its current contract with the Company on October 23, 1998. CILCO's previous contract with the NCF&O expired on July 1, 1998, and the NCF&O membership had been working without a contract since that time. The new contract expires on July 1, 2001.

BUSINESS OF QST (EXCLUDING QST ENVIRONMENTAL)

QST Enterprises Inc. (QST) was formed in December 1995. Through its wholly-owned subsidiary, QST Energy, QST provided a portfolio of non-regulated, energy-related products and services including wholesale and retail sales of electricity and natural gas in markets that are open to competition. QST also provided fiber optic telecommunication services in Central Illinois. Due to uncertainties related to energy deregulation across the country, the illiquidity of certain energy markets and its pending acquisition by AES, the Company will focus in the future on the opportunities in the Illinois energy market resulting from the deregulation of electricity under the Electric Service Customer Choice and Rate Relief Law of 1997. Accordingly, the operations of QST Enterprises Inc. and its subsidiaries are shown as discontinued operations in the statements of income. QST sold its wholly-owned fiber optic-based telecommunications subsidiary, QST Communications, in August 1998.

BUSINESS OF QST ENVIRONMENTAL

QST Environmental is an environmental consulting and engineering firm with additional capabilities in equipment manufacturing. As discussed above in "Business of QST (Excluding QST Environmental)", the Company will focus in the future on the opportunities in the Illinois energy market. As a result, the Company decided in the fourth quarter of 1998 to sell its 100% ownership interest in QST Environmental. Accordingly, the operations of QST Environmental are shown as discontinued on the statements of income. Refer to the caption "QST Enterprises Discontinued Operations" of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and to "Note 10 - QST Enterprises Discontinued Operations" of Item 8. Financial Statements and Supplementary Data included in CILCORP's 1998 Annual Report to Shareholders which is incorporated herein by reference.

QST Environmental's services are intended to address the concern over the quality of the environment, the numerous complex

federal, state and local environmental regulations and enforcement efforts in support of environmental laws. As such, QST Environmental's business is affected by the existence and enforcement of various federal and state statutes and regulations dealing with the environment and the use, control, disposal and clean-up of hazardous

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wastes (see Regulation of QST Environmental's Clients herein). QST Environmental provides a full-service approach to business, industrial and governmental clients, commencing with problem identification and analysis, continuing through regulatory negotiation and engineering, and concluding with the preparation and implementation of a remediation plan or final design and construction.

QST Environmental has a wide range of clients in business, industry and government, including federal agencies, state and local governments, institutional, commercial and industrial firms and professional service firms. QST Environmental employs environmental, chemical, geotechnical, civil, mechanical, structural and transportation engineers; geologists; hydrogeologists; chemists; biologists; toxicologists; meteorologists; industrial hygienists; architects; and surveyors. QST Environmental has a nationwide network of offices with its corporate office in Peoria, Illinois. In late 1998, QST Environmental decided to discontinue its laboratory operations.

QST Environmental provides services in the following areas: air quality, chemical analysis, asbestos and lead-based paint management, industrial hygiene, environmental assessment and toxicology, hydrogeology, remediation, construction management, storage tank management, surface water resources analysis, and environmental audits. QST Environmental also provides engineering design, and environmental, transportation, and water/wastewater engineering services. In addition, QST Environmental manufactures instrumentation for groundwater analysis and mineral exploration through its wholly-owned subsidiary, Keck Instruments, Inc.

CUSTOMERS

QST Environmental sells its products and services to governmental agencies and public and private companies. Approximately 43% of QST Environmental's revenue for 1998 was generated by services performed for federal, state and local governmental agencies compared to 48% for 1997. In the year ended 1998, two customer contracts, EPA and Lucent Technologies, Inc., accounted for 5.7%

and 5.4% of gross revenues, respectively. The EPA contract was rebid in 1998 and awarded to QST Environmental. The Lucent Technologies, Inc. contract was concluded in 1998.

In 1998, approximately 92% of QST Environmental's revenue was generated from environmental consulting and engineering services, 6% from laboratory services and 2% from manufactured equipment sales.

REGULATION OF QST ENVIRONMENTAL'S CLIENTS

The level and nature of QST Environmental's business activity is largely dependent upon government statutes and regulations relating to the environment.

Significant laws or regulations impacting QST Environmental and the demand for its services include:

Clean Air Act of 1970 (CAA), Clean Water Act of 1972, as amended in 1987 (CWA), Comprehensive Environmental Response, Compensation and Liability Act of 1980 (Superfund or CERCLA), Federal Insecticide, Fungicide and Rodenticide Act (FIFRA), National Environmental Policy Act of 1970 (NEPA), National Pollutant Discharge Elimination System (NPDES) Stormwater Permitting Regulations of 1990, Occupational Safety and Health Act of 1970 (OSHA), Resource Conservation and Recovery Act of 1976 (RCRA), Safe Drinking Water Act, as amended in 1986 and 1996 (SDWA), Toxic Substances Control Act of 1976 (TSCA), and State and Local Regulations.

REGULATION OF QST ENVIRONMENTAL

The environmental statutes and regulations listed above primarily affect QST Environmental's clients, and thus have a significant impact on the volume of QST Environmental's business activity and specific types of services that QST Environmental provides to its clients. These environmental statutes and regulations also govern the manner in which QST Environmental performs services for its clients. QST Environmental must comply with specific worker protection requirements and other health and safety standards. These standards include taking steps to limit exposure to asbestos and chemical substances in the workplace. QST Environmental also must comply with regulations pertaining to the disposal of certain hazardous chemicals and substances pursuant to guidelines established under federal and state law. Among those substances are materials removed from the properties and facilities of its clients. Disposal costs for these

materials, and legal compliance costs generally for QST Environmental, have risen steadily in recent years and are expected to continue to increase.

Management believes that the degree of enforcement of environmental regulations at the federal, state and local level will continue to affect the levels of business of QST Environmental and its clients.

COMPETITION

The market for QST Environmental's consulting services is highly competitive, and QST Environmental is subject to competition with respect to all of the services it provides. QST Environmental competes primarily on the basis of quality of service, expertise, and price. QST Environmental's competitors range from small local firms to major national companies. No single entity currently dominates the environmental consulting and engineering services marketplace.

SUBCONTRACTORS

Because of the nature of the projects in which QST Environmental is involved, QST Environmental often subcontracts a portion of its projects to other contractors in order to utilize their expertise, equipment and experience in areas where QST Environmental may lack the ability to complete the entire project. For example, if QST Environmental does not have the necessary equipment to perform all aspects of a project, such work may be subcontracted to local contractors. In addition, contracts which QST Environmental has with federal, state and local governmental agencies may require, as a matter of law, that on a particular job QST Environmental hire a certain percentage of minority-owned subcontractors.

GOVERNMENT CONTRACTS

Many of QST Environmental's contracts with governmental agencies are cost-plus, based on a combination of labor cost, overhead cost and allowable fee. Overhead rates are estimated at the time of contract negotiations. Following the completion of a contract, actual overhead is determined and the difference is reimbursed to the government or paid to QST Environmental within the limits of the contract. Although QST Environmental enjoys a good working relationship with the governmental agencies for which it performs these services, these contracts may be subject to renegotiation of profits or termination at the election of the governmental agency.

POTENTIAL LIABILITIES AND INSURANCE

QST Environmental is exposed to risk of financial loss during its normal course of business in a variety of ways typically associated with an environmental and engineering consulting business, including: work-related injury or illness of employees or third parties; damage to property in QST Environmental's control during the course of a project; damage to QST Environmental's property; repair or rectification costs resulting from failure to detect, analyze, or measure pollutants, asbestos or other toxic substances; repair or rectification costs due to faulty design, workmanship, or liability resulting from QST Environmental's construction or design activities; failure to perform or delay in project completion; and claims by third parties for alleged pollution or contamination damage. Also, QST Environmental assumes contingent liabilities arising out of its need to exercise care in the selection and supervision of subcontractors on various projects. Since QST Environmental derives revenues from work involving hazardous materials, toxic wastes and pollutants, potential losses may surface many years after a project is completed.

These risks, along with enforcement of environmental regulations and increasing public awareness regarding environmental issues and responsibilities, make it mandatory that QST Environmental maintain a sound risk management and insurance program.

QST Environmental carries professional liability insurance which covers design errors and omissions resulting from its typical operations. This policy is extended to include pollution liability losses. The current policy, effective April 1, 1998, has a limit of \$8 million per claim (\$13 million in aggregate for the annual term), with the first \$50,000 of each claim as retention (\$200,000 in aggregate). The policies cover activities in which QST Environmental is typically involved. QST Environmental expects to renew these policies annually in the normal course of business. The professional and pollution liability insurance policies include standard industry exclusions for: dishonesty, discrimination, warranties and guarantees, punitive damages, intentional non-compliance with government regulations or statutes, nuclear energy, war and bodily injury from the specification, installation, transportation, storage or disposal of asbestos.

QST Environmental also carries insurance policies covering workers' compensation, general liability and auto and property damage claims. The workers' compensation policy provides statutory average limits. General liability and auto policies provide full insurance coverage with minor deductible amounts. Also, performance and payment bonds may be provided for specific projects if required by clients. To supplement its risk transfer to insurance policies, QST Environmental attempts with its clients to limit and/or transfer its risk contractually.

QST Environmental believes it operates in a safe manner and, as described above, purchases insurance to protect against loss and maintain competitiveness in the marketplace; however, its entire potential liability may not be covered by insurance. Also, the total cost of a potential claim could exceed QST Environmental's policy limits.

EMPLOYEES

At December 31, 1998, QST Environmental employed 501 full-time, part-time and on-call employees, many of whom have advanced degrees in a variety of technical disciplines and all of whom are non-union.

OTHER BUSINESSES

CIM

The investment portfolio of CIM at December 31, 1998, and December 31, 1997, is shown in the following table:

<TABLE>

<CAPTION>

Type of Investment

| At December 31 | 1998 | 1997 |
|--|----------------|-----------|
| | (In thousands) | |
| <S> | <C> | <C> |
| Investment in leveraged leases | \$146,990 | \$146,458 |
| Cash and temporary cash investments | 71 | 152 |
| Investment in Energy Investors Fund | 1,510 | 1,158 |
| Investment in affordable housing funds | 13,808 | 15,557 |
| Other | 120 | 156 |
| | ----- | ----- |

Total

\$162,499

\$163,481

=====

=====

</TABLE>

At December 31, 1998, CIM held equity investments in eight leveraged leases through its wholly-owned subsidiaries, CILCORP Lease Management Inc. (CLM), CIM Air Leasing Inc. and CIM Leasing Inc. According to the terms of some of the lease agreements, under certain circumstances, subsidiaries of CIM may be obligated to incur additional non-recourse debt to finance the cost of certain alterations, additions, or improvements required by the lessee.

CIM, through its wholly-owned subsidiary, CIM Energy Investments Inc., has a net investment of \$1,510,000 in the Energy Investors Fund, L.P. (Fund), representing a 3.1% interest in the Fund at December 31, 1998. The Fund invests in non-regulated, non-utility facilities for the production of electricity or thermal energy. The equity method of accounting is used for this investment.

CIM is a limited partner in eight affordable housing portfolios. The ownership interests in these partnerships range from 3% to 10% at December 31, 1998. The equity method of accounting is used for these investments.

CVI

CVI's net investment in CESI, its wholly-owned subsidiary, is approximately \$1.1 million. CESI's primary business is the sale of gas management services (including commodity purchasing). In addition, during 1998, costs related to providing additional value-added services to Caterpillar in connection with CILCO's Power Quest programs were reflected in CESI's operating results. Refer to the caption "Competition" of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in CILCORP's 1998 Annual Report to Shareholders which is incorporated herein by reference.

EMPLOYEES

At December 31, 1998, there were 10 full-time employees assigned to CILCORP, CVI and CIM.

YEAR 2000

Refer to the captions "Forward-Looking Information" and "Year 2000" of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in CILCORP's 1998 Annual Report to Shareholders which is incorporated herein by reference.

Item 2. Properties

CILCO

CILCO owns and operates two steam-electric generating plants, a cogeneration plant and two combustion turbine-generators. These facilities had an available summer capability of 1,152 MW in 1998. The two combustion turbine generators have a summer rating of 30 MW (15 MW each) and are used during peak periods. They typically operate less than 100 hours per year. The cogeneration plant, which became operational during 1995, produces steam for Midwest Grain Products, Inc. (MWG) and also generates electricity for distribution to CILCO's customers. This turbine-generator has an available summer capability of 16 MW.

The major generating facilities of CILCO (representing 96.0% of CILCO's available summer generating capability projected for 1999), all of which are fueled with coal, are as follows:

<TABLE>

<CAPTION>

| Station & Unit | Installed | Available Summer Capability (MW) Actual 1998 |
|----------------|-----------|--|
| <S> | <C> | <C> |
| Duck Creek | | |
| Unit 1 | 1976 | 366 |
| E. D. Edwards | | |
| Unit 1 | 1960 | 117 |
| Unit 2 | 1968 | 262 |
| Unit 3 | 1972 | 361 |

</TABLE>

CILCO's transmission system includes approximately 285 circuit miles operating at 138,000 volts, 48 circuit miles operating at 345,000 volts and 16 principal substations with an installed capacity of 2,150,000 kilovolt-amperes.

The electric distribution system includes approximately 6,223

miles of overhead pole and tower lines and 2,096 miles of underground distribution cables. The distribution system also includes 105 substations with an installed capacity of 1,665,885 kilovolt-amperes.

The gas system includes approximately 3,581 miles of transmission and distribution mains.

CILCO has an underground gas storage facility located about ten miles southwest of Peoria near Glasford, Illinois. The facility has a present recoverable capacity of approximately 4.5 Bcf. An additional storage facility near Lincoln, Illinois, has a present recoverable capacity of approximately 5.2 Bcf.

QST ENVIRONMENTAL

QST Environmental owns approximately 53 acres of land in Gainesville, Florida, containing 118,000 square feet of office space. In Peoria, Illinois, QST

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Environmental owns approximately 27,000 square feet of offices and other space and leases approximately 21,000 square feet of additional space for offices. QST Environmental and its subsidiaries lease additional facilities for offices and warehouse space in 22 cities throughout the United States. QST Environmental believes its facilities are suitable and adequate for its current businesses and does not expect to make any material acquisitions of real property in the near future. Refer to the caption "Capital Resources and Liquidity - QST Environmental" of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in CILCORP's 1998 Annual Report to Shareholders which is incorporated herein by reference.

Item 3. Legal Proceedings

Reference is made to the captions "Environmental Matters" of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and to "Note 9 - Commitments and Contingencies" of Item 8. Financial Statements and Supplementary Data in CILCORP's 1998 Annual Report to Shareholders, incorporated herein by reference, for certain pending legal proceedings and/or proceedings known to be contemplated by governmental authorities.

Pursuant to CILCO's By-Laws, CILCO has advanced legal and other expenses actually and reasonably incurred by employees, and

former employees, in connection with the United States Department of Justice's (DOJ) investigation of CILCO's Springfield gas operations. In 1992, after a significant number of leaks were detected in CILCO's Springfield cast iron distribution system, CILCO began a detailed examination of the system and related operating practices and procedures. CILCO then began an aggressive program, which it completed in September 1993, to renew the Springfield cast iron system. The ICC staff began an informal review of CILCO's Springfield gas operations and recordkeeping practices in September 1992. Subsequently, the U.S. Department of Transportation (DOT) and the DOJ began conducting investigations of CILCO, which were also focused principally on CILCO's Springfield gas operations. The DOJ and DOT investigations were subject to a September 1994 settlement agreement under which CILCO entered into a federal court civil consent decree that concluded the DOT and DOJ investigations. As part of the settlement, CILCO accepted adjustments recommended by the ICC staff which resulted in disallowance from rate base of \$4.6 million of the cost of the Springfield renewal program and payments of \$1 million by CILCO in civil fines and investigation costs. Additionally, in an employment litigation matter, CILCO has advanced legal expenses incurred by an officer who has been named as a defendant in that litigation initiated by a former employee.

On February 1, 1999, QST notified two of its California commercial customers that they were in default of their agreement to purchase energy from QST as a result of their failure to pay \$11 million billed to them by QST. In late February, 1999, after expiration of a period to cure the non-payment, QST filed suit in Federal District Court for payment. On March 1, the customers filed a counter suit in California Superior Court alleging they were not in default of the contract for various reasons, including QST's issuance of estimated bills. Management cannot predict the ultimate outcome of this dispute, but intends to vigorously pursue its legal remedies to receive payment.

The Company and its subsidiaries are subject to certain claims and lawsuits in connection with work performed in the ordinary course of their businesses. Except as otherwise disclosed or referred to in this section, in the opinion of management, all such claims currently pending will not result in a material adverse effect on the financial position and results of operations of the Company. Risk of loss is mitigated, in some cases, by insurance or

contractual or statutory indemnification. The Company has established appropriate reserves for potential losses.

Item 4. Submission of Matters to a Vote of Security Holders

CILCORP

There were no matters submitted to a vote of security holders during the fourth quarter of 1998.

CILCO

There were no matters submitted to a vote of security holders during the fourth quarter of 1998.

<TABLE>

<CAPTION>

Executive Officers of CILCORP

| Name | Age as of 3/31/99 | Positions Held During Past Five Years | Initial Effective Date (1) |
|----------------------|-------------------|--|----------------------------------|
| <S> R. O. Viets | <C> 55 | <C> President and Chief Executive Officer | <C> February 1, 1988 |
| J. G. Sahn | 52 | Vice President, Secretary and Treasurer Vice President, General Counsel and Secretary | August 17, 1998 March 1, 1994 |
| T. D. Hutchinson (2) | 44 | Controller | January 20, 1997 |

<FN>

Notes:

- (1) The term of each executive officer extends to the organization meeting of CILCORP's Board of Directors following the next annual election of Directors.
- (2) T. D. Hutchinson served as Controller from February 1, 1988, until April 1, 1995, when he became CILCO Director - Competitive Strategy. From January 1, 1996 to January 20, 1997, Mr. Hutchinson served as Director of Planning and Administration of QST Enterprises Inc.

</TABLE>

<TABLE>
<CAPTION>

Executive Officers of CILCO

| Name | Age as of 3/31/99 | Positions Held During Past Five Years (1) | Initial Effective Date (2) |
|------------------------|----------------------|--|-------------------------------|
| <S> R. O. Viets (3) | <C> 55 | <C> Chairman of the Board, President and Chief Executive Officer | <C> August 17, 1998 |
| | | Chairman of the Board and Chief Executive Officer | April 1, 1995 |
| J. M. Elliott (4) | 55 | Senior Vice President | August 17, 1998 |
| W. M. Shay (5) | 46 | Senior Vice President | August 17, 1998 |
| J. F. Vergon | 51 | Senior Vice President | August 17, 1998 |
| | | President and Chief Operating Officer | January 29, 1996 |
| | | Group President, Gas Operations | April 1, 1995 |
| | | Vice President | October 1, 1986 |
| M. J. Bowling | 52 | Vice President | April 1, 1995 |

| | | | |
|------------------------|----|--|--------------------|
| S. A. Cisel | 45 | Vice President | April 1, 1995 |
| C. Gilson | 41 | Vice President | September 23, 1997 |
| K. A. Lockenvitz | 42 | Vice President | September 23, 1997 |
| T. S. Romanowski | 49 | Vice President | October 1, 1986 |
| R. J. Sprowls (6) | 41 | Vice President and Chief Financial Officer | August 17, 1998 |
| W. R. Dodds | 44 | Treasurer and Manager of Treasury Department | October 1, 1990 |
| T. D. Hutchinson(7) | 44 | Controller and Manager of Accounting | January 1, 1997 |
| J. G. Sahn (8) <FN> | 52 | Secretary | March 1, 1993 |

Notes:

- (1) The officers listed have been employed by CILCO in executive or management positions for the past five years except for Mr. Viets, Mr. Elliott, Mr. Shay, Mr. Sprowls and Mr. Hutchinson.
 - (2) The term of each executive officer extends to the organization meeting of CILCO's Board of Directors following the next annual election of Directors.
 - (3) Mr. Viets previously served as Chairman of the Board from February 1, 1988 to April 23, 1991. He also serves as President and Chief Executive Officer of CILCO's parent, CILCORP Inc., a position he has held since February 1, 1988.
- 23
- (4) Mr. Elliott continues to serve as President of QST Enterprises Inc., a position he has held since November 4, 1996. QST Enterprises Inc. is also a subsidiary of CILCORP Inc.
 - (5) Mr. Shay served as Executive Vice President and Chief Legal Officer of CILCORP Inc. effective November 4, 1997 and as Executive Vice President as of November 4, 1996. He served as President and Chief Operating Officer of QST Enterprises Inc.

from January 29, 1996 to November 4, 1996. Previously, he was Group President of CILCO from April 1, 1995 to January 29, 1996 and Vice President of CILCO from January 1, 1993 to April 4, 1995.

- (6) Mr. Sprowls serves as CILCO's Chief Financial Officer. He was Senior Vice President and Chief Financial Officer of QST Enterprises Inc. from April 22, 1997 to August 17, 1998 and Vice President from August 19, 1996 to April 22, 1997. Mr. Sprowls was Vice President of the Company from April 1, 1995 to January 29, 1996 and, from October 1, 1990 to April 25, 1995, he served as Treasurer of CILCORP.
- (7) Mr. Hutchinson is also Controller of CILCORP, effective January 20, 1997, having previously served as CILCORP Controller from February 1, 1988 to April 1, 1995. He served as CILCO Director-Competitive Strategy from April 1, 1995 to December 31, 1995 and as Director of Planning and Administration of QST Enterprises Inc. from January 1, 1996 to January 20, 1997.
- (8) Mr. Sahn also serves as Vice President of CILCORP Inc., a position he has held since February 1, 1989. He was elected to the additional positions of Secretary of CILCORP effective March 1, 1994 and as Treasurer of CILCORP effective August 17, 1998.

</TABLE>

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

CILCORP

The Company's common stock is listed on the New York and Chicago Stock Exchanges (ticker symbol CER). At December 31, 1998, there were 12,873 holders of record of the Company's common stock. The following table sets forth, for the periods indicated, the dividends per share of common stock and the high and low prices of the common stock as reported in New York Stock Exchange Composite Transactions.

<TABLE>

<CAPTION>

| | Quarter | | | |
|----------------|------------|-----------|------------|-----------|
| 1997 | First | Second | Third | Fourth |
| <S> | <C> | <C> | <C> | <C> |
| Price Range | | | | |
| High | \$39 5/8 | \$41 3/8 | \$43 | \$49 |
| Low | \$35 5/8 | \$37 1/2 | \$38 13/16 | \$40 1/2 |
| Dividends Paid | \$.615 | \$.615 | \$.615 | \$.615 |
| 1998 | | | | |
| Price Range | | | | |
| High | \$48 15/16 | \$50 | \$54 1/8 | \$61 9/16 |
| Low | \$44 3/16 | \$43 5/16 | \$45 1/4 | \$50 3/8 |
| Dividends Paid | \$.615 | \$.615 | \$.615 | \$.615 |

<FN>

The number of common shareholders of record as of March 19, 1999, was 12,729.

</TABLE>

CILCO

CILCO's common stock is not traded on any market. As of

March 19, 1999, 13,563,871 shares of CILCO's Common Stock, no par value, were issued, and outstanding and privately held, beneficially and of record, by CILCORP Inc.

CILCO's requirement for retained earnings before common stock dividends may be paid is described in Note 5 of CILCO's Notes to the Consolidated Financial Statements contained in Item 8. Financial Statements and Supplementary Data.

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Item 6. Selected Financial Data

<TABLE>

CILCORP INC.

Selected Financial Data

<CAPTION>

For the Years Ended December 31

| | 1998 | 1997 | 1996 | 1995 | 1994 |
|--|---|------------|------------|------------|------------|
| | (In thousands except per share amounts) | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Revenue | \$ 559,024 | \$ 557,906 | \$ 527,060 | \$ 482,642 | \$ 472,340 |
| Net income available for common stockholders | 16,310 | 16,395 | 27,943 | 38,582 | 32,586 |
| Earnings per share | 1.20 | 1.20 | 2.07 | 2.93 | 2.50 |
| Total assets | 1,312,940 | 1,334,819 | 1,285,693 | 1,279,303 | 1,238,384 |
| Long-term debt | 285,552 | 298,528 | 320,666 | 344,113 | 326,695 |
| Dividends declared | | | | | |

| | | | | | |
|------------------|------|------|------|------|------|
| per common share | 2.46 | 2.46 | 2.46 | 2.46 | 2.46 |
|------------------|------|------|------|------|------|

</TABLE>

<TABLE>

Central Illinois Light Company
Selected Financial Data

<CAPTION>

For the Years Ended December 31

| | 1998 | 1997 | 1996 | 1995 | 1994 |
|--|----------------|------------|------------|------------|------------|
| | (In thousands) | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Electric and Gas Revenue | \$ 532,336 | \$ 546,854 | \$ 518,555 | \$ 477,744 | \$ 461,370 |
| Net income available for common stockholders | 41,041 | 50,251 | 41,939 | 39,099 | 29,507 |
| Total assets | 1,024,428 | 1,022,655 | 1,036,169 | 1,063,223 | 1,019,109 |
| Long-term debt | 267,884 | 267,836 | 278,439 | 298,397 | 278,359 |
| Ratio of earnings to fixed charges | 3.4 | 3.5 | 3.4 | 3.3 | 3.0 |

</TABLE>

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information under the heading Management's Discussion and Analysis of Financial Condition and Results of Operations in CILCORP's 1998 Annual Report to Shareholders is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The financial statements and Management's Report to the

Stockholders of CILCORP Inc. contained in CILCORP's 1998 Annual Report to Shareholders are incorporated herein by reference.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON SCHEDULES

To CILCORP Inc.:

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements included in CILCORP Inc.'s Annual Report to Shareholders incorporated by reference in this Form 10-K, and have issued our report thereon dated January 27, 1999. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The financial statement schedules listed in Item 14(a)2 are the responsibility of the Company's management and are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Chicago, Illinois
January 27, 1999

MANAGEMENT'S REPORT

The accompanying financial statements and notes for CILCO and its consolidated subsidiaries have been prepared by management in accordance with generally accepted accounting principles. Estimates and judgments used in developing these statements are the responsibility of management. Financial data presented throughout this report is consistent with these statements.

CILCO maintains a system of internal accounting controls which management believes is adequate to provide reasonable assurance as to the integrity of accounting records and the protection of assets. Such controls include established policies and procedures, a program of internal audit and the careful selection and training of qualified personnel.

The financial statements have been audited by CILCO's independent public accountants, Arthur Andersen LLP. Their audit was conducted in accordance with generally accepted auditing standards and included an assessment of selected internal

accounting controls only to determine the scope of their audit procedures. The report of the independent public accountants is contained in this Form 10-K annual report.

The Audit Committee of the CILCORP Inc. Board of Directors, consisting solely of outside directors, meets periodically with the independent public accountants, internal auditors and management to review accounting, auditing, internal accounting control and financial reporting matters. The independent public accountants have direct access to the Audit Committee. The Audit Committee meets separately with the independent public accountants.

R. O. Viets
Chairman of the Board,
President and Chief
Executive Officer

R. J. Sprowls
Vice President and Chief
Financial Officer

T. D. Hutchinson
Controller and Manager of
Accounting

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Central Illinois Light Company:

We have audited the accompanying consolidated balance sheets of Central Illinois Light Company (an Illinois corporation) and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, cash flows, segments of business, and retained earnings for each of the three years in the period ended December 31, 1998. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Illinois Light Company and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial statement schedule listed in Item 14(a)2 is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a required part of the basic financial statements. This financial statement schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Chicago, Illinois
January 27, 1999

Central Illinois Light Company
Consolidated Statements of Income

<TABLE>

<CAPTION>

| For the Years Ended December 31 | 1998 | 1997 | 1996 |
|----------------------------------|----------------|-----------|-----------|
| | (In thousands) | | |
| <S> | <C> | <C> | <C> |
| Operating Revenues: | | | |
| Electric | \$360,009 | \$338,096 | \$322,785 |
| Gas | 172,327 | 208,758 | 195,770 |
| | ----- | ----- | ----- |
| Total Operating Revenues | 532,336 | 546,854 | 518,555 |
| | ----- | ----- | ----- |
| Operating Expenses: | | | |
| Cost of Fuel | 94,490 | 92,230 | 90,715 |
| Cost of Gas | 93,586 | 123,531 | 108,286 |
| Purchased Power | 29,568 | 22,851 | 10,907 |
| Other Operations and Maintenance | 118,707 | 109,833 | 119,334 |
| Depreciation and Amortization | 65,273 | 61,505 | 59,664 |
| Income Taxes | 25,088 | 29,317 | 26,548 |
| State and Local Taxes on Revenue | 26,502 | 22,467 | 22,004 |
| Other Taxes | 11,407 | 11,808 | 11,419 |
| | ----- | ----- | ----- |
| Total Operating Expenses | 464,621 | 473,542 | 448,877 |
| | ----- | ----- | ----- |
| Operating Income | 67,715 | 73,312 | 69,678 |
| | ----- | ----- | ----- |
| Other Income and Deductions: | | | |
| Cost of Equity Funds Capitalized | -- | 35 | 36 |
| CILCO-owned Life Insurance, Net | (1,013) | (1,177) | (679) |
| Other, Net | 274 | (256) | 200 |
| | ----- | ----- | ----- |

| | | | |
|---|-----------|-----------|-----------|
| Total Other Income and (Deductions) | (739) | (1,398) | (443) |
| | ----- | ----- | ----- |
| Income Before Interest Expenses | 66,976 | 71,914 | 69,235 |
| | ----- | ----- | ----- |
| Interest Expenses: | | | |
| Interest on Long-term Debt | 19,498 | 20,024 | 21,012 |
| Cost of Borrowed Funds Capitalized | (34) | (99) | (54) |
| Other | 3,277 | 2,622 | 3,150 |
| | ----- | ----- | ----- |
| Total Interest Expenses | 22,741 | 22,547 | 24,108 |
| | ----- | ----- | ----- |
| Net Income Before Extraordinary Item and Preferred Dividends | 44,235 | 49,367 | 45,127 |
| Extraordinary Item | -- | 4,100 | -- |
| | ----- | ----- | ----- |
| Net Income Before Preferred Dividends | 44,235 | 53,467 | 45,127 |
| | ----- | ----- | ----- |
| Dividends on Preferred Stock | 3,194 | 3,216 | 3,188 |
| | ----- | ----- | ----- |
| Net Income Available for Common Stock | \$ 41,041 | \$ 50,251 | \$ 41,939 |
| | ----- | ----- | ----- |
| Other Comprehensive Income | (169) | (317) | (5) |
| Comprehensive Income | \$ 40,872 | \$ 49,934 | \$ 41,934 |
| | ===== | ===== | ===== |

<FN>

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

</TABLE>

<TABLE>

Central Illinois Light Company
Consolidated Balance Sheets
Assets

<CAPTION>

As of December 31

1998 1997
(In thousands)

<S>

<C>

<C>

Utility Plant, At Original Cost:

Electric \$1,237,885 \$1,213,585

Gas 417,585 401,870

1,655,470 1,615,455

| | | |
|--|-------------|-------------|
| Less - Accumulated Provision for Depreciation | 812,630 | 769,792 |
| | ----- | ----- |
| | 842,840 | 845,663 |
| Construction Work in Progress | 30,075 | 21,550 |
| Plant Acquisition Adjustments, Net of Amortization | 505 | 1,217 |
| | ----- | ----- |
| Total Utility Plant | 873,420 | 868,430 |
| | ----- | ----- |
| Other Property and Investments: | | |
| Cash Surrender Value of Company-owned Life Insurance (Net of Related Policy Loans of \$48,132 in 1998 and \$42,898 in 1997) | 2,655 | 2,399 |
| Other | 1,176 | 1,214 |
| | ----- | ----- |
| Total Other Property and Investments | 3,831 | 3,613 |
| | ----- | ----- |
| Current Assets: | | |
| Cash and Temporary Cash Investments | 1,362 | 698 |
| Receivables, Less Reserves of \$1,106 and \$703 | 35,767 | 44,550 |
| Accrued Unbilled Revenue | 31,315 | 31,248 |
| Fuel, at Average Cost | 13,431 | 7,816 |
| Materials and Supplies, at Average Cost | 15,062 | 13,685 |
| Gas in Underground Storage, at Avg. Cost | 20,494 | 22,118 |
| Prepaid Taxes | 2,265 | 1,189 |
| Other | 6,626 | 6,331 |
| | ----- | ----- |
| Total Current Assets | 126,322 | 127,635 |
| | ----- | ----- |
| Deferred Debits: | | |
| Unamortized Loss on Reacquired Debt | 3,261 | 3,581 |
| Unamortized Debt Expense | 1,852 | 2,019 |
| Prepaid Pension Cost | 417 | 455 |
| Other | 15,325 | 16,922 |
| | ----- | ----- |
| Total Deferred Debits | 20,855 | 22,977 |
| | ----- | ----- |
| Total Assets | \$1,024,428 | \$1,022,655 |
| | ===== | ===== |

<FN>

The accompanying Notes to the Consolidated Financial Statements are an integral part of these balance sheets.

</TABLE>

<TABLE>

Central Illinois Light Company
Consolidated Balance Sheets
Capitalization and Liabilities

<CAPTION>

| As of December 31 | 1998 | 1997 |
|---|----------------|------------|
| | (In thousands) | |
| <S> | <C> | <C> |
| Capitalization: | | |
| Common Shareholder's Equity: | | |
| Common Stock, No Par Value; Authorized 20,000,000 Shares; Outstanding 13,563,871 Shares | \$ 185,661 | \$ 185,661 |
| Retained Earnings | 135,315 | 147,757 |
| Accumulated Other Comprehensive Income | (845) | (676) |
| | ----- | ----- |
| Total Common Shareholder's Equity | 320,131 | 332,742 |
| Preferred Stock Without Mandatory Redemption | 44,120 | 44,120 |
| Preferred Stock With Mandatory Redemption | 22,000 | 22,000 |
| Long-term Debt | 267,884 | 267,836 |
| | ----- | ----- |
| Total Capitalization | 654,135 | 666,698 |
| | ----- | ----- |
| Current Liabilities: | | |
| Current Maturities of Long-Term Debt | -- | 10,650 |
| Notes Payable | 40,600 | 21,300 |
| Accounts Payable | 53,260 | 44,844 |
| Accrued Taxes | 7,303 | 2,593 |
| Accrued Interest | 9,394 | 9,234 |
| PGA Over-Recoveries | 304 | 1,666 |
| Level Payment Plan | 1,519 | 2,375 |
| Other | 5,261 | 4,670 |
| | ----- | ----- |
| Total Current Liabilities | 117,641 | 97,332 |
| | ----- | ----- |
| Deferred Liabilities and Credits: | | |
| Accumulated Deferred Income Taxes | 141,746 | 139,274 |
| Regulatory Liability | 46,346 | 56,807 |
| Investment Tax Credits | 19,450 | 21,117 |
| Capital Lease Obligation | 1,703 | 2,182 |
| Other | 43,407 | 39,245 |
| | ----- | ----- |
| Total Deferred Liab. and Credits | 252,652 | 258,625 |
| | ----- | ----- |

| | | |
|--------------------------------------|-------------|-------------|
| Total Capitalization and Liabilities | \$1,024,428 | \$1,022,655 |
| | ===== | ===== |

<FN>

The accompanying Notes to the Consolidated Financial Statements are an integral part of these balance sheets.

</TABLE>

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<TABLE>

Central Illinois Light Company
Consolidated Statements of Cash Flows

<CAPTION>

For the Years Ended December 31

| | | | |
|--|----------------|------|------|
| | 1998 | 1997 | 1996 |
| | (In thousands) | | |

| <S> | <C> | <C> | <C> |
|--|-----------|-----------|-----------|
| Cash Flows from Operating Activities: | | | |
| Net Income Before Extraordinary Item and Preferred Dividends | \$ 44,235 | \$ 49,367 | \$ 45,127 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | | |
| Depreciation and Amortization | 65,986 | 62,217 | 60,376 |
| Deferred Taxes, Investment Tax Credits and Regulatory Liability, Net | (7,690) | (6,585) | (1,727) |
| Decrease(Increase) in Accts Receivable | 8,328 | (946) | (1,292) |
| (Increase)Decrease in Fuel, Materials and Supplies, and Gas in Underground Storage | (5,368) | 3,372 | (5,262) |
| Increase in Unbilled Revenue | (67) | (369) | (1,988) |
| Increase(Decrease) in Accts Payable | 8,416 | (1,282) | 5,643 |
| Increase(Decrease) in Accrued Taxes and Interest | 4,870 | (4,947) | 2,349 |
| Capital Lease Payments | 645 | 645 | 645 |
| (Increase)Decrease in Other Current Assets | (1,372) | 3,331 | 7,427 |
| Decrease in Other Current Liabilities | (1,627) | (458) | (1,106) |
| (Increase)Decrease in Other Non- | | | |

| | | | |
|---|----------|----------|----------|
| Current Assets | 2,328 | 6,372 | (3,506) |
| Increase in Other Non-Current Liab. | 3,571 | 1,273 | 5,130 |
| | ----- | ----- | ----- |
| Net Cash Provided by Operating Activities | 122,255 | 111,990 | 111,816 |
| | ----- | ----- | ----- |
| Cash Flows from Investing Activities: | | | |
| Capital Expenditures | (67,102) | (55,026) | (43,525) |
| Cost of Equity Funds Capitalized | -- | (35) | (36) |
| Other | (5,817) | (5,950) | (2,495) |
| | ----- | ----- | ----- |
| Net Cash Used in Investing Activities | (72,919) | (61,011) | (46,056) |
| | ----- | ----- | ----- |
| Cash Flows from Financing Activities: | | | |
| Common Dividends Paid | (53,483) | (39,482) | (46,121) |
| Preferred Dividends Paid | (3,194) | (3,216) | (3,188) |
| Long-Term Debt Retired | (10,650) | (20,000) | (16,000) |
| Payments on Capital Lease Obligation | (645) | (645) | (645) |
| Increase(Decrease) in Short-Term Borrowing | 19,300 | 11,400 | (14,700) |
| | ----- | ----- | ----- |
| Net Cash Provided from (Used in) Financing Activities | (48,672) | (51,943) | (80,654) |
| | ----- | ----- | ----- |
| Net Increase(Decrease) in Cash and Temporary Cash Investments | 664 | (964) | (14,894) |
| Cash and Temporary Cash Investments at Beginning of Year | 698 | 1,662 | 16,556 |
| | ----- | ----- | ----- |
| Cash and Temporary Cash Investments at December 31 | \$ 1,362 | \$ 698 | \$ 1,662 |
| | ===== | ===== | ===== |

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Supplemental Disclosures of Cash Flow Information:

Cash Paid During the Period for:

Interest (Net of Cost of Borrowed Funds Capitalized)

\$23,200 \$24,148 \$23,475

Income Taxes

\$30,421 \$37,907 \$22,079

<FN>

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

</TABLE>

<TABLE>

Central Illinois Light Company
Statements of Segments of Business

<CAPTION>

| | 1998 | | | Total CILCO |
|---|-------------------|--------------|----------------|----------------|
| | CILCO Electric | CILCO Gas | CILCO Other | |
| | (In thousands) | | | |
| <S> | <C> | <C> | <C> | <C> |
| Revenues | \$360,009 | \$172,327 | \$ 1,743 | \$ 534,079 |
| Interest Income | -- | -- | 228 | 228 |
| Total | 360,009 | 172,327 | 1,971 | 534,307 |
| Operating Expenses | 235,801 | 138,459 | 3,600 | 377,860 |
| Depreciation and Amortization | 46,017 | 19,256 | 713 | 65,986 |
| Total | 281,818 | 157,715 | 4,313 | 443,846 |
| Interest Expense | 16,261 | 6,514 | -- | 22,775 |
| Preferred Stock Dividends | -- | -- | 3,194 | 3,194 |
| Fixed Charges and Other Exp. | (34) | -- | 1,013 | 979 |
| Total | 16,227 | 6,514 | 4,207 | 26,948 |
| Income from Continuing Oper. Before Income Taxes | 61,964 | 8,098 | (6,549) | 63,513 |
| Income Taxes | 21,645 | 3,443 | (2,616) | 22,472 |
| Segment Net Income | \$ 40,319 | \$ 4,655 | \$ (3,933) | \$ 41,041 |
| Capital Expenditures | \$ 44,213 | \$ 22,889 | \$ -- | \$ 67,102 |
| Revenue from major customer Caterpillar Inc. | \$ 39,354 | \$ 948 | \$ -- | \$ 40,302 |
| Segment Assets | \$731,985 | \$287,371 | \$ 5,072 | \$1,024,428 |

| | 1997 | | | Total |
|---|-------------------|--------------|----------------|------------|
| | CILCO Electric | CILCO Gas | CILCO Other | CILCO |
| | (In thousands) | | | |
| <S> | <C> | <C> | <C> | <C> |
| Revenues | \$338,096 | \$208,758 | \$ -- | \$ 546,854 |
| Interest Income | -- | -- | 239 | 239 |
| Total | 338,096 | 208,758 | 239 | 547,093 |
| Operating Expenses | 217,700 | 165,020 | 2,831 | 385,551 |
| Depreciation and Amortization | 43,858 | 17,647 | 713 | 62,218 |
| Total | 261,558 | 182,667 | 3,544 | 447,769 |
| Interest Expense | 16,192 | 6,454 | -- | 22,646 |
| Preferred Stock Dividends | -- | -- | 3,216 | 3,216 |
| Fixed Charges and Other Exp. | (134) | -- | 1,177 | 1,043 |
| Total | 16,058 | 6,454 | 4,393 | 26,905 |
| Income from Continuing Oper. Before Income Taxes | 60,480 | 19,637 | (7,698) | 72,419 |
| Income Taxes | 21,901 | 7,416 | (3,049) | 26,268 |
| Net Income from Continuing Operations before Extraordinary Item | 38,579 | 12,221 | (4,649) | 46,151 |
| Extraordinary Item | 4,100 | -- | -- | 4,100 |
| Segment Net Income | \$ 42,679 | \$ 12,221 | \$ (4,649) | \$ 50,251 |

| | ===== | ===== | ===== | ===== |
|---|-----------|-----------|----------|-------------|
| Capital Expenditures | \$ 35,196 | \$ 19,830 | \$ -- | \$ 55,026 |
| Revenue from major customer Caterpillar Inc. | \$ 40,106 | \$ 934 | \$ -- | \$ 41,040 |
| Segment Assets | \$725,725 | \$291,291 | \$ 5,639 | \$1,022,655 |

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| | 1996 | | | Total |
|-------------------------------|-------------------|--------------|----------------|------------|
| | CILCO Electric | CILCO Gas | CILCO Other | CILCO |
| | (In thousands) | | | |
| <S> | <C> | <C> | <C> | <C> |
| Revenues | \$322,785 | \$195,770 | \$ -- | \$ 518,555 |
| Interest Income | -- | -- | 680 | 680 |
| Total | 322,785 | 195,770 | 680 | 519,235 |
| Operating Expenses | 208,566 | 154,099 | 2,234 | 364,899 |
| Depreciation and Amortization | 42,530 | 17,134 | 713 | 60,377 |
| Total | 251,096 | 171,233 | 2,947 | 425,276 |
| Interest Expense | 17,445 | 6,716 | -- | 24,161 |
| Preferred Stock Dividends | -- | -- | 3,188 | 3,188 |

| | | | | |
|---|-----------|-----------|------------|-------------|
| Fixed Charges and Other Exp. | (90) | -- | 679 | 589 |
| | ----- | ----- | ----- | ----- |
| Total | 17,355 | 6,716 | 3,867 | 27,938 |
| | ----- | ----- | ----- | ----- |
| Income from Continuing Oper. Before Income Taxes | 54,334 | 17,821 | (6,134) | 66,021 |
| Income Taxes | 19,576 | 6,972 | (2,466) | 24,082 |
| | ----- | ----- | ----- | ----- |
| Segment Net Income | \$ 34,758 | \$ 10,849 | \$ (3,668) | \$ 41,939 |
| | ===== | ===== | ===== | ===== |
| Capital Expenditures | \$ 28,032 | \$ 15,529 | \$ -- | \$ 43,561 |
| Revenue from major customer Caterpillar Inc. | \$ 37,724 | \$ 1,053 | \$ -- | \$ 38,777 |
| Segment Assets | \$733,071 | \$296,674 | \$ 6,424 | \$1,036,169 |

</TABLE>

<TABLE>

Central Illinois Light Company

Consolidated Statements of Retained Earnings

<CAPTION>

| For the Years Ended December 31 | 1998 | 1997 | 1996 |
|----------------------------------|----------------|-----------|-----------|
| | (In thousands) | | |
| <S> | <C> | <C> | <C> |
| Balance Beginning of Year | \$147,081 | \$136,629 | \$140,814 |
| Add | | | |
| Net Income Before Preferred | | | |
| Dividends | 44,235 | 53,467 | 45,127 |
| | ----- | ----- | ----- |
| Total | 191,316 | 190,096 | 185,941 |
| | ----- | ----- | ----- |
| Deduct | | | |
| Cash Dividends Declared | | | |
| Preferred Stock | | | |
| \$100 Par Value | | | |
| 4 1/2% Series | 501 | 501 | 501 |
| 4.64% Series | 371 | 371 | 371 |
| 5.85% Series | 1,287 | 1,287 | 1,287 |
| Auction Rate Series (rate at | | | |
| December 31, 1998 was 4.04%) | 1,035 | 1,057 | 1,027 |
| Common Stock, No Par Value | 53,483 | 39,482 | 46,121 |
| | ----- | ----- | ----- |
| Total Dividends Declared | 56,677 | 42,698 | 49,307 |
| | ----- | ----- | ----- |
| Additional Minimum Liability for | | | |
| Non-Qualified Pension Plan at | | | |
| December 31, 1998, 1997, and | | | |
| 1996 net of taxes of \$111, | | | |
| \$208 and \$3, respectively | 169 | 317 | 5 |
| | ----- | ----- | ----- |
| | 56,846 | 43,015 | 49,312 |
| | ----- | ----- | ----- |
| Balance End of Year | \$134,470 | \$147,081 | \$136,629 |
| | ===== | ===== | ===== |

<FN>

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

</TABLE>

CENTRAL ILLINOIS LIGHT COMPANY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of CILCO include the accounts of CILCO and its subsidiaries, CILCO Exploration and Development Company and CILCO Energy Corporation. CILCO is a subsidiary of CILCORP Inc. Prior year amounts have been reclassified on a basis consistent with the 1998 presentation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

REGULATION

CILCO is a public utility subject to regulation by the Illinois Commerce Commission (ICC) and the Federal Energy Regulatory Commission (FERC) with respect to accounting matters, and maintains its accounts in accordance with the Uniform System of Accounts prescribed by these agencies.

CILCO is subject to the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS 71) for its regulated public utility operations. Under SFAS 71, assets and liabilities are recorded to represent probable future increases and decreases, respectively, of revenues to CILCO resulting from the ratemaking action of regulatory agencies.

The Electric Service Customer Choice and Rate Relief Law of 1997 (Customer Choice Law) became effective in Illinois in December 1997. Among other provisions, this law begins a nine-year transition process to a fully competitive market for electricity in Illinois. Electric transmission and distribution activities are expected to continue to be regulated, but a customer may choose to purchase electricity from another supplier (see Management's Discussion - Competition).

The Customer Choice Law contains many other provisions affecting how CILCO will or may conduct its business in the future. The Customer Choice Law also requires the ICC to promulgate rules pertaining to various matters, including accounting and recordkeeping requirements, electric reliability standards, and affiliated interest rules. CILCO will adapt its business plans to take advantage of the competitive opportunities afforded by the new law.

Due to the transition cost recovery limitations and base rate reductions of the Customer Choice Law, CILCO's electric generation activities will no longer be subject to the provisions of SFAS 71. Accordingly, regulatory assets of \$1.5 million and liabilities of \$5.6 million associated with electric generating plant were written-off or credited, respectively, to income in 1997 as a net \$4.1 million after-tax extraordinary item.
Regulatory assets

40

included on the Consolidated Balance Sheets at December 31, 1998 and 1997 are as follows:

<TABLE>

<CAPTION>

| | 1998 | 1997 |
|------------------------------------|----------------|----------|
| | (In thousands) | |
| <S> | <C> | <C> |
| Included in prepayments and other: | | |
| Fuel and gas cost adjustments | \$ 4,740 | \$ 2,954 |
| Coal tar remediation cost - | | |
| estimated current | 609 | 844 |
| Gas transition costs | -- | 159 |
| | ----- | ----- |

| | | |
|--|----------|----------|
| Current costs included in prepayments and other | 5,349 | 3,957 |
| | ----- | ----- |
| Included in other assets: | | |
| Coal tar remediation cost, net of recoveries | 1,281 | 2,745 |
| Regulatory tax asset | 5,723 | 7,578 |
| Deferred gas costs | 4,039 | 4,145 |
| Unamortized loss on reacquired debt | 3,261 | 3,581 |
| | ----- | ----- |
| Future costs included in other assets | 14,304 | 18,049 |
| | ----- | ----- |
| Total regulatory assets | \$19,653 | \$22,006 |
| | ===== | ===== |

</TABLE>

Regulatory assets at December 31, 1998 are related to CILCO's regulated electric and gas distribution activities. CILCO does not currently believe the costs recorded for its generating plants and related assets at December 31, 1998 to be impaired as a result of the Customer Choice Law. Regulatory liabilities, consisting of deferred tax items primarily related to CILCO's electric and gas transmission and distribution operations, are approximately \$46.3 million and \$56.8 million at December 31, 1998 and 1997, respectively.

CILCO's electric generation-related identifiable assets included in the balance sheet at December 31, 1998 and 1997 were:

<TABLE>

<CAPTION>

| | 1998 | 1997 |
|--|----------------|------------|
| | (In thousands) | |
| <S> | <C> | <C> |
| Property, Plant and Equipment | \$ 537,358 | \$ 535,065 |
| Less: Accumulated Depreciation | (266,461) | (259,988) |
| | ----- | ----- |
| | 270,897 | 275,077 |
| Construction Work in Progress | 3,268 | 1,979 |
| | ----- | ----- |
| Net Property, Plant and Equipment | 274,165 | 277,056 |
| Fuel, at Average Cost | 8,704 | 8,520 |
| Materials and Supplies, at Avg. Cost | 8,452 | 8,202 |
| | ----- | ----- |
| Total Identifiable Electric Generation Assets | \$ 291,321 | \$ 293,778 |
| | ===== | ===== |

</TABLE>

Accumulated deferred income taxes associated with electric generation property at December 31, 1998 and 1997 were approximately \$72 million and \$79 million, respectively.

UTILITY OPERATING REVENUES, FUEL COSTS AND COST OF GAS

Electric and gas revenues include service provided but unbilled at year end. Substantially all electric rates and gas system sales rates of CILCO include a fuel adjustment clause and a purchased gas adjustment clause, respectively. These clauses provide for the recovery of changes in electric fuel costs, excluding coal transportation, and changes in the cost of gas on a current basis in billings to customers. CILCO adjusts the cost of fuel and cost of gas to recognize over or under recoveries of allowable costs. The cumulative effects are deferred on the Balance Sheets as a current asset or current liability (see Regulation, above) and adjusted by refunds or collections through future billings to customers. For further discussion, refer to the caption, "Electric Fuel and Purchased Gas Adjustment Clauses" of Item 1. Business.

CONCENTRATION OF CREDIT RISK

CILCO, as a public utility, must provide service to customers within its defined service territory and may not discontinue

service to residential customers when certain weather conditions exist. CILCO continually reviews customers' creditworthiness and requests or refunds deposits based on that review. At December 31, 1998, CILCO had net receivables of \$35.8 million, of which approximately \$4.7 million was due from its major customers.

TRANSACTIONS WITH AFFILIATES

CILCO, which is a subsidiary of CILCORP, incurs certain corporate expenses such as legal, shareholder and accounting fees on behalf of CILCORP and its other subsidiaries. Also, beginning in 1997, CILCO sold natural gas to its affiliate CESI, in conjunction with CESI's gas marketing program. These expenses are billed monthly to CILCORP and its other subsidiaries based on specific identification of costs except for shareholder-related costs which are based on the relative equity percentages of CILCORP and its subsidiary

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corporations. A return on CILCO assets used by CILCORP and its other subsidiaries is also calculated and billed monthly. Total billings to CILCORP and its other subsidiaries amounted to \$11.6 million, \$7.5 million, and \$5.4 million in 1998, 1997 and 1996, respectively.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC)

The allowance, representing the cost of equity and borrowed funds used to finance construction, is capitalized as a component of the cost of utility plant. The amount of the allowance varies depending on the rate used and the size and length of the construction program. The Uniform System of Accounts defines AFUDC, a non-cash item, as the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate upon other funds when so used. On the income statement, the cost of borrowed funds capitalized is reported as a reduction of total interest expense and the cost of equity funds capitalized is reported as other income. In accordance with the FERC formula, the composite AFUDC rates used in 1998, 1997 and 1996 were 5.9%, 7.2% and 7.8%, respectively.

DEPRECIATION AND MAINTENANCE

Provisions for depreciation of utility property for financial reporting purposes are based on straight-line composite rates. The annual provisions for utility plant depreciation, expressed as a percentage of average depreciable utility property, were 3.8% and 4.6% for electric and gas, respectively, for each of the

last three years. Utility maintenance and repair costs are charged directly to expense. Renewals of units of property are charged to the utility plant account, and the original cost of depreciable property replaced or retired, together with the removal cost less salvage, is charged to the accumulated provision for depreciation.

INCOME TAXES

CILCO follows a policy of comprehensive interperiod income tax allocation. Investment tax credits related to utility property have been deferred and are being amortized over the estimated useful lives of the related property. CILCORP and its subsidiaries file a consolidated federal income tax return. Income taxes are allocated to the individual companies based on their respective taxable income or loss.

CONSOLIDATED STATEMENTS OF CASH FLOWS

CILCO considers all highly liquid debt instruments purchased with a remaining maturity of three months or less to be cash equivalents for purposes of the Consolidated Statements of Cash Flows.

CILCO-OWNED LIFE INSURANCE POLICIES

The following amounts related to CILCO-owned life insurance contracts, issued by one major insurance company, are recorded on the Consolidated Balance Sheets:

<TABLE>

<CAPTION>

| | 1998 | 1997 |
|-----------------------------------|----------------|-----------|
| | (In thousands) | |
| <S> | <C> | <C> |
| Cash surrender value of contracts | \$ 50,786 | \$ 45,297 |
| Borrowings against contracts | (48,132) | (42,898) |
| | ----- | ----- |
| Net investment | \$ 2,654 | \$ 2,399 |
| | ===== | ===== |

</TABLE>

Interest expense related to borrowings against CILCO-owned life insurance, included in CILCO-owned Life Insurance, Net on the Consolidated Statements of Income, was \$3.6 million, \$3.5 million and \$2.7 million for 1998, 1997 and 1996, respectively.

NOTE 2 - INCOME TAXES

CILCO uses the liability method to account for income taxes. Under the liability method, deferred income taxes are recognized at currently enacted income tax rates to reflect the tax effect of temporary differences between the financial reporting basis and the tax basis of assets and liabilities. Temporary differences occur because the income tax law either requires or permits certain items to be reported on CILCO's income tax return in a different year than they are reported in the financial statements. CILCO has recorded a regulatory asset and liability to account for the effect of expected future regulatory actions related to unamortized investment tax credits, income tax liabilities initially recorded at tax rates in excess of current rates, the equity component of AFUDC and other items for which deferred taxes had not previously been provided. The temporary differences

related to the consolidated deferred income tax asset and liability at December 31, 1998, 1997 and 1996 were as follows:

<TABLE>

<CAPTION>

| December 31 | 1998 | 1997 | 1996 |
|---|----------------|-----------|-----------|
| | (In thousands) | | |
| <S> | <C> | <C> | <C> |
| Deferred Tax Assets: | | | |
| Deferred Tax Asset | \$ 20,307 | \$ 16,752 | \$ 14,967 |
| Adjustment to reflect regulatory asset | (5,723) | (7,578) | (4,777) |
| | ----- | ----- | ----- |
| Net deferred tax asset | \$ 14,584 | \$ 9,174 | \$ 10,190 |
| | ===== | ===== | ===== |
| Deferred Tax Liabilities: | | | |
| Deferred Tax Liability-property | \$201,872 | \$205,777 | \$211,517 |
| Adjustment to reflect regulatory liability | (46,346) | (56,807) | (68,565) |
| | ----- | ----- | ----- |
| Net Deferred Tax Liability-property | 155,526 | 148,970 | 142,952 |
| Deferred Tax Liability-other | 804 | (522) | 2,489 |
| | ----- | ----- | ----- |
| Accumulated Deferred Income Tax Liability | \$156,330 | \$148,448 | \$145,441 |
| | ===== | ===== | ===== |
| Accumulated Deferred Income Tax Liab., net of deferred tax assets | \$141,746 | \$139,274 | \$135,251 |
| | ===== | ===== | ===== |

</TABLE>

The following table reconciles the change in the accumulated deferred income tax liability to the deferred income tax expense included in the income statement for the period:

<TABLE>

<CAPTION>

| December 31 | 1998 | 1997 |
|---|----------------|------------|
| | (In thousands) | |
| <S> | <C> | <C> |
| Net change in deferred income tax liability per above table | \$ 2,472 | \$ 4,023 |
| Change in tax effects of income tax related regulatory assets and liabilities | (8,606) | (14,559) |
| Deferred taxes related to extraordinary item | -- | 5,634 |
| Other | 111 | 208 |
| | ----- | ----- |
| Deferred income tax expense (benefit) for the period | \$ (6,023) | \$ (4,694) |
| | ===== | ===== |

</TABLE>

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Income tax expenses were as follows:

<TABLE>

<CAPTION>

| Years Ended December 31 | 1998 | 1997 | 1996 |
|--------------------------------------|----------------|----------|----------|
| | (In thousands) | | |
| <S> | <C> | <C> | <C> |
| Current income taxes | | | |
| Federal | \$26,278 | \$29,244 | \$27,260 |
| State | 6,260 | 6,350 | 5,504 |
| | ----- | ----- | ----- |
| Total operating current taxes | 32,538 | 35,594 | 32,764 |
| | ----- | ----- | ----- |
| Deferred operating income taxes, net | | | |
| Depreciation and amort. | (955) | (6,080) | (3,937) |
| Repair allowance | 158 | 1,384 | (197) |
| Borrowed component of AFUDC | 37 | 80 | 136 |
| Capitalized overhead costs | (783) | (807) | (750) |
| Removal costs | (3,189) | 2,515 | 4,832 |
| Gas take-or-pay settlements | 522 | (339) | (706) |

| | | | |
|---|----------|----------|----------|
| Gas storage field | (1,681) | (191) | 405 |
| Taxable salvage | 599 | 220 | 351 |
| Environmental remediation costs | 55 | 46 | (642) |
| Pension expense | 869 | (1,798) | (1,726) |
| Other | (1,415) | 377 | (2,298) |
| | ----- | ----- | ----- |
| Total operating deferred income taxes, net | (5,783) | (4,593) | (4,532) |
| Investment tax credit amortization | (1,667) | (1,684) | (1,684) |
| | ----- | ----- | ----- |
| Total operating income taxes | 25,088 | 29,317 | 26,548 |
| Income tax reduction for disallowed plant costs | 133 | 144 | 156 |
| Other, net | (2,749) | (3,192) | (2,622) |
| | ----- | ----- | ----- |
| Total income taxes before extraordinary item | 22,472 | 26,269 | 24,082 |
| Deferred taxes related to extraordinary item | -- | (5,634) | -- |
| | ----- | ----- | ----- |
| Total income taxes | \$22,472 | \$20,635 | \$24,082 |
| | ===== | ===== | ===== |

<FN>

The 1997 income tax provision has been reduced to reflect the crediting to income as an extraordinary item the regulatory liability related to electric generation property deferred taxes which were recorded at tax rates in excess of the current rate (see Note 1).

Total operating deferred income taxes, net, includes deferred state income taxes of \$(848,000), \$(65,000) and \$(62,000) for 1998, 1997 and 1996, respectively. Other, net, includes deferred state income taxes of \$(43,000), \$(18,000) and \$(51,000) for 1998, 1997 and 1996, respectively.

</TABLE>

The following table represents a reconciliation of the effective tax rate with the statutory federal income tax rate:

<TABLE>

<CAPTION>

| | 1998 | 1997 | 1996 |
|--|-------|-------|-------|
| <S> | <C> | <C> | <C> |
| Statutory federal income tax rate | 35.0% | 35.0% | 35.0% |
| | ==== | ==== | ==== |
| Equity component of AFUDC not subject to taxation | -- | -- | -- |
| Amortization of property-related deferred taxes provided at tax rates in excess of the current rate | (2.7) | (1.4) | (2.2) |
| Amortization of investment tax credit | (2.6) | (2.4) | (2.6) |
| CILCO-owned life insurance | (1.4) | (1.1) | (1.1) |
| State income taxes | 5.2 | 5.0 | 5.0 |
| Preferred dividends and other permanent differences | 2.1 | 2.1 | 2.0 |
| Other differences | (0.1) | (0.2) | 0.5 |
| | ---- | ---- | ---- |
| Total | 0.5 | 2.0 | 1.6 |
| | ---- | ---- | ---- |
| Effective income tax rate before effect of extraordinary item | 35.5 | 37.0 | 36.6 |
| Tax effect of extraordinary item | -- | (7.9) | -- |
| | ---- | ---- | ---- |
| Effective income tax rate | 35.5% | 29.1% | 36.6% |
| | ==== | ==== | ==== |

</TABLE>

NOTE 3 - POSTEMPLOYMENT AND POSTRETIREMENT BENEFITS

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS AND HEALTH CARE

CILCO has recorded a liability of approximately \$1.5 million at December 31, 1998 and 1997, for benefits other than pensions or health care provided to former or inactive employees. The liability for these benefits (primarily long-term and short-term disability payments under plans self-insured by CILCO) is actuarially determined.

PENSION BENEFITS

Substantially all of CILCO's full-time employees, including those assigned to the Holding Company, are covered by trustee, non-contributory defined benefit pension plans. Benefits under these qualified plans reflect the employee's years of service, age at retirement and maximum total compensation for any consecutive sixty-month period prior to retirement. CILCO also has an unfunded nonqualified plan for certain employees.

Pension costs for the past three years were charged as follows:

| <S> | 1998 | 1997 | 1996 |
|-------------------------|----------------|--------|----------|
| <CAPTION> | (In thousands) | | |
| <S> | <C> | <C> | <C> |
| Operating expenses | \$ (893) | \$ 493 | \$ 9,700 |
| Utility plant and other | 6 | 125 | 922 |
| | ----- | ----- | ----- |
| Net pension costs | \$ (887) | \$ 618 | \$10,622 |
| | ===== | ===== | ===== |

Provisions for pension expense reflect the use of the projected unit credit actuarial cost method. At December 31, 1998 and 1997, CILCO recognized an additional minimum liability on the Balance Sheets for the plan in which the accumulated benefit obligation exceeds the fair value of plan assets.

POSTRETIREMENT HEALTH CARE BENEFITS

Provisions for postretirement benefits expenses are determined under the accrual method of accounting.

Substantially all of CILCO's full-time employees, including those assigned to the Holding Company, are currently covered by a trustee, non-contributory defined benefit postretirement health care plan. The plan pays stated percentages of most necessary medical expenses incurred by retirees, after subtracting payments by Medicare or other providers and after a stated deductible has been met. Participants become eligible for the benefits if they retire from CILCO after reaching age 55 with 10 or more years of service. Neither QST Enterprises nor its subsidiaries provide health care benefits to retired

employees.

Postretirement health care benefit costs were charged as follows:

<TABLE>

<CAPTION>

| | 1998 | 1997 | 1996 |
|--|----------------|---------|---------|
| | (In thousands) | | |
| <S> | <C> | <C> | <C> |
| Operating expenses | \$3,904 | \$3,989 | \$5,096 |
| Utility plant and other | 1,260 | 1,825 | 1,883 |
| | ----- | ----- | ----- |
| Net postretirement health care benefit costs | \$5,164 | \$5,814 | \$6,979 |
| | ===== | ===== | ===== |

</TABLE>

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The components of net periodic benefit costs follow:

<TABLE>

<CAPTION>

| | 1998 | 1997 | 1998 | 1997 |
|--------------------------------|------------------|----------|-------------------------------|----------|
| | (In thousands) | | | |
| | Pension Benefits | | Other Postretirement Benefits | |
| <S> | <C> | <C> | <C> | <C> |
| Service cost | \$ 5,410 | \$ 4,384 | \$ 1,417 | \$ 1,298 |
| Interest cost | 19,024 | 17,561 | 5,371 | 5,047 |
| Expected return on plan assets | (25,304) | (21,005) | (4,388) | (3,249) |
| Amortization of transition | | | | |

| | | | | |
|--------------------------------------|----------|--------|----------|----------|
| liability (asset) | (888) | (888) | 2,858 | 2,858 |
| Amortization of past service cost | 1,068 | 1,068 | -- | -- |
| Recognized actuarial loss | (197) | (502) | (94) | (140) |
| | ----- | ----- | ----- | ----- |
| Net benefit cost | \$ (887) | \$ 618 | \$ 5,164 | \$ 5,814 |
| | ===== | ===== | ===== | ===== |

Pension Plans with
Accumulated Benefit
Obligations in Excess
of Assets

| | | | | |
|---|------------|------------|--|--|
| Total projected benefit obligation | \$ (4,191) | \$ (3,692) | | |
| Total accumulated benefit obligation | \$ (3,582) | \$ (2,902) | | |
| Total fair value of assets | \$ -- | \$ -- | | |

</TABLE>

Information on the plans' funded status follows:

<TABLE>

<CAPTION>

| | 1998 | 1997 | 1998 | 1997 |
|--|------------------|--------------|-------------------------------|-------------|
| | (In thousands) | | | |
| | Pension Benefits | | Other Postretirement Benefits | |
| <S> | <C> | <C> | <C> | <C> |
| Change in Benefit Obligations | | | | |
| Benefit obligation at January 1, | \$ (254,929) | \$ (235,441) | \$ (72,542) | \$ (67,367) |
| Service cost | (5,410) | (4,384) | (1,417) | (1,298) |
| Interest cost | (19,024) | (17,561) | (5,371) | (5,047) |
| Actuarial (gain) loss | (22,521) | (13,928) | (7,500) | (2,891) |
| Benefits paid | 16,238 | 16,385 | 4,514 | 4,061 |
| | ----- | ----- | ----- | ----- |
| Benefit obligation at December 31, | \$ (285,646) | \$ (254,929) | \$ (82,316) | \$ (72,542) |
| | ===== | ===== | ===== | ===== |
| Change in Plan Assets | | | | |
| Fair value of assets at January 1, | \$ 289,091 | \$ 254,824 | \$ 52,263 | \$ 39,601 |
| Actual return on assets | 36,467 | 50,489 | 5,781 | 9,907 |
| Company contributions | 163 | 163 | 863 | 6,816 |
| Participant contributions | -- | -- | -- | -- |
| Benefits paid | (16,238) | (16,385) | (4,514) | (4,061) |
| | ----- | ----- | ----- | ----- |
| Fair value of assets at December 31, | \$ 309,483 | \$ 289,091 | \$ 54,393 | \$ 52,263 |
| | ===== | ===== | ===== | ===== |
| Funded Status at December 31, | | | | |
| Benefit obligation less (greater) than plan assets | \$ 23,837 | \$ 34,162 | \$ (27,923) | \$ (20,279) |
| Unrecognized net transition liability (asset) | (4,011) | (4,899) | 30,297 | 33,155 |
| Unrecognized actuarial (gain) loss | (35,875) | (47,431) | (6,777) | (12,977) |
| Unrecognized prior service cost | 6,365 | 7,433 | -- | -- |
| Intangible asset | (415) | (455) | -- | -- |
| Accumulated other comprehensive income | (1,401) | (1,120) | -- | -- |
| | ----- | ----- | ----- | ----- |
| Prepaid (accrued) benefit | | | | |

| | | | | |
|----------------------------|-------------|-------------|------------|----------|
| cost | \$ (11,500) | \$ (12,310) | \$ (4,403) | \$ (101) |
| | ===== | ===== | ===== | ===== |
| Assumptions as of | | | | |
| December 31, | | | | |
| Discount rate | 6.75% | 7.25% | 6.75% | 7.25% |
| Long-term return on assets | 9.00% | 8.50% | 8.50% | 8.50% |
| Long-term compensation | | | | |
| increase | 3.50% | 4.50% | N/A | N/A |

For measurement purposes, a 7.2 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 1998. The rate was assumed to decrease gradually to 5.7 percent for 2025 and remain level thereafter.

Increasing the assumed health care cost trend rate by 1% in each year would increase the accumulated postretirement benefit obligation at December 31, 1998, by \$2.9 million and the aggregate of the service and interest cost

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components of net postretirement health care cost for 1998 by \$252,000. Decreasing the assumed health care cost trend rate by 1% in each year would decrease the accumulated postretirement benefit obligation at December 31, 1998, by \$3.3 million and the aggregate of the service and interest cost components of net postretirement health care cost for 1998 by \$295,000.

NOTE 4 - SHORT-TERM DEBT

CILCO had arrangements for bank lines of credit totaling \$45 million at December 31, 1998, all of which were unused. These lines of credit were maintained by commitment fees of 1/20 of 1% per annum in lieu of balances. These bank lines of credit support CILCO's issuance of commercial paper. Short-term borrowings consisted of commercial paper totaling \$40.6 million and \$21.3 million at December 31, 1998 and 1997, respectively.

NOTE 5 - RETAINED EARNINGS

CILCO's Articles of Incorporation provide that no dividends shall be paid on the common stock if, at the time of declaration, the balance of retained earnings does not equal at least two times the annual dividend requirement on all outstanding shares of preferred stock. The amount of retained earnings so required at December 31, 1998, was \$6.3 million.

NOTE 6 - PREFERRED STOCK

<TABLE>

<CAPTION>

| At December 31 | 1998 | 1997 |
|---|----------------|----------|
| | (In thousands) | |
| <S> | <C> | <C> |
| Preferred stock, cumulative \$100 par value, authorized 1,500,000 shares | | |
| Without mandatory redemption | | |
| 4.50% series - 111,264 shares | \$11,126 | \$11,126 |
| 4.64% series - 79,940 shares | 7,994 | 7,994 |
| Class A, no par value, authorized 3,500,000 shares | | |
| Flexible auction rate - 250,000 shares (*) | 25,000 | 25,000 |
| With mandatory redemption | | |
| 5.85% series - 220,000 shares | 22,000 | 22,000 |
| | ----- | ----- |
| Total preferred stock | \$66,120 | \$66,120 |
| | ===== | ===== |

<FN>

(*) Dividend rates at December 31, 1998 and 1997, were 4.04% and 4.18%, respectively.

</TABLE>

All classes of preferred stock are entitled to receive cumulative dividends and rank equally as to dividends and assets, according to their respective terms.

The total annual dividend requirement for preferred stock outstanding at December 31, 1998, is \$3.2 million, assuming a continuation of the auction dividend rate at December 31, 1998, for the flexible auction rate series.

PREFERRED STOCK WITHOUT MANDATORY REDEMPTION

The call provisions of preferred stock redeemable at CILCO's option outstanding at December 31, 1998, are as follows:

<TABLE>

<CAPTION>

| Series | Callable Price Per Share (plus accrued dividends) |
|--------|---|
|--------|---|

| | |
|-----------------------|-------|
| <S> | <C> |
| 4.50% | \$110 |
| 4.64% | \$102 |
| Flexible auction rate | \$100 |

</TABLE>

PREFERRED STOCK WITH MANDATORY REDEMPTION

CILCO's 5.85% Class A preferred stock may be redeemed in 2003 at \$100 per share. A mandatory redemption fund must be established on July 1, 2003. The fund will provide for the redemption of 11,000 shares for \$1.1 million on July 1 of each year through July 1, 2007. On July 1, 2008, the remaining 165,000 shares will be retired for \$16.5 million.

PREFERENCE STOCK, CUMULATIVE

No Par Value, Authorized 2,000,000 shares, of which none have been issued.

NOTE 7 - LONG-TERM DEBT

<TABLE>

<CAPTION>

| At December 31 | 1998 | 1997 |
|--|----------------|-----------|
| | (In thousands) | |
| <S> | <C> | <C> |
| First Mortgage Bonds | | |
| 7 1/2% series due 2007 | \$ 50,000 | \$ 50,000 |
| 8 1/5% series due 2022 | 65,000 | 65,000 |
| Medium-Term Notes | | |
| 6.4% series due 2000 | 30,000 | 30,000 |
| 6.82% series due 2003 | 25,350 | 25,350 |
| 6.13% series due 2005 | 16,000 | 16,000 |
| 7.8% series due 2023 | 10,000 | 10,000 |
| 7.73% series due 2025 | 20,000 | 20,000 |
| Pollution Control Refunding Bonds | | |
| 6.5% series F due 2010 | 5,000 | 5,000 |
| 6.2% series G due 2012 | 1,000 | 1,000 |
| 6.5% series E due 2018 | 14,200 | 14,200 |
| 5.9% series H due 2023 | 32,000 | 32,000 |
| | ----- | ----- |
| | 268,550 | 268,550 |
| Unamortized premium and discount on long-term debt, net | (666) | (714) |
| | ----- | ----- |
| Total CILCO long-term debt | \$267,884 | \$267,836 |
| | ===== | ===== |

</TABLE>

CILCO's first mortgage bonds are secured by a lien on

substantially all of its property and franchises. Unamortized borrowing expense, premium and discount on outstanding long-term debt are being amortized over the lives of the respective issues.

Scheduled maturities of long-term debt are \$30 million for 2000 and \$25 million for 2003. There are no scheduled maturities of long-term debt for 2001 or 2002.

NOTE 8 - COMMITMENTS & CONTINGENCIES

CILCO's 1999 capital expenditures for utility plant are estimated to be \$56.6 million, in connection with which CILCO has normal and customary purchase commitments at December 31, 1998.

CILCO's policy is to act as a self-insurer for certain insurable risks resulting from employee health and life insurance programs.

In August 1990, CILCO entered into a firm, wholesale power purchase agreement with Central Illinois Public Service Company, now AmerenCIPS (CIPS). This agreement provided for a minimum contract delivery rate from CIPS of 90 MW until the contract expired in May 1998.

In March 1995, CILCO and CIPS amended a limited-term power agreement reached in November 1992. This agreement, which now expires in May 2009, provides for CILCO to purchase up to 150 MW of CIPS' capacity from June 1998 through May 2002, and 50 MW from June 2002 through May 2009.

In January 1997, CILCO intervened in a proceeding before the Federal Energy Regulatory Commission (FERC) to raise contract issues relating to CIPS' proposal to engage with a second utility in joint dispatch of their respective generating units. CILCO also challenged the validity of the power agreements with CIPS because of CIPS' failure to obtain FERC approval of the agreements. In the alternative, CILCO requested that FERC provide an "open season" during which CILCO may cancel the power agreements in whole or in part. In an October 1997 order, FERC rejected CILCO's challenges to joint dispatch and denied CILCO's request for an open season. However, CIPS was ordered to file the agreements with FERC and, on its own motion, FERC initiated a separate proceeding to investigate the terms of the agreements. Hearings in that proceeding have concluded, and the Administrative Law Judge has entered an order finding the agreements are, with minor exceptions, just and reasonable. CILCO is appealing that order to FERC and is requesting FERC to

assess penalties against CIPS for CIPS' failure to file the 1990 agreement before providing service to CILCO under that agreement. FERC's October 1997 order failed to address certain contract issues raised by CILCO. FERC denied rehearing of that order in February 1998, and CILCO has appealed to the United States Court of Appeals for the District of Columbia Circuit for a review of FERC's orders concerning the CIPS agreements. CILCO also filed a separate complaint at FERC in December 1998, challenging the manner in which CIPS is performing, or failing to perform, under the agreements and has notified CIPS that CILCO considers CIPS to be in default under the agreements. On the ground that CIPS is in default regarding performance under the 1992 agreement, CILCO suspended capacity reservation payments to CIPS under the agreements as of January 21, 1999. CILCO cannot predict how FERC or the Court will ultimately rule on the issues pending before them. If CILCO's position is not upheld on certain issues, CILCO could be required to pay the suspended capacity reservation charges which are currently \$865,000 per month, plus interest, to CIPS. While the capacity payments are suspended, CILCO is purchasing power and energy from other sources.

For a discussion of former gas manufacturing sites, refer to the caption "Environmental Matters" of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in CILCORP's 1998 Annual Report which is incorporated herein by reference.

NOTE 9 - LEASES

CILCO leases certain equipment, buildings and other facilities under capital and operating leases. Minimum future rental payments under non-cancellable capital and operating leases having remaining terms in excess of one year as of December 31, 1998, are \$13.6 million in total. Payments due during the years ending December 31, 1999, through December 31, 2003, are \$5.4 million, \$3.7 million, \$2.0 million, \$1.4 million and \$.5 million, respectively.

NOTE 10 - FINANCIAL INSTRUMENTS AND PRICE RISK MANAGEMENT

CILCO utilizes commodity futures contracts, options and swaps in the normal course of its natural gas business activities. However, it does not currently utilize these instruments to hedge its electric purchase and sale transactions or to participate in

energy trading activities. Gains and losses arising from derivative financial instrument transactions which hedge the impact of fluctuations in energy prices are recognized in income concurrent with the related purchases and sales of the commodity. If a derivative financial instrument contract is terminated because it is probable that a transaction or forecasted transaction will not occur, any gain or loss as of such date is immediately recognized. If a derivative financial instrument contract is terminated early for other economic reasons, any gain or loss as of the termination date is deferred and recorded concurrently with the related purchase and sale of natural gas. CILCO is subject to commodity price risk for deregulated sales to the extent that energy is sold under firm price commitments. Due to market conditions, at times CILCO may have unmatched commitments to purchase and sell energy on a price and quantity basis. Physical and derivative financial instruments give rise to market risk, which represents the potential loss that can be caused by a change in the market value of a particular commitment. Market risks are actively monitored to ensure compliance with the Company's risk management policies, including limits to the Company's total net exposure at any time.

The net loss reflected in operating results from derivative financial instruments was \$.2 million for the year 1998. As of December 31, 1998, CILCO had fixed-price derivative financial instruments representing hedges of natural gas purchases of .4 Bcf and natural gas sales of .9 Bcf for commitments through March 1999. The net deferred loss and carrying amount on these fixed-price derivatives at December 31, 1998 was \$.4 million. At December 31, 1998, CILCO had open positions in derivative financial instruments used to hedge basis of 1.5 Bcf for commitments through August 1999. The net deferred gain on these basis derivatives at December 31, 1998, was \$.1 million.

NOTE 11 - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following quarterly operating results are unaudited, but, in the opinion of management, include all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of CILCO's operating results for the periods indicated. The results of operations for each of the fiscal quarters are not necessarily comparable to, or indicative of, the results of an entire year due to the seasonal nature of CILCO's business.

<TABLE>

<CAPTION>

For the Three Months Ended

| | March 31 | June 30 | September 30 | December 31 |
|---|----------------|-----------|--------------|-------------|
| | (In thousands) | | | |
| <S> | <C> | <C> | <C> | <C> |
| 1998 | | | | |
| Operating revenue | \$149,080 | \$116,614 | \$136,506 | \$130,136 |
| Operating income | 18,324 | 14,593 | 24,815 | 9,983 |
| Net income | 12,316 | 8,929 | 19,064 | 3,926 |
| 1997 | | | | |
| Operating revenue | \$165,795 | \$111,520 | \$123,355 | \$146,184 |
| Operating income | 19,197 | 14,382 | 22,491 | 17,242 |
| Net income before extraordinary item | 13,051 | 8,567 | 16,337 | 11,412 |
| Extraordinary item | -- | -- | -- | 4,100 |
| Net income after extraordinary item | 13,051 | 8,567 | 16,337 | 15,512 |

</TABLE>

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

CILCORP

Not applicable.

CILCO

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

CILCORP

The information required by Item 10 relating to directors is set forth in the Company's definitive proxy statement for its 1999 Annual Meeting of Stockholders filed with the United States Securities and Exchange Commission (Commission) pursuant to Regulation 14A. Such information is incorporated herein by reference to the material appearing under the caption "Election of Directors" of such proxy statement. Information required by Item 10 relating to executive officers of the Company is set forth under a separate caption in Part I hereof.

CILCO

The information required by Item 10 relating to directors is set forth in CILCO's definitive proxy statement for its 1999 Annual Meeting of Stockholders filed with the Commission pursuant to Regulation 14A. Such information is incorporated herein by reference to the material appearing under the caption "Election of Directors" of such proxy statement. Information required by Item

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10 relating to executive officers of CILCO is set forth under a separate caption in Part I hereof.

Item 11. Executive Compensation

CILCORP

The Company has filed with the Commission a definitive proxy statement pursuant to Regulation 14A. The information required by Item 11 is incorporated herein by reference to the material appearing under the caption "Executive Compensation" of such proxy statement.

CILCO

CILCO has filed with the Commission a definitive proxy statement pursuant to Regulation 14A. The information required by Item 11 is incorporated herein by reference to the material appearing under the caption "Executive Compensation" of such proxy statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management

CILCORP

The Company has filed with the Commission a definitive proxy statement pursuant to Regulation 14A. The information required by Item 12 is incorporated herein by reference to the material appearing under the caption "Voting Securities and Principal Holders" of such proxy statement.

CILCO

CILCO has filed with the Commission a definitive proxy statement pursuant to Regulation 14A. The information required by Item 12 is incorporated herein by reference to the material appearing under the caption "Voting Securities and Principal Holders" of such proxy statement.

Item 13. Certain Relationships and Related Transactions

CILCORP

CILCORP Inc. (CILCORP or Company), a holding company, is the parent of its direct subsidiaries Central Illinois Light Company (CILCO), CILCORP Investment Management Inc. (CIM), CILCORP Ventures Inc. (CVI), and QST Enterprises Inc. (QST). A former CILCORP first-tier subsidiary, QST Environmental Inc., formerly known as Environmental Science & Engineering, Inc. (ESE) became a subsidiary of QST effective October 29, 1996. Effective June 1, 1997, ESE began operating under the name QST Environmental Inc. (QST Environmental). In the course of business, the Company carries on certain relations with affiliated companies such as shared facilities, utilization of employees and other business transactions. Central Illinois Light Company is reimbursed at cost by the Company and the other subsidiaries for any services it provides.

CILCORP has been authorized by the Board of Directors to guarantee up to \$30 million of obligations incurred by QST (excluding QST Environmental). Through February 28, 1999, CILCORP has guaranteed \$12.1 million of the obligations of QST (excluding QST Environmental). CILCORP receives a fee for providing these guarantees.

QST has been authorized to guarantee up to \$50 million of obligations incurred by its subsidiaries (excluding QST Environmental). Through February 28, 1999,

QST has guaranteed \$3.0 million of its subsidiaries' obligations. QST receives a fee for providing these guarantees.

QST (excluding QST Environmental) had no outstanding debt at the end of 1998.

QST Environmental's cash flow is supplemented by a \$15 million revolving line of credit with the Holding Company which expires in May 2000. At December 31, 1998, QST Environmental had borrowed \$7 million from the Holding Company.

CIM had outstanding debt of \$37.7 million (all to the Holding Company) at the end of 1998.

Through December 31, 1998, CIM has paid \$14 million to fund affordable housing commitments, \$3.8 million of which was paid during 1998. CIM funded these commitments with cash borrowed from the Holding Company.

CIM has guaranteed the performance of CIM Leasing Inc., CIM Air Leasing Inc. and CLM Inc. VI (a second tier subsidiary) with respect to certain obligations arising from the leveraged lease investments held by these subsidiaries.

CILCO

One member of the Board of Directors of CILCORP Inc. is also a member of the Board of Directors of CILCO. The Chairman, President and Chief Executive Officer of CILCO is also the President and Chief Executive Officer of CILCORP and the Secretary of CILCO is also Vice President, Secretary and Treasurer of CILCORP Inc.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on
Form 8-K

CILCORP

(a) 1. Financial Statements

The following statements are included in Exhibit 13 of this filing and are incorporated herein by reference from CILCORP Inc.'s 1998 Annual Report:

Management's Report

Report of Independent Public Accountants

Consolidated Statements of Income for the three
years ended December 31, 1998

Consolidated Balance Sheets as of
December 31, 1998, and December 31, 1997

Consolidated Statements of Segments of Business for
the three years ended December 31, 1998

Consolidated Statements of Cash Flows for the three
years ended December 31, 1998

Consolidated Statements of Common Stockholders' Equity
for the three years ended December 31, 1998

Notes to the Consolidated Financial Statements

(a) 2. Financial Statement Schedules

The following schedules are included herein:

| | Page No. Form 10-K ----- |
|---|--------------------------------|
| Schedule II - Valuation and Qualifying Accounts and Reserves | 64 |
| Schedule XIII -Investment in Leveraged Leases at December 31, 1998 | 66 |

Other schedules are omitted because of the absence of conditions under which they are required or because the required information is given in the financial statements or notes thereto.

(a) 3. Exhibits

* (3) Articles of Incorporation (Designated in Form 10-K for the year ended December 31, 1991, File No. 1-8946, as Exhibit 3).

(3)a By-laws as amended effective January 26, 1999.

*** (4) Instruments defining the rights of security holders, including indentures

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(10) CILCO Executive Deferral Plan. As amended effective August 17, 1998.

(10)a CILCO Executive Deferral Plan II. As amended effective August 17, 1998.

* (10)b CILCORP Economic Value Added Incentive Compensation Plan (Adopted February 29, 1989 & Revised January 29, 1991 and January 30, 1996.) [Designated in Form 10-K for the year ended December 31, 1995. File No. 1-8946, as Exhibit 10(b)]

** (10)c Employment Agreement between CILCORP and Robert O. Viets, President and Chief Executive Officer (effective September 23, 1997; extended for a period of three years effective April 28, 1998). [Designated in Form 10-K for the year ended December 31, 1997. File No. 1-8946, as Exhibit 10(c)]

- (10)d CILCO Benefit Replacement Plan (as amended effective November 12, 1998).
- * (10)e CILCORP Deferred Compensation Stock Plan (Designated in Form 10-K for the year ended December 31, 1991, File No. 1-8946, as Exhibit (10)f).
- * (10)f CILCORP Shareholder Return Incentive Compensation Plan (as amended effective October 28, 1997). [Designated in Form 10-K for the year ended December 31, 1997. File No. 1-8946, as Exhibit 10(f)].
- * (10)g Agreement and Plan of Merger between CILCORP and the AES Corporation [Designated in Form 8-K filed December 3, 1998. File No. 1-8946].
- (10)h Management Continuity Agreement between CILCORP and various subsidiary officers (approved January 27, 1998).
- (10)i CILCO Compensation Protection Plan (approved November 20, 1998).

(12) Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends

Page No.
Form 10-K

| | |
|--|----|
| (13) Annual Report to Security Holders | 71 |
| (23) Consent of Arthur Andersen LLP | 72 |
| (24) Power of Attorney | |
| (27) CILCORP Inc. Consolidated Financial Data Schedule | |

(b) 3. Reports on Form 8-K

A Form 8-K was filed on December 3, 1998 regarding the Agreement and Plan of Merger between CILCORP Inc. and the AES Corporation.

* These exhibits have been previously filed with the Securities and Exchange Commission (SEC) as exhibits to registration statements or to other filings of CILCORP or CILCO with the SEC and are incorporated herein as exhibits by reference. The file number and exhibit number of each such exhibit (where applicable) are stated in the description of such exhibit.

**A comparable Employment Agreement, effective April 28, 1998, exists between the Company and John G. Sahn. The only material difference in these Agreements pertains to the duration of the Agreements and the annual base salary in effect on the date of each Agreement. The duration of the Agreement with Mr. Sahn is two years and his annual base salary specified in the Agreement is \$151,000.

***Pursuant to Paragraph (b)(4)(iii)(A) of Item 601 of Regulation S-K, the Company has not filed as an exhibit to this Form 10-K any instrument with respect to long-term debt as the total amount of securities authorized thereunder does not exceed 10 percent of the total assets of the Company and its subsidiaries on a consolidated basis, but hereby agrees to furnish to the SEC on request any such instruments.

CILCO

| | Page No. Form 10-K ----- |
|--|--------------------------------|
| (a) 1. Financial Statements | |
| The following are included herein: | |
| Management's Report | 29 |
| Report of Independent Public Accountants | 30 |
| Consolidated Statements of Income for the three years ended December 31, 1998 | 31 |
| Consolidated Balance Sheets as of December 31, 1998 and December 31, 1997 | 32-33 |
| Consolidated Statements of Cash Flows for the three years ended December 31, 1998 | 34-35 |
| Consolidated Statements of Segments of Business for the three years ended December 31, 1998 | 36-38 |
| Consolidated Statements of Retained Earnings for the three years ended December 31, 1998 | 39 |
| Notes to the Consolidated Financial Statements | 40-55 |
| (a) 2. Financial Statement Schedules | |

The following schedule is included herein:

Schedule II - Valuation and Qualifying Accounts and
Reserves for the three years ended
December 31, 1998

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Other schedules are omitted because of the absence of conditions under which they are required or because the required information is given in the financial statements or notes thereto.

(a) 3. Exhibits

(3) Articles of Incorporation. As amended April 28, 1998.

* (3)a Bylaws. As amended effective April 23, 1996.
[Designated in Form 10-K for the year ended December 31, 1996, File No. 1-2732, as Exhibit (3)a.]

* (4) Indenture of Mortgage and Deed of Trust between Illinois Power Company and Bankers Trust Company, as Trustee, dated as of April 1, 1933, Supplemental Indenture between the same parties dated as of June 30, 1933, Supplemental Indenture between the Company and Bankers Trust Company, as Trustee, dated as of July 1, 1933 and Supplemental Indenture between the same parties dated as of January 1, 1935, securing First Mortgage Bonds, and indentures supplemental to the foregoing through November 1, 1994. (Designated in Registration No. 2-1937 as Exhibit B-1, in Registration No. 2-2093 as Exhibit B-1(a), in Form 8-K for April 1940, File No. 1-2732-2, as Exhibit A, in Form 8-K for December 1949, File No. 1-2732-2, as Exhibit A, in Form 8-K for December 1951, File No. 1-2732, as Exhibit A, in Form 8-K for July 1957, File No. 1-2732, as Exhibit A,

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in Form 8-K for July 1958, File No. 1-2732, as Exhibit A, in Form 8-K for March 1960, File No. 1-2732, as Exhibit A, in Form 8-K for September 1961, File No. 1-2732, as Exhibit B, in Form 8-K for March 1963, File No. 1-2732, as Exhibit A, in Form 8-K for February 1966, File No. 1-2732, as Exhibit A, in Form 8-K for March 1967, File No. 1-2732, as Exhibit A, in Form 8-K for August 1970, File No. 1-2732, as Exhibit A, in Form 8-K for September 1971, File No. 1-2732, as Exhibit A, in Form 8-K for September 1972, File No. 1-2732, as Exhibit A, in Form 8-K for April 1974, File No. 1-2732, as Exhibit 2(b), in Form 8-K for June 1974, File No. 1-

2732, as Exhibit A, in Form 8-K for March 1975, File No. 1-2732, as Exhibit A, in Form 8-K for May 1976, File No. 1-2732, as Exhibit A, in Form 10-Q for the quarter ended June 30, 1978, File No. 1-2732, as Exhibit 2, in Form 10-K for the year ended December 31, 1982, File No. 1-2732, as Exhibit (4)(b), in Form 8-K dated January 30, 1992, File No. 1-2732, as Exhibit (4) in Form 8-K dated January 29, 1993, File No. 1-2732, as Exhibit (4) and in Form 8-K dated December 2, 1994, File No. 1-2732, as Exhibit (4).)

(10) CILCO Executive Deferral Plan. As amended effective August 17, 1998.

(10)a CILCO Executive Deferral Plan II. As amended effective August 17, 1998.

** (10)b Employment Agreement between CILCORP and Robert O. Viets, Chairman, President and Chief Executive Officer of CILCO (effective September 23, 1997; extended for a period of three years effective April 28, 1998). [Designated in Form 10-K for the year ended December 31, 1997. File No. 1-2732, as Exhibit 10(b).]

* (10)c CILCO Deferred Compensation Stock Plan. [Designated in Form 10-K for the year ended December 31, 1990, File No. 1-2732, as Exhibit (10)d.]

* (10)d CILCORP Economic Value Added Incentive Compensation Plan (adopted February 29, 1989 and revised January 29, 1991 and January 30, 1996). [Designated in Form 10-K for the year ended December 31, 1995, File No. 1-8946, as Exhibit (10)b.]

(10)e Benefit Replacement Plan (as amended effective November 12, 1998).

* (10)f CILCORP Shareholder Return Incentive Compensation Plan (as amended effective October 28, 1997). [Designated in Form 10-K for the year ended December 31, 1997. File No. 1-2732, as Exhibit 10(f).]

(10)g Management Continuity Agreement between CILCORP and various subsidiary officers (approved January 27, 1998).

(10)h CILCO Compensation Protection Plan (approved November 20, 1998).

(12) Computation of Ratio of Earnings to Fixed Charges

(b) 3. Reports on Form 8-K
None

* These exhibits have been previously filed with the Securities and Exchange Commission (SEC) as exhibits to registration statements or to other

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filings of CILCO with the SEC and are incorporated herein as exhibits by reference. The file number and exhibit number of each such exhibit (where applicable) are stated in the description of such exhibit.

**This exhibit has been previously filed with the Securities and Exchange Commission (SEC) as an exhibit to a previous filing on Form 10-K and is incorporated herein as an exhibit by reference. Comparable Employment Agreements, also effective September 23, 1997, and extended for a period of three years effective April 28, 1998, exist between the Company and J. Mark Elliott, William M. Shay and James F. Vergon. The only material difference in these Agreements pertains to the annual base salary in effect on the date of each Agreement.

<TABLE>

SCHEDULE II

CILCORP INC. AND SUBSIDIARY COMPANIES

Valuation and Qualifying Accounts and Reserves

Years Ended December 31, 1998, 1997 and 1996

(Thousands of dollars)

<CAPTION>

| Column A | Column B | Column C | Column D | Column E | |
|--|--------------------------------|-------------------|-------------------------------------|------------|--------------------------|
| Description | Balance at Beginning of Period | Charged to Income | Additions Charged to Other Accounts | Deductions | Balance at End of Period |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Year ended December 31, 1998 | | | | | |
| Accumulated Provisions Deducted from Assets- | | | | | |
| Doubtful Accounts | \$2,518 | \$3,356 | \$ -- | \$2,463 | \$3,411 |

| | | | | | |
|--|---------|---------|-------|---------|---------|
| Accumulated Provisions Not Deducted from Assets - | | | | | |
| Injuries and Damages Discontinued | 1,210 | 768 | -- | 376 | 1,602 |
| Operations Reserve | -- | 8,581 | -- | -- | 8,581 |
| Year ended December 31, 1997 | | | | | |
| Accumulated Provisions Deducted from Assets- Doubtful Accounts | \$2,600 | \$2,867 | \$ -- | \$2,949 | \$2,518 |
| Accumulated Provisions Not Deducted from Assets - | | | | | |
| Injuries and Damages | 1,381 | 814 | -- | 985 | 1,210 |
| Year ended December 31, 1996 | | | | | |
| Accumulated Provisions Deducted from Assets- Doubtful Accounts | \$2,223 | \$3,464 | \$ -- | \$3,087 | \$2,600 |
| Accumulated Provisions Not Deducted from Assets - | | | | | |
| Injuries and Damages | 2,550 | 1,328 | -- | 2,497 | 1,381 |

</TABLE>

<TABLE>

SCHEDULE II

CENTRAL ILLINOIS LIGHT COMPANY
Valuation and Qualifying Accounts and Reserves
Years Ended December 31, 1998, 1997 and 1996
(Thousands of dollars)

<CAPTION>

| Column A | Column B | Column C | | Column D | Column E |
|---|--------------------------------------|----------------------|---------------------------------|------------|--------------------------------|
| Description | Balance at Beginning of Period | Additions | | Deductions | Balance at End of Period |
| | | Charged to Income | Charged to Other Accounts | | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Year ended December 31, 1998 | | | | | |
| Accumulated Provisions Deducted from Assets- Doubtful Accounts | \$ 703 | \$2,500 | \$ -- | \$2,098 | \$1,105 |
| Accumulated Provisions Not Deducted from Assets - Injuries and Damages | 1,210 | 768 | -- | 376 | 1,602 |
| Year ended December 31, 1997 | | | | | |
| Accumulated Provisions Deducted from Assets- Doubtful Accounts | \$1,000 | \$2,438 | \$ -- | \$2,735 | \$ 703 |
| Accumulated Provisions Not Deducted from Assets - Injuries and Damages | 1,381 | 814 | -- | 985 | 1,210 |
| Year ended December 31, 1996 | | | | | |
| Accumulated Provisions Deducted from Assets- Doubtful Accounts | \$ 650 | \$2,832 | \$ -- | \$2,482 | \$1,000 |
| Accumulated Provisions Not Deducted from Assets - Injuries and Damages | 2,550 | 1,328 | -- | 2,497 | 1,381 |

</TABLE>

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<TABLE>

SCHEDULE XIII

CILCORP INC. AND SUBSIDIARY COMPANIES

Investment in Leveraged Leases

<CAPTION>

Year Ended December 31, 1998

(Thousands of dollars)

| | Cost of each lease (A) | Amount carried on Balance Sheet (B) |
|-----------------------------|---------------------------|--|
| <S> | <C> | <C> |
| Office buildings | \$ 23,130 | \$ 64,158 |
| Warehouses | 11,746 | 19,855 |
| Mining equipment | 10,244 | 11,437 |
| Generating stations | 21,890 | 30,395 |
| Passenger railway equipment | 3,805 | 6,110 |
| Cargo aircraft | 9,583 | 15,035 |
| | ----- | ----- |
| Totals | \$ 80,398 | \$146,990 |
| | ===== | ===== |

<FN>

(A) This value is the original cost of the leveraged lease net of original nonrecourse debt.

(B) The amount carried on the balance sheet includes current

rents receivable and estimated residual value, net of unearned and deferred income and nonrecourse debt. The investment in leveraged leases balance does not include deferred taxes of \$103,566.

</TABLE>

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CILCORP INC.

March 26, 1999

By
R. O. Viets
President and Chief
Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|-----------|-------|------|
|-----------|-------|------|

(i) and (ii) Principal executive officer, director and principal financial officer:

| | | |
|-------------|--|----------------|
| R. O. Viets | President and Chief Executive Officer and Director | March 26, 1999 |
|-------------|--|----------------|

(iii) Controller

| | | |
|------------------|------------|----------------|
| T. D. Hutchinson | Controller | March 26, 1999 |
|------------------|------------|----------------|

(iv) A majority of the Directors
(including the director named above):

| | | |
|----------------|----------|----------------|
| M. Alexis* | Director | March 26, 1999 |
| J. R. Brazil* | Director | March 26, 1999 |
| W. Bunn III* | Director | March 26, 1999 |
| J. D. Caulder* | Director | March 26, 1999 |
| H. J. Holland* | Director | March 26, 1999 |
| H. S. Peacock* | Director | March 26, 1999 |
| K. E. Smith* | Director | March 26, 1999 |
| M. M. Yeomans* | Director | March 26, 1999 |

| | | |
|-------------|----------|----------------|
| R. O. Viets | Director | March 26, 1999 |
|-------------|----------|----------------|

*By

R. O. Viets
Attorney-in-fact

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CENTRAL ILLINOIS LIGHT COMPANY

March 26, 1999

By
R. O. Viets
Chairman of the Board,
President and Chief
Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|-----------|-------|------|
|-----------|-------|------|

(i) Principal executive officer and director:

| | | |
|-------------|--|----------------|
| R. O. Viets | Chairman of the Board, President and Chief Executive Officer and Director | March 26, 1999 |
|-------------|--|----------------|

(ii) Principal financial officer:

| | | |
|---------------|--|----------------|
| R. J. Sprowls | Vice President and Chief Financial Officer | March 26, 1999 |
|---------------|--|----------------|

(iii) Controller

| | | |
|------------------|---|----------------|
| T. D. Hutchinson | Controller and Manager of Accounting | March 26, 1999 |
|------------------|---|----------------|

(iv) A majority of the Directors
(including the directors named above):

| | | |
|------------------|----------|----------------|
| J. M. Elliott | Director | March 26, 1999 |
| T. S. Romanowski | Director | March 26, 1999 |
| W. M. Shay | Director | March 26, 1999 |
| J. F. Vergon | Director | March 26, 1999 |
| R. O. Viets | Director | March 26, 1999 |

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<TABLE>

EXHIBIT (12)

CILCORP INC. AND SUBSIDIARIES

Computation of Ratio of Earnings to Combined Fixed
Charges and Preferred Stock Dividends

<CAPTION>

| Twelve Months Ended | 1998 | 1997 | 1996 | 1995 | 1994 |
|-------------------------------------|------------------------|----------|----------|----------|----------|
| | (Thousands of Dollars) | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Earnings, as Defined: | | | | | |
| Net Income | \$16,310 | \$16,395 | \$27,943 | \$38,582 | \$32,586 |
| Income Taxes | 5,435 | 16,940 | 14,505 | 23,274 | 18,180 |
| Interest | 29,473 | 27,462 | 28,964 | 29,861 | 26,341 |
| Interest Portion of Rentals | 2,733 | 2,819 | 2,844 | 1,905 | 1,864 |
| Preferred Dividends | 3,194 | 3,216 | 3,188 | 3,299 | 2,980 |
| | ----- | ----- | ----- | ----- | ----- |
| Total Earnings, as Defined | \$57,145 | \$66,832 | \$77,444 | \$96,921 | \$81,951 |
| | ===== | ===== | ===== | ===== | ===== |
| Fixed Charges, as Defined: | | | | | |
| Interest Expense | \$25,849 | \$23,971 | \$26,233 | \$27,512 | \$24,313 |
| Interest Expense on COLI | 3,624 | 3,491 | 2,731 | 2,349 | 2,028 |
| Interest Portion of Rentals | 2,733 | 2,819 | 2,844 | 1,905 | 1,864 |
| Tax Effected Preferred Dividends | 5,294 | 5,331 | 5,284 | 5,468 | 4,939 |
| | ----- | ----- | ----- | ----- | ----- |

| | | | | | |
|-------------------------------------|----------|----------|----------|----------|----------|
| Total Fixed Charges, as Defined | \$37,500 | \$35,612 | \$37,092 | \$37,234 | \$33,144 |
| | ===== | ===== | ===== | ===== | ===== |
| Ratio of Earnings to Fixed Charges* | 1.5 | 1.9 | 2.1 | 2.6 | 2.5 |
| | === | === | === | === | === |

<FN>

*The fixed charge coverage ratio without the effects of the QST discontinued operations and the CILCO extraordinary item would have been 2.5, 3.0 and 2.5 for 1998, 1997 and 1996, respectively. Furthermore, if the effect of the goodwill write-off was also excluded from operating results, the 1997 fixed charge coverage ratio would have been 3.7.

</TABLE>

<TABLE>

EXHIBIT (12)

CENTRAL ILLINOIS LIGHT COMPANY
 Computation of Ratio of Earnings
 to Fixed Charges

<CAPTION>

| | | | | | |
|---------------------|------------------------|------|------|------|------|
| Twelve Months Ended | 1998 | 1997 | 1996 | 1995 | 1994 |
| | (Thousands of Dollars) | | | | |

| <S> | <C> | <C> | <C> | <C> | <C> |
|---|----------|-----------|----------|----------|----------|
| Earnings, as Defined: | | | | | |
| Net Income | \$44,235 | \$ 53,467 | \$45,127 | \$42,398 | \$32,487 |
| Income Taxes | 22,472 | 20,633 | 24,082 | 22,534 | 17,168 |
| Fixed Charges, as Below | 28,187 | 29,434 | 28,504 | 27,876 | 24,693 |
| | ----- | ----- | ----- | ----- | ----- |
| Total Earnings, as Defined | \$94,894 | \$103,534 | \$97,713 | \$92,808 | \$74,348 |
| | ===== | ===== | ===== | ===== | ===== |
| Fixed Charges, as Defined: | | | | | |
| Interest on COLI | \$ 3,624 | \$ 3,491 | \$ 2,731 | \$ 2,349 | \$ 2,028 |
| Interest on Short-term Debt | 962 | 281 | 149 | 744 | 292 |
| Interest on Long-term Debt | 19,498 | 20,024 | 21,012 | 20,242 | 19,221 |
| Amortization of Debt Discount & Expense, Premium and Reacquired Loss | 535 | 2,218 | 681 | 669 | 665 |
| Miscellaneous Interest Expense | 1,780 | 1,658 | 2,320 | 1,967 | 623 |
| Interest Portion of Rentals | 1,788 | 1,762 | 1,611 | 1,905 | 1,864 |
| | ----- | ----- | ----- | ----- | ----- |
| Total Fixed Charges, as Defined | \$28,187 | \$ 29,434 | \$28,504 | \$27,876 | \$24,693 |
| | ===== | ===== | ===== | ===== | ===== |
| Ratio of Earnings to Fixed Charges | 3.4 | 3.5 | 3.4 | 3.3 | 3.0 |
| | === | === | === | === | === |

</TABLE>

NOTICE

This copy of CILCORP Inc.'s and Central Illinois Light Company's Form 10-K does not include our 1998 Consolidated Annual Report which is to be mailed not later than June 1999.

Telephone:

In Peoria 675-8808

Elsewhere in Illinois 1-800-322-3569

Outside Illinois 1-800-622-5514

TDD 1-309-675-8892

Or you can write to us at:

Investor Relations Department

CILCORP Inc.

300 Hamilton Blvd.

Suite 300

Peoria, IL 61602-1238

EXHIBIT 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our reports, dated January 27, 1999, included herein or incorporated by reference in this Form 10-K, into CILCORP Inc.'s previously filed Registration Statements File No. 33-45318, 33-51241 and 33-62105.

ARTHUR ANDERSEN LLP

Chicago, Illinois
March 26, 1999

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

In 1998 and prior years, the financial condition and operating results of CILCORP Inc. and its subsidiaries (the Company) primarily reflected the operations of Central Illinois Light Company (CILCO), QST Enterprises Inc. (QST), and their subsidiaries. On November 23, 1998, the Company announced that The AES Corporation (AES) has offered to buy 100% of the Company's outstanding common stock for \$65 per share, subject to CILCORP shareholder approval and various regulatory approvals. On March 10, 1999, the Illinois Commerce Commission issued its approval of CILCORP's merger with AES. Other required approvals are in process. The Company anticipates that this transaction will close in mid 1999.

As a result of the pending acquisition and after reviewing its business plans, the Company decided in late 1998 to sell its 100% ownership interest in QST Environmental Inc. (QST Environmental), a first-tier subsidiary of QST that provides environmental consulting and engineering services. An offering memorandum was sent to potential purchasers in early 1999. QST had sold another of its subsidiaries, QST Communications Inc., in August 1998.

In June 1998, QST Energy Inc. (QST Energy), another first-tier subsidiary of QST, incurred a material loss related to wholesale electricity contracts, triggered by an unprecedented increase in short-term wholesale electricity prices. QST Energy closed its electric and gas non-retail positions and, in the fourth quarter of 1998, closed its Houston energy trading office and transferred its Pennsylvania retail electric and gas customers to other marketers. In late 1998, QST Energy began negotiating with its remaining non-Illinois commercial customers to end its obligations to provide electric service over the remaining terms of its contracts with them.

Due to uncertainties related to electric deregulation across the country, the illiquidity of certain energy markets, and its pending acquisition by AES, the Company will focus in the future on the opportunities in the Illinois energy market resulting from the deregulation of electricity under the Electric Service Customer Choice and Rate Relief Law of 1997 (see Competition). This law will enable CILCO, the Company's regulated public utility that generates and distributes electricity and purchases, transports and distributes natural gas, to serve Illinois customers outside its traditional service territory in Central Illinois. As a result of these events, the Company is reporting

the results of QST Enterprises and its subsidiaries as discontinued operations (see Note 10). During the fourth quarter of 1997, QST Environmental sold substantially all of the assets of ESE Land Corporation (ESE Land), its wholly-owned subsidiary that acquired environmentally impaired property for remediation and resale. The operations of ESE Land are included in discontinued operations in 1997 and 1996.

The Other Businesses segment includes the operations of the holding company itself (Holding Company), its investment subsidiary, CILCORP Investment Management Inc. (CIM), and CILCORP Ventures Inc. (CVI).

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OVERVIEW

Contributions to the Company's earnings per share for the last three calendar years are shown below:

<TABLE>

<CAPTION>

| | 1998 | 1997 | 1996 |
|---|---------|---------|---------|
| <S> | <C> | <C> | <C> |
| CILCO (excluding extraordinary item) | \$ 3.02 | \$ 3.39 | \$ 3.11 |
| CILCO Extraordinary Item | -- | .30 | -- |
| Other Businesses | (.21) | (.18) | (.30) |
| QST Enterprises Discontinued Operations | (1.61) | (2.31) | (.74) |
| | ----- | ----- | ----- |
| Earnings Per Common Share - Basic | \$ 1.20 | \$ 1.20 | \$ 2.07 |
| | ===== | ===== | ===== |

</TABLE>

CILCO's earnings, excluding the extraordinary item, decreased by

11% in 1998 primarily due to increased power plant maintenance expense, repairs to the electric distribution system resulting from a severe storm in June 1998, higher gas maintenance expenses, and higher information technology costs. Electric gross margin increased by 5% as a result of warmer than normal summer weather. However, this increase was partially offset by a 9% decrease in gas gross margin due to warmer than normal weather during the heating season. CILCO's 1997 earnings included a credit of \$4.1 million (\$.30 per share) for an after-tax extraordinary item related to the write-off of regulatory assets and liabilities associated with electric generating plant (see Note 1).

CILCO's earnings before the extraordinary item increased by 9% in 1997 primarily due to a decline in operations and maintenance expense. Results for 1996 included a \$5.4 million after-tax charge (\$.40 per share) related to an early retirement program. Decreased residential gas sales resulting from warmer weather during the heating season and increased power plant maintenance expense due to a scheduled outage at the Duck Creek generating station partially offset the decline in 1997 expenses resulting from the early retirement program.

An unprecedented short-term increase in wholesale electricity prices during June 1998 contributed to a \$10.6 million, or \$.47 per share, reduction in QST's electric gross margin in the second quarter. QST Energy's electric gross margin for 1998 was \$(14.3) million compared to \$(.8) million in 1997, a reduction of \$.60 per share from 1997 results. In addition, as a result of discontinuing its operations at December 31, 1998, QST Energy adjusted to market value its future contractual commitments to sell electricity and natural gas, resulting in a \$5.2 million pre-tax charge against income, or \$.23 per share. Additional losses were recognized in 1998 related to the disposal of QST assets, termination of leases and other agreements, severance costs, and estimated operating expenses which will be incurred until QST is able to completely exit the non-Illinois markets.

In August 1998, QST sold its 100% interest in QST Communications Inc., realizing an after-tax gain of \$8.3 million or \$.60 per share, partially offset by the \$.05 per share 1998 loss from discontinued operations prior to the sale.

In 1997, \$22.6 million (\$1.66 per share) of goodwill related to QST Environmental was written off (see Note 1). The results of QST Environmental were adversely affected in 1998 by continued losses at its laboratory operations and by the estimated loss from the discontinuance of the business. The loss includes estimated severance costs and other closing costs related to laboratory and other operations that will not be sold and which are being discontinued.

These amounts were partially offset by net income, approximating \$.05 per share, earned at its consulting business.

Other Businesses results for 1998 were approximately the same as 1997. CIM realized a gain from the refinancing of a leveraged lease investment and also shared in the after-tax gain resulting from the sale of facilities of the Energy Investors Fund, L.P., in which CIM has a 3% interest. These items were offset by reduced income from CIM's affordable housing investments and costs incurred by the Holding Company related to the AES transaction.

Other Businesses results improved in 1997 due to an after-tax gain resulting from CIM's share in the sale of another facility owned by the Energy Investors Fund. Increased tax credits from affordable housing investments, a decline in Holding Company costs related to corporate repositioning, and increased income resulting from CIM's investment in a new leveraged lease also contributed to improved results, partially offset by increased costs related to services provided to Caterpillar Inc. (see Competition).

Return on average common equity was 4.7% in 1998, compared to 4.5% in 1997 and 7.7% in 1996. Excluding discontinued operations and extraordinary items, return on average common equity was 9.8% in 1998, compared to 11.5% in 1997 and 10.4% in 1996. The ratio of common equity to total capitalization, including short-term debt, was 43% in 1998, 44% in 1997, and 46% in 1996. The fixed charge coverage ratio decreased to 1.5 in 1998 (2.5 excluding discontinued operations), compared to 1.9 in 1997 (3.7 without discontinued operations and the extraordinary item) and 2.1 in 1996 (2.5 excluding discontinued operations).

Inflation may have a significant impact on the Company's future operations and its ability to contain costs. To help protect CILCO from the effects of inflation, substantially all electric and gas sales rates include a fuel adjustment clause (FAC) or a purchased gas adjustment (PGA) to provide for changes in electric fuel costs, excluding coal transportation, and changes in the cost of natural gas. Over the past five years, the annual rate of inflation, as measured by the Consumer Price Index, has ranged from 1.6% to 2.9%.

Forward-Looking Information

Forward-looking information is included in Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A). Certain material contingencies are also described in Note 9 to the Consolidated Financial Statements.

Some important factors could cause actual results or outcomes to differ materially from those expressed or implied in MD&A. The business and profitability of CILCORP and its subsidiaries are influenced by economic and geographic factors, including ongoing changes in environmental laws and weather conditions; the extent and pace of development of competition for retail and wholesale energy customers; changes in technology; third party compliance with Year 2000 requirements; the inability to identify and remediate or replace embedded computer chips in affected equipment; pricing and transportation of commodities; market supply and demand for energy and energy derivative financial instruments; inflation; capital market conditions; and environmental protection and compliance costs. Prevailing governmental policies, statutory changes, and regulatory actions with respect to rates, industry structure and recovery of various costs incurred by CILCO in the course of its business and increasing wholesale and retail competition in the electric and gas business affect its earnings. All such factors are difficult to predict, contain uncertainties that may materially affect actual results and, to a significant degree, are beyond the control of CILCORP and its subsidiaries. CILCORP and its subsidiaries undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of changes in actual results, assumptions or other factors.

CAPITAL RESOURCES AND LIQUIDITY

The Company believes that internal and external sources of capital which are or are expected to be available to the Holding Company and its subsidiaries will be adequate to fund its capital expenditures, pay its financial obligations, meet working capital needs and retire or refinance debt as it matures. The Agreement and Plan of Merger (The Agreement) between the Company and The AES Corporation provides for the ongoing payment of common dividends, not to exceed the average for the four quarterly dividend payments prior to the effective date of The Agreement, pending the merger.

THE COMPANY

CILCORP is currently authorized by its Board of Directors to borrow up to \$60 million on a short-term basis and had \$60 million of committed bank lines at the end of 1998 and 1997. At December 31, 1998, \$55.6 million of the lines were used, compared to \$40.9 million in use at December 31, 1997.

The Company had \$30.5 million of medium-term notes outstanding at year-end and may issue an additional \$27 million under its existing medium-term note program to retire maturing debt and to

provide funds for other purposes.

CILCO

In 1998, CILCO spent \$67.1 million for capital additions and improvements, consisting primarily of replacements and improvements to the existing electric transmission and distribution and natural gas distribution systems and information technology projects. Estimated 1999 and 2000 capital expenditures are \$56.6 million and \$51 million, respectively. The 1999 expenditures include \$14.2 million for electric energy supply and transmission projects, \$.6 million for gas supply and transmission projects, \$28.7 million for electric and gas distribution systems improvements, and \$11.8 million for information technology projects. Actual capital expenditures may vary from these estimates due to a number of factors, including changes in costs of labor, equipment, capital, environmental regulations, and load growth estimates.

CILCO's short-term debt increased to \$40.6 million at December 31, 1998, from \$21.3 million at December 31, 1997. CILCO retired \$10.65 million of medium-term notes in June 1998 and \$20 million of first mortgage bonds in March 1997. Also, in 1998, CILCO paid \$20 million of dividends to CILCORP in addition to regular quarterly dividends. CILCO expects to issue commercial paper periodically during 1999, and is currently authorized by its Board of Directors to issue up to \$66 million of short-term debt. At December 31, 1998, committed bank lines of credit totaled \$45 million, all of which were unused except in support of commercial paper issuance. During 1999, CILCO expects the support of commercial paper issuance to be the sole use of these bank lines of credit. CILCO plans to finance its 1999 and 2000 capital expenditures primarily with funds provided by operations. Future funds provided by operations may be affected by the deregulation of the electric and natural gas utility industries (see Competition).

QST

Capital expenditures, excluding those of QST Environmental, totaled approximately \$7.6 million for 1998, primarily for construction of fiber optic and other communications facilities by QST Communications Inc. prior to its sale in August 1998 (see Note 10). Working capital balances at QST (excluding QST Environmental) increased by \$8.6 million during 1998, primarily due to an increase in accounts receivable and unbilled revenue related to QST Energy's business in California.

QST is currently involved in a billing dispute with two of its large California commercial customers who, as a result, have not paid QST for energy delivered.

In February 1999, QST notified these customers that they were in default of their contract with QST. QST filed suit in Federal District Court in February to recover the \$11 million owed at that date; the customers have responded. QST cannot predict the ultimate outcome of this matter, but intends to vigorously pursue its claim.

QST expects to finance working capital needs prior to its exit from the non-Illinois markets with funds provided by the Holding Company. At December 31, 1998, QST (excluding QST Environmental) had no outstanding debt.

QST Environmental spent \$1.3 million for capital additions and improvements in 1998 and plans to spend \$.5 million in 1999 on capital additions. QST Environmental generated \$3.3 million of cash from operations in 1998.

QST Environmental has a line of credit with CILCORP under which it may borrow up to \$15 million, depending upon the amount of QST Environmental's receivables and fixed assets. This line of credit expires in May 2000. At December 31, 1998, QST Environmental had borrowed \$7 million from CILCORP. Based upon its current receivables and fixed assets, QST Environmental has an additional \$8 million available under this revolving line of credit. QST Environmental's outstanding term debt at December 31, 1997, was \$12.5 million. QST Environmental anticipates that cash and short-term investments, funds generated by operations and amounts available under the Holding Company line of credit will be sufficient to meet its anticipated working capital requirements prior to its sale.

CIM

CIM had outstanding debt of \$37.7 million and \$37.2 million (all to the Holding Company) at the end of 1998 and 1997, respectively.

During 1997 and prior years, CIM committed to invest \$16.6 million in affordable housing funds. Through December 31, 1998, CIM has paid \$14 million to fund these commitments, \$3.8 million of which was paid during 1998. CIM expects to pay approximately \$1.6 million of the remaining \$2.6 million commitment in 1999, and lesser amounts in each year thereafter through 2006. CIM funded these commitments with cash borrowed from the Holding Company. CIM expects to finance its capital needs during 1999 with a combination of funds generated internally and with funds provided by the Holding Company.

YEAR 2000

The Company is continuing its progress toward making its computer systems and operations ready for the year 2000. CILCO began evaluating its information technology systems in 1996. Systems were reviewed and a schedule was developed for the analysis of all computer application code and for the replacement or modification of those systems that were identified as obsolete and/or having potential Year 2000 (Y2K) issues. Replacement of several major computer systems with Y2K issues began in 1997. A Y2K team was established in March 1998, consisting of personnel from each operating division of CILCO. In conjunction with the formation of the Y2K team, an outside firm specializing in Y2K projects was retained to assist CILCO with its overall Y2K project plans. CILCO has also worked with an independent audit team to evaluate the status of the Y2K project. The project was divided into three phases, as follows:

Phase I tasks included an inventory of all present systems for embedded chips having potential Y2K issues, contacting all manufacturers of embedded chip devices for the Y2K status of these devices, identifying and surveying all critical suppliers, and conducting an inventory of all information technology hardware and software for analysis of Y2K problems. Phase I was completed in August 1998.

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Phase II is currently in progress. This phase includes Y2K compliance testing of all suspect embedded chip devices identified in Phase I in the power plants, service centers, and business offices. In addition, two separate groups of outside consultants evaluated all mainframe application code to identify specific instances of date problems in each application program for systems that are not being replaced. Phase II has been completed except for the testing of power plant embedded chip devices. This testing will occur during scheduled power plant outages in 1999.

Phase III is also in progress and includes the upgrade/replacement and re-testing of embedded chip devices found not to be Y2K compliant during Phase II. This phase includes completion of mainframe computer operating software upgrades to current Y2K compliant versions and defining Y2K contingency plans for each business unit. Computer application code that was determined to have Y2K date related problems during Phase II will be corrected. Testing of all applications which have undergone Y2K upgrades/modifications, testing of operating system software, and development and testing of contingency plans through simulation or actual tests, where practical, will complete Phase III, which is expected to be completed by October 1999. Systems identified as

critical to the continued provision of utility services will be of particular focus during the testing portion of Phase III. These critical systems are generating station equipment, electric transmission and distribution control systems, gas delivery control systems, and telecommunications systems.

An estimated \$2 million (historical and future costs) will be spent for embedded chip analysis, vendor management, application code scanning, remediation, testing and contingency planning at CILCO. Approximately \$30.7 million will have been spent prior to the year 2000 for system replacements or hardware upgrades initiated for business purposes other than solely for Y2K compliance.

QST Environmental is scheduled to complete the upgrade of its billing and project accounting system to a Y2K compliant version by June 1999. Replacement of this system will cost approximately \$1 million, \$624,000 of which was spent in 1998.

CILCO is working both internally and with utility industry groups, including the Mid-America Interconnected Network (MAIN) and the North American Electric Reliability Council (NERC), to identify and plan for all identified risks associated with the Y2K issue. While these groups are modeling potential worst case scenarios, the probability of extreme disruptions due to Y2K issues is considered extremely low. CILCO's Y2K team has identified the most likely worst case scenario to be an interruption in service by a critical supplier. Consequently, alternate sources for supplies have been identified and the need for CILCO to stock additional inventories of critical items is being evaluated.

CILCO is also following the contingency planning process recognized by MAIN and NERC. Accordingly, CILCO has established a Y2K contingency planning team that has received training in contingency planning techniques and goals. The team is collecting data and contingency planning began in March 1999. Within this structure, CILCO is required to submit its contingency plans to MAIN by March 31, 1999. MAIN is then required to submit plans to NERC by June 30, 1999. This contingency planning process is expected to continue through the fourth quarter 1999, and will include CILCO's participation in the NERC industry-wide drills during the spring and fall of 1999.

The Company currently believes it will be able to achieve Y2K compliance, as discussed above, through a combination of modifications of certain existing programs and systems, the replacement of others with new software that is Y2K compliant, and the development of contingency plans. If such modifications and conversions are not made, however, or are not made in a timely manner, the Y2K issue could have a material impact on the Company's operations. In addition, management cannot predict the

nature or impact on operations of third-party noncompliance with Y2K requirements beyond the assurances given during critical vendor assessments.

COMPETITION

The electric utility industry will change significantly during the coming years at both the wholesale and retail levels. In Illinois, the Electric Service Customer Choice and Rate Relief Law of 1997 (Customer Choice Law) began a transition process to a fully competitive market for electricity. Large industrial customers and customers representing one-third of remaining non-residential kwh sales will be able to choose their electric supplier beginning October 1, 1999, with all other non-residential customers having a choice after December 31, 2000. Residential electric customers will be able to choose their electric supplier on May 1, 2002.

If a customer chooses to leave its present electricity supplier, that utility will collect a fee for delivering power and may assess an additional transition charge on the customer. This charge must be filed with the Illinois Commerce Commission (ICC) and is designed to help utilities recover the cost of past investments made under a regulated system. The transition charge will reduce a customer's economic incentive to switch suppliers. Transition charges may be collected through 2006 (2008 upon the ICC's finding that a utility's financial condition is impaired).

The Customer Choice Law also requires electric base rate reductions that vary by utility. CILCO reduced its residential base rates by 2% in August 1998 and must reduce base rates by an additional 2% in October 2000 and 1% in October 2002. Also, CILCO's return on common equity will, in general, be capped (the Equity Cap) at an index (a 12 month average yield for 30 year U.S. Treasury bonds plus 8% for calendar years 1998 and 1999 and a 12 month average yield for U.S. Treasury bonds plus 9% for calendar years 2000 through 2004) plus 1.5 percentage points. If CILCO's two-year average return on common equity exceeds the two-year average of the Equity Cap, fifty percent of the earnings in excess of the average Equity Cap must be refunded to customers in the following year.

With the enactment of the Customer Choice Law, electric generation in Illinois will become deregulated and competitive. As a result, the accounting principles applicable to rate-regulated enterprises will no longer apply to the electric generation portion of CILCO's business (see Note 1). Also, the cost of any assets whose recovery is impaired by the transition to a competitive

marketplace must be written-off. CILCO has not determined its electric generating asset values to be impaired; its ability to keep total production costs competitive in a deregulated market will determine whether and to what extent the value of these assets may be impaired in the future.

In 1996, CILCO began Power Quest, which consisted of two electric and one gas pilot retail competition programs. The retail competition program for industrial electric customers ended as scheduled on April 30, 1998. That program allowed CILCO's eight largest industrial customers to secure up to 50 megawatts in aggregate (10% of CILCO's industrial load) from suppliers other than CILCO. Seven of these customers participated in the program. Caterpillar Inc., with three eligible accounts, elected to form a strategic alliance with CILCORP rather than take its entire Power Quest allocation from suppliers other than CILCO. In December 1998, CILCO received approval from the ICC to eliminate the other electric pilot program (for residential and commercial customers in six areas in its service territory) effective May 1, 1999. At the end of 1998, approximately 1,400 residential and commercial customers participated in this program. CILCORP experienced a \$2.4 million reduction in 1998 pre-tax income as a result of the electric industrial pilot program (including electric margin lost by CILCO, CVI costs associated with the Caterpillar alliance and QST margin on Power Quest customers). The other electric pilot program reduced CILCORP's 1998 pre-tax income by \$.9 million.

While CILCO has not filed with the ICC to terminate the gas pilot program, its affiliate QST Energy withdrew from participation in the program in August 1998. Most gas customers that had been served by QST have returned to CILCO or other

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affiliates. Participation in the gas pilot program by marketers other than QST has been minimal. This program did not have a material impact on CILCORP's 1998 financial position or results of operation.

With the coming of electric choice in 1999 to its industrial customers and some of its commercial customers, CILCO has entered into contracts with six of its largest customers, representing approximately 12% of total 1998 electric revenue. These contracts, which expire from 2001 to 2002, were designed to capture at least the same revenue that the customers paid to CILCO and QST in 1997 when they participated in the Power Quest pilot program. They cover each customer's full electric requirements for a period which extends at least 18 months past the implementation of customer choice.

The ultimate market price for electricity, the cost for a utility to produce or buy electricity, and the number of customers that may be gained or lost due to customer choice of supplier in Illinois cannot be predicted. As a result, management cannot predict the ultimate impact that the Customer Choice Law will have on CILCORP's financial position or results of operation, but the effect could be significant. However, CILCO is currently a low-cost provider of electricity, and management will continue to position CILCO for competition by controlling costs, maintaining good customer relations, and developing flexibility to meet individual customer requirements.

ENVIRONMENTAL MATTERS

CILCO's capital expenditures related to pollution control facilities are estimated to be \$4.9 million in 1999. The acid rain provisions of the Clean Air Act Amendments of 1990 (Amendments) require additional sulfur dioxide (SO₂) and nitrogen oxide (NO_x) emission reductions at CILCO's generating facilities. CILCO's facilities are exempt from Phase I of the Amendments due to previous emission reductions, but are subject to Phase II of the Amendments, which require further emission reductions beginning in the year 2000.

The U.S. Environmental Protection Agency (USEPA) has issued a State Implementation Plan Call to Illinois under Title I of the Amendments requiring additional NO_x emission reductions from CILCO's coal-fired power plants beginning May 2003. Each of CILCO's generating units would be allowed a targeted amount of NO_x emissions during the peak ozone months of May through September. The Illinois Environmental Protection Agency (IEPA) must adopt rules by September 1999 implementing this new requirement. CILCO's capital expenditures to meet the NO_x emission requirements could total \$59 million by 2003.

CILCO's near-term compliance strategy is being implemented based upon regulations issued under the Amendments. CILCO continues to monitor regulatory actions and develop compliance strategies to minimize any financial impact. Due to the deregulation of the electric industry resulting from the Customer Choice Law, recovery of compliance costs in the future will depend upon the number of retail customers CILCO serves and the marketability of the power it generates in a competitive environment. CILCO's present strategy includes use of an existing SO₂ scrubber, fuel switching and SO₂ allowance purchases to meet Phase II SO₂ emissions targets, and combustion control modifications to meet Phase II NO_x emissions targets. The USEPA established SO₂ emission allowance reserves for power plants in Phase II. Allowances are transferable to third parties at market prices. The cost of purchased SO₂ allowances may be recovered from customers through the fuel adjustment clause. CILCO continues to weigh the costs of

purchasing additional allowances against alternative operating scenarios. Under this strategy, CILCO's generating units will not require additional SO2 scrubbers, but will require some fuel switching.

Various initiatives are being discussed both in the United States and worldwide to reduce so-called "greenhouse gases" such as carbon dioxide and other by-products of burning fossil fuels. Reductions of emissions below historical

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levels could result in significant capital outlays or material increases in annual operating expenses.

Neither CILCORP, CILCO, nor any of their affiliates has been identified as a potentially responsible party under federal or state environmental laws governing waste storage or disposal.

CILCO continues to investigate and/or monitor four former gas manufacturing plant sites located within its present gas service territory. The purpose of these studies is to determine if waste materials, principally coal tar, are present, whether such waste materials constitute an environmental or health risk and if CILCO is responsible for the remediation of any remaining waste materials at those sites. Remediation work at one of the four sites was substantially completed in 1991. Based on the operation of a groundwater collection system and other controls, CILCO expects to request a "No Further Remediation" letter for this site in 1999. A remedial action plan for the second site was determined during 1997 and site remediation was completed in 1998. CILCO has a request for a "No Further Remediation" letter pending with the IEPA for the second site. CILCO has not determined the ultimate extent of its liability for, or the ultimate cost of any remediation of, the remaining two sites, pending further studies. Investigation of the third site is planned for 1999.

CILCO spent approximately \$1.7 million for former gas manufacturing plant site monitoring, legal fees and feasibility studies in 1998. A \$1.6 million regulatory asset and a corresponding liability are recorded on the Balance Sheet representing the minimum amount of future coal tar investigation and remediation costs CILCO expects to incur. Coal tar remediation costs incurred through December 1998 have been deferred on the Balance Sheets, net of amounts recovered from customers (see Note 1).

Through December 31, 1998, CILCO has recovered approximately \$6.2 million in coal tar remediation costs from its customers through a gas rate rider approved by the ICC. Currently, that

rider allows recovery of coal tar remediation costs in the year they are incurred. Under these circumstances, management believes that the cost of coal tar remediation will not have a material adverse effect on CILCO's financial position or results of operations.

NEW ACCOUNTING PRONOUNCEMENTS

In December 1998, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board reached consensus on Issue No. 98-10, Accounting for Contracts Involved in Energy Trading and Risk Management Activities. EITF 98-10 requires energy trading contracts to be recorded at fair value on the balance sheet, starting January 1999, with changes in fair value recorded in earnings. QST's energy trading activities, as defined by EITF 98-10, were marked to market at December 31, 1998, and accounted for as discontinued operations. The resulting loss of \$5.2 million, representing losses on net open energy sales commitments, is included in Discontinued Operations on the Income Statement (see QST Enterprises Discontinued Operations). CILCORP currently anticipates that its future activities will not be classified as energy trading operations under EITF 98-10. Management therefore does not expect EITF 98-10 to have a material effect on CILCORP's 1999 results of operations unless there is a material change in the market value of the open energy sale commitments included in discontinued operations in 1998.

In June 1998, the Financial Accounting Standards Board issued SFAS 133, Accounting for Derivative Instruments and Hedging Activities. Effective January 1, 2000, SFAS 133 establishes accounting and reporting standards requiring that derivative financial instruments (including those embedded in other contracts) be recorded on the balance sheet as either an asset or liability measured at its fair value. Changes in the derivative's fair value are to be recognized currently in earnings, unless certain specified criteria are met which allow the derivative to be treated as a hedge. Special accounting

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for qualifying hedges allows a derivative's gains or losses to offset related results of the hedged item in the income statement. The effect of adopting SFAS 133 on CILCORP's net income or financial position has not yet been determined; however, volatility of earnings and comprehensive income could be increased.

PRICE RISK MANAGEMENT

The majority of CILCORP's energy sales at the end of 1998 were to

CILCO retail customers in Illinois under tariffs regulated by the ICC. Although the Illinois retail electric market is becoming deregulated (see Competition), prudently incurred costs of fuel used to generate electricity, purchased power costs and gas purchased for resale may be recovered from retail customers that purchase energy through regulated tariffs. Thus, there is very limited commodity price risk associated with CILCO's traditional regulated sales. However, as more customers in Illinois purchase energy on a competitive basis pursuant to the current Illinois deregulation timetable, CILCO's exposure to commodity price risk will increase. At December 31, 1998, QST's non-Illinois electric operations and gas trading activities have been accounted for as discontinued operations (see Note 10).

The market risk inherent in the activities of CILCORP (exclusive of regulated Illinois tariff customers) is the potential loss arising from adverse changes in natural gas and electric commodity prices relative to the physical and financial positions that the Company maintains. The prices of natural gas and electricity are subject to fluctuations resulting from changes in supply and demand. At December 31, 1998, CILCORP engaged in deregulated electric retail and natural gas sales in Illinois, including wholesale power purchases and sales to utilize its electric generating capability. These deregulated activities had net open market price risk positions of approximately 14,000 MWh of electricity and 1.3 Bcf of natural gas. A market price sensitivity of 10% applied to these positions is not material to the Company. At December 31, 1998, QST's discontinued operations had a net open market price risk in electricity of approximately 1.3 million MWh (see New Accounting Pronouncements). Assuming a 10% adverse change in market prices, the Company would record an additional loss of \$3.1 million. Actual results may differ materially. See Note 12 for a discussion of CILCORP's use of financial derivatives for hedging purposes. Due to the high correlation between the changes in the value of the financial instruments owned by CILCORP to the change in price of the underlying commodity, the net effect on CILCORP's net income resulting from the change in value of these financial instruments is not expected to be material.

RESULTS OF OPERATIONS

CILCO ELECTRIC OPERATIONS

The following table summarizes electric operating revenue and expenses by component.

<TABLE>

<CAPTION>

| Components of Electric Income | 1998 | 1997 | 1996 |
|------------------------------------|-----------|----------------|-----------|
| | | (In thousands) | |
| <S> | <C> | <C> | <C> |
| Revenue: | | | |
| Electric retail | \$341,143 | \$318,130 | \$307,579 |
| Sales for resale | 18,866 | 19,966 | 15,206 |
| | ----- | ----- | ----- |
| Total revenue | 360,009 | 338,096 | 322,785 |
| | ----- | ----- | ----- |
| Cost of sales: | | | |
| Cost of fuel | 94,490 | 92,230 | 90,715 |
| Purchased power expense | 29,568 | 22,851 | 10,907 |
| Revenue taxes | 18,581 | 15,388 | 14,504 |
| | ----- | ----- | ----- |
| Total cost of sales | 142,639 | 130,469 | 116,126 |
| | ----- | ----- | ----- |
| Gross margin | 217,370 | 207,627 | 206,659 |
| | ----- | ----- | ----- |
| Operating expenses: | | | |
| Operation and maintenance expenses | 84,502 | 78,648 | 84,174 |
| Depreciation and amortization | 46,017 | 43,858 | 42,530 |
| Other taxes | 8,660 | 8,583 | 8,266 |
| | ----- | ----- | ----- |
| Total operating expenses | 139,179 | 131,089 | 134,970 |
| | ----- | ----- | ----- |

Fixed charges and other:

| | | | |
|----------------------------|-----------|-----------|-----------|
| Cost of equity funds | | | |
| capitalized | -- | (35) | (36) |
| Interest on long-term debt | 13,921 | 14,317 | 15,171 |
| Cost of borrowed funds | | | |
| capitalized | (34) | (99) | (54) |
| Other interest | 2,340 | 1,875 | 2,274 |
| | ----- | ----- | ----- |
| Total | 16,227 | 16,058 | 17,355 |
| | ----- | ----- | ----- |
| Income before taxes | 61,964 | 60,480 | 54,334 |
| Income taxes | 21,645 | 21,901 | 19,576 |
| | ----- | ----- | ----- |
| Electric income | \$ 40,319 | \$ 38,579 | \$ 34,758 |
| | ===== | ===== | ===== |

</TABLE>

Electric gross margin increased 5% and retail kilowatt hour (kwh) sales increased 6% in 1998. Residential sales volumes increased 4% while commercial sales increased 6%. Cooling degree days were 28% higher in 1998 than 1997. Industrial sales volumes increased 8% compared to 1997. Industrial sales were favorably impacted by customers returning to retail supply due to the completion of CILCO's Power Quest industrial program.

Electric gross margin remained constant in 1997 primarily due to level retail kwh sales. Residential sales volumes increased 1% while commercial sales volumes remained constant. Cooling degree days were 5% higher in 1997 than in 1996. Industrial sales volumes increased 1% compared to 1996.

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Sales for resale decreased 6% in 1998 as a result of lower available capacity for bulk sales due to unscheduled generating station outages. Sales for resale increased 31% in 1997 due to favorable market conditions. Sales for resale vary based on the energy requirements of native load customers, neighboring utilities and power marketers, CILCO's available capacity for bulk power sales and the price of power available for sale. In the future, CILCO expects increased activity in the sales for resale and purchased power markets.

The overall level of business activity in CILCO's service territory and weather conditions are expected to continue to be the primary factors affecting electric sales in the near term. CILCO's electric sales will also be affected in the long term by deregulation and increased competition in the electric utility industry.

The cost of fuel for generation increased 2% in 1998 primarily due

to an increase in generation, partially offset by a decrease in the cost of coal burned. Substantially all of CILCO's electric generation capacity is coal-fired. The cost per ton of coal burned, including transportation cost, decreased 1% in 1998 compared to 1997.

Purchased power expense varies based on CILCO's need for energy and the price of power available for purchase. CILCO makes use of purchased power when it is economical to do so, and when required during maintenance outages at CILCO plants. The costs of energy purchased for retail customers are passed through to those customers via the fuel adjustment clause (FAC).

Electric operations and maintenance expenses increased 7% in 1998 compared to 1997. The 1998 increases were primarily due to increases in steam generation expenses arising from outages at CILCO's E. D. Edwards facility, and increased electric distribution overhead line maintenance expense due to a severe storm in June, which, at its peak, affected power delivery to approximately half of CILCO's electric customers. Also contributing to the increases were higher information technology costs. The increases were partially offset by lower outside service costs and decreases in the actuarially-determined costs for pensions and post-employment benefits. The 1997 decreases were primarily due to lower pension and benefits, outside services, and injury and damages costs partially offset by increased power plant maintenance expenses due to a scheduled outage at the Duck Creek generating station.

The increase in depreciation and amortization expense in 1998 and 1997 reflects additions and replacements of utility plant at costs in excess of the original cost of the property retired and increased amortization associated with the implementation of new computer systems.

CILCO GAS OPERATIONS

The following table summarizes gas operating revenue and expenses by component.

<TABLE>

<CAPTION>

| Components of Gas Income | 1998 | 1997 | 1996 |
|------------------------------------|----------------|-----------|-----------|
| | (In thousands) | | |
| <S> | <C> | <C> | <C> |
| Revenue: | | | |
| Sale of gas | \$166,416 | \$202,274 | \$187,432 |
| Transportation services | 5,911 | 6,484 | 8,338 |
| | ----- | ----- | ----- |
| Total revenue | 172,327 | 208,758 | 195,770 |
| | ----- | ----- | ----- |
| Cost of sales: | | | |
| Cost of gas | 93,586 | 123,531 | 108,286 |
| Revenue taxes | 7,921 | 7,079 | 7,500 |
| | ----- | ----- | ----- |
| Total cost of sales | 101,507 | 130,610 | 115,786 |
| | ----- | ----- | ----- |
| Gross margin | 70,820 | 78,148 | 79,984 |
| | ----- | ----- | ----- |
| Operating expenses: | | | |
| Operation and maintenance expenses | 34,205 | 31,185 | 35,160 |
| Depreciation and amortization | 19,256 | 17,647 | 17,134 |
| Other taxes | 2,747 | 3,225 | 3,153 |
| | ----- | ----- | ----- |
| Total operating expenses | 56,208 | 52,057 | 55,447 |
| | ----- | ----- | ----- |
| Fixed charges and other: | | | |
| Cost of equity funds capitalized | -- | -- | -- |
| Interest on long-term debt | 5,577 | 5,707 | 5,841 |
| Cost of borrowed funds capitalized | -- | -- | -- |
| Other interest | 937 | 747 | 875 |
| | ----- | ----- | ----- |
| Total | 6,514 | 6,454 | 6,716 |
| | ----- | ----- | ----- |
| Income before taxes | 8,098 | 19,637 | 17,821 |
| Income taxes | 3,443 | 7,416 | 6,972 |

| | | | |
|------------|----------|-----------|-----------|
| | ----- | ----- | ----- |
| Gas income | \$ 4,655 | \$ 12,221 | \$ 10,849 |
| | ===== | ===== | ===== |

</TABLE>

Gas gross margin decreased 9% in 1998 compared to 1997. Residential and commercial sales volumes decreased 17% and 12%, respectively, primarily due to warmer weather during the heating season. Heating degree days were 19% lower in 1998 than in 1997. The overall level of business activity in CILCO's service territory and weather conditions are expected to be the primary factors affecting gas sales in the near term. CILCO's gas sales may also be affected by further deregulation in the natural gas industry.

Gas gross margin decreased 2% in 1997 compared to 1996. Residential sales volumes decreased 9%, primarily due to warmer weather during the heating season. Heating degree days were 6% lower in 1997 than in 1996. Commercial sales increased 10% in 1997 due to customers switching from gas transportation to CILCO system supply.

The cost of gas decreased 24% in 1998 and increased 14% in 1997, primarily due to changes in natural gas prices. These changes were passed through to customers via the PGA.

Gas operations and maintenance expenses increased 10% in 1998 and decreased 11% in 1997. The increase for 1998 was due to higher maintenance and information technology costs, partially offset by lower outside service costs and decreases in the actuarially-determined costs for pension and post-employment benefits. The decrease for 1997 was due to lower pension and benefits, outside services and injury and damages expenses.

Revenue from gas transportation services decreased 9% in 1998 and 22% in 1997, while the volume of gas transported decreased 2% in 1998 and increased 4% in 1997. Transportation revenues have decreased primarily due to a continuing decline in the number of commercial transportation customers. Despite increased transportation sales volumes in 1997, transportation revenues decreased due to increased gas transportation by customers using Rate 800 contract service, which has a lower per unit charge than other classes of transportation service. Rate 800 customers have the ability to connect directly to interstate pipelines and bypass CILCO's gas system and may negotiate rates individually with CILCO.

The increases in depreciation and amortization expenses in 1998

and 1997 reflect additions and replacements of utility plant at costs in excess of the original cost of the property retired and increased amortization associated with the implementation of new computer systems.

CILCO OTHER

The following table summarizes other income and deductions:

<TABLE>

<CAPTION>

Components of Other

| Income and Deductions | 1998 | 1997 | 1996 |
|-----------------------------------|----------------|------------|------------|
| | (In thousands) | | |
| <S> | <C> | <C> | <C> |
| Revenue | \$ 1,743 | \$ -- | \$ -- |
| Interest income | 228 | 239 | 680 |
| Amortization | (713) | (713) | (713) |
| Operating expenses | (3,600) | (2,831) | (2,234) |
| Preferred stock dividends | (3,194) | (3,216) | (3,188) |
| Other | (1,013) | (1,177) | (679) |
| | ----- | ----- | ----- |
| Other income (deductions) | (6,549) | (7,698) | (6,134) |
| Income taxes (benefit) | (2,616) | (3,049) | (2,466) |
| | ----- | ----- | ----- |
| Other income (deductions), net | \$ (3,933) | \$ (4,649) | \$ (3,668) |
| | ===== | ===== | ===== |

</TABLE>

OTHER BUSINESSES

The following table summarizes Other Businesses revenue and expenses. Other Businesses results include income earned and expenses incurred at the Holding Company, CIM, and CVI.

<TABLE>

<CAPTION>

Components of Other Businesses

| Net Loss | 1998 | 1997 | 1996 |
|---------------------------|----------------|------------|------------|
| | (In thousands) | | |
| <S> | <C> | <C> | <C> |
| Revenue: | | | |
| Leveraged lease revenue | \$ 7,102 | \$ 6,539 | \$ 5,933 |
| Other revenue | 17,615 | 4,328 | 1,892 |
| | ----- | ----- | ----- |
| Total revenue | 24,717 | 10,867 | 7,825 |
| | ----- | ----- | ----- |
| Expenses: | | | |
| Operating expenses | 23,366 | 12,189 | 10,107 |
| Depreciation and amort. | 193 | 198 | 197 |
| Interest expense | 6,698 | 4,816 | 4,803 |
| Other taxes | 56 | 25 | 97 |
| | ----- | ----- | ----- |
| Total expenses | 30,313 | 17,228 | 15,204 |
| | ----- | ----- | ----- |
| Loss before income taxes | (5,596) | (6,361) | (7,379) |
| Income taxes | (2,773) | (3,919) | (3,380) |
| | ----- | ----- | ----- |
| Other businesses net loss | \$ (2,823) | \$ (2,442) | \$ (3,999) |
| | ===== | ===== | ===== |

</TABLE>

Leveraged lease revenue increased in 1998 due to a full year's revenue from CIM's investment in an additional leveraged lease in July 1997. The income tax expense related to leveraged lease income was \$2.7 million, \$2.5 million and \$2.3 million for 1998, 1997 and 1996, respectively.

Other revenue increased in 1998 due to a \$3.9 million pre-tax gain resulting from CIM's refinancing of a leveraged lease investment and an increase of \$10.4 million in gas marketing revenues of CILCORP Energy Services Inc. (CESI), a subsidiary of CVI.

Operating expenses increased in 1998 primarily due to an increase of \$10 million in the cost of gas for CESI's gas marketing program. CIM recorded an additional charge of approximately \$1 million during 1998 related to a decrease in the residual value of one of its leveraged leases (see Note 6). In addition, the Holding Company incurred \$2 million in transaction costs related to the AES acquisition.

Interest expense increased in 1998 due to higher average short-term debt balances.

The income tax benefit decreased in 1998 due to higher net income at CIM and expenses related to the AES transaction.

QST ENTERPRISES DISCONTINUED OPERATIONS

The results of QST and its past and present subsidiaries - QST Communications, QST Environmental and QST Energy - are reported in 1998 and prior periods as discontinued operations (see Note 10). The tables below show the components of the discontinued operations.

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Loss from operations of discontinued businesses, net of tax:

<TABLE>

<CAPTION>

| | 1998 | 1997 | 1996 |
|--|-------------|-------------|------------|
| <S> | <C> | <C> | <C> |
| QST Communications, net of tax of \$ (463), \$ (576) and \$ (334) | \$ (704) | \$ (876) | \$ (508) |
| QST Enterprises (excluding QST Environmental and QST Communications), net of tax of \$ (15,331), \$ (5,893) and \$ (2,296) | (23,369) | (8,967) | (3,490) |
| QST Environmental, net of tax of \$ (484), \$ (829) and \$ (3,567) | (952) | (24,283) | (5,999) |
| | ----- | ----- | ----- |
| | \$ (25,025) | \$ (34,126) | \$ (9,997) |
| | ===== | ===== | ===== |

</TABLE>

Estimated (loss) realized gain on sale/disposal of assets of discontinued businesses, net of tax:

<TABLE>

<CAPTION>

| | 1998 | 1997 | 1996 |
|--|----------|----------|-------|
| <S> | <C> | <C> | <C> |
| QST Enterprises (excluding QST Environmental), net of tax of \$4,640 | \$ 7,057 | \$ -- | \$ -- |
| QST Environmental, net of tax of \$ (2,626) and \$1,889 | (3,940) | 2,712 | -- |
| | ----- | ----- | ----- |
| | \$ 3,117 | \$ 2,712 | \$ -- |

In August 1998, QST Enterprises sold its wholly-owned fiber optic-based telecommunications subsidiary, QST Communications, to McLeod USA for \$20 million cash and McLeod stock options valued at \$5.5 million, resulting in an after-tax gain of approximately \$8.3 million which is included in the second table above. Operating losses incurred by QST Communications prior to the sale are shown in the first table. The gain from the sale of QST Communications is partially offset by the estimated loss on discontinuance of QST Energy.

At December 31, 1998, QST Enterprises and QST Energy had ceased operations, except for fulfillment of contractual commitments extending beyond 1998. The 1998 loss from operations of QST Enterprises (excluding QST Environmental and QST Communications) shown in the first table primarily results from energy trading operations, negative electric margin generated by QST Energy's commercial customers, and the marking to market under EITF 98-10 at December 31, 1998 of QST's contractual commitments to supply electricity or natural gas to customers after 1998. Pre-tax gross margin for 1998 was (\$14.3) million for electricity and (\$3.9) million for natural gas, compared to (\$.8) million and (\$4.9) million in 1997 for electricity and natural gas, respectively. An unprecedented, sudden increase in wholesale electricity prices during June 1998, transmission congestion problems in the deregulated California market, and other California market dynamics contributed to the decline in electric gross margin. QST accrued a loss of \$5.2 million to mark its contractual commitments to deliver energy to market value. Increased administrative and general costs and estimated administrative and operating costs that will be incurred prior to QST's exit from the non-Illinois markets also contributed to the increased loss in 1998.

Increased losses on gas trading operations in late 1997, increased electric supply and delivery costs during the summer of 1997 and higher administrative and general costs were the primary factors contributing to QST Enterprises'

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(excluding QST Environmental and QST Communications) increased losses in 1997 compared to 1996.

As shown in the second table above, QST Environmental recorded an after-tax charge to income of \$3.9 million in 1998 to record estimated losses related to the sale or discontinuance of its business, including estimated losses related to assets and obligations, such as the laboratories, not integral to the environmental consulting business activities to be sold. QST Environmental's 1998 loss from operations of discontinued

business, as shown in the first table, resulted primarily from losses at its analytical laboratory operations, partially offset by approximately \$.6 million earned by its consulting business.

QST Environmental's net loss increased in 1997 compared to 1996 primarily due to the write-off of \$22.6 million in goodwill, partially offset by improved performance of the environmental consulting operations due to cost control. An after-tax gain of \$2.7 million from the sale of the discontinued operations of QST Environmental's subsidiary, ESE Land, is shown in the second table above.

Management's Report
To the Stockholders of CILCORP Inc.:

Management has prepared the accompanying financial statements and notes for CILCORP Inc. and its consolidated subsidiaries in accordance with generally accepted accounting principles. Estimates and judgments used in developing these statements are the responsibility of management. Financial data presented throughout this report is consistent with these statements.

CILCORP Inc. maintains a system of internal accounting controls which management believes is adequate to provide reasonable assurance as to the integrity of accounting records and the protection of assets. Such controls include established policies and procedures, a program of internal audit and the careful selection and training of qualified personnel.

The financial statements have been audited by CILCORP's independent public accountants, Arthur Andersen LLP. Their audit was conducted in accordance with generally accepted auditing standards and included an assessment of selected internal accounting controls only to determine the scope of their audit procedures. The report of the independent public accountants is contained in this annual report.

The Audit Committee of the Board of Directors, consisting solely of outside directors, meets periodically with the independent public accountants, internal auditors and management to review accounting, auditing, internal accounting control, and financial reporting matters. The independent public accountants have direct access to the Audit Committee. The Audit Committee meets separately with the independent public accountants.

R. O. Viets
President and Chief Executive Officer

Report of Independent Public Accountants
To the Stockholders of CILCORP Inc.:

We have audited the accompanying consolidated balance sheets of CILCORP Inc. (an Illinois corporation) and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, cash flows, stockholders' equity and segments of business for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and

significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CILCORP Inc. and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Arthur Andersen LLP
Chicago, Illinois
January 27, 1999

</TABLE>

<TABLE>

Consolidated Statements of Income

CILCORP Inc. and Subsidiaries

<CAPTION>

| | 1998 | 1997 | 1996 |
|--|---|-----------|-----------|
| | (In thousands except per share amounts) | | |
| <S> | <C> | <C> | <C> |
| Revenue: | | | |
| Electric | \$360,009 | \$338,096 | \$322,785 |
| Gas | 172,327 | 208,758 | 195,770 |
| Other Businesses | 26,688 | 11,106 | 8,505 |
| | ----- | ----- | ----- |
| Total | 559,024 | 557,960 | 527,060 |
| | ----- | ----- | ----- |
| Operating Expenses: | | | |
| Fuel for Generation and Purchased Power | 124,058 | 115,081 | 101,622 |
| Gas Purchased for Resale | 93,586 | 123,532 | 108,286 |
| Other Operations and Maintenance | 145,673 | 124,852 | 131,675 |
| Depreciation and Amortization | 66,179 | 62,416 | 60,574 |
| State and Local Revenue Taxes | 26,502 | 22,467 | 22,004 |
| Other Taxes | 11,463 | 11,833 | 11,516 |
| | ----- | ----- | ----- |
| Total | 467,461 | 460,181 | 435,677 |
| | ----- | ----- | ----- |
| Fixed Charges and Other: | | | |
| Interest Expense | 29,473 | 27,462 | 28,964 |
| Preferred Stock Dividends of Subsidiary | 3,194 | 3,216 | 3,188 |
| Allowance for Funds Used During Construction | (34) | (134) | (90) |
| Other | 1,013 | 1,177 | 679 |
| | ----- | ----- | ----- |
| Total | 33,646 | 31,721 | 32,741 |
| | ----- | ----- | ----- |
| Income from Continuing Operations Before Income Taxes | 57,917 | 66,058 | 58,642 |
| Income Taxes | 19,699 | 22,349 | 20,702 |
| | ----- | ----- | ----- |
| Net Income from Continuing Operations Before Extraordinary Item | 38,218 | 43,709 | 37,940 |
| Loss from Operations of Discontinued Businesses, Net of Tax of \$(16,278), | | | |

| | | | |
|--|-----------|-----------|-----------|
| \$ (7,298) and \$ (6,197) | (25,025) | (34,126) | (9,997) |
| Gain on Sale/Disposal of Assets of Discontinued Businesses, Net of Tax of \$2,014 and \$1,889 | 3,117 | 2,712 | -- |
| Extraordinary Item (see Note 1) | -- | 4,100 | -- |
| | ----- | ----- | ----- |
| Net Income | \$ 16,310 | \$ 16,395 | \$ 27,943 |
| Other Comprehensive Income | (169) | (317) | (5) |
| | ----- | ----- | ----- |
| Comprehensive Income | \$ 16,141 | \$ 16,078 | \$ 27,938 |
| | ===== | ===== | ===== |

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| | | | |
|--|---------|---------|---------|
| Average Common Shares Outstanding - Basic | 13,611 | 13,611 | 13,480 |
| Earnings Per Common Share - Basic | | | |
| Continuing Operations | \$ 2.81 | \$ 3.21 | \$ 2.81 |
| Discontinued Operations | (1.61) | (2.31) | (.74) |
| Extraordinary Item | -- | .30 | -- |
| | ----- | ----- | ----- |
| Net Income Per Common Share - Basic | \$ 1.20 | \$ 1.20 | \$ 2.07 |
| | ===== | ===== | ===== |
| Average Common Shares Outstanding - Diluted | 13,707 | 13,627 | 13,480 |
| Earnings Per Common Share - Diluted | | | |
| Continuing Operations | \$ 2.79 | \$ 3.21 | \$ 2.81 |
| Discontinued Operations | (1.60) | (2.31) | (.74) |
| Extraordinary Item | -- | .30 | -- |
| | ----- | ----- | ----- |
| Net Income Per Common Share - Diluted | \$ 1.19 | \$ 1.20 | \$ 2.07 |
| | ===== | ===== | ===== |
| Dividends per Common Share | \$ 2.46 | \$ 2.46 | \$ 2.46 |

<FN>

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

</TABLE>

<TABLE>

Consolidated Balance Sheets
CILCORP Inc. and Subsidiaries

<CAPTION>

Assets (As of December 31)

1998 1997
(In thousands)

| | <C> | <C> |
|---|----------|-----------|
| <S> | | |
| Current Assets: | | |
| Cash and Temporary Cash Investments | \$ 1,669 | \$ 10,576 |
| Receivables, Less Reserves of \$3,411 and | | |

| | | |
|--|-------------|-------------|
| \$2,518 | 134,666 | 141,234 |
| Accrued Unbilled Revenue | 39,220 | 38,775 |
| Fuel, at Average Cost | 13,431 | 7,816 |
| Materials and Supplies, at Average Cost | 15,062 | 13,685 |
| Gas in Underground Storage, at Average Cost | 20,767 | 22,666 |
| Prepayments and Other | 7,706 | 10,971 |
| | ----- | ----- |
| Total Current Assets | 232,521 | 245,723 |
| | ----- | ----- |
| Investments and Other Property: | | |
| Investment in Leveraged Leases | 146,990 | 146,458 |
| Other Investments | 19,500 | 21,074 |
| | ----- | ----- |
| Total Investments and Other Property | 166,490 | 167,532 |
| | ----- | ----- |
| Property, Plant and Equipment: | | |
| Utility Plant, at Original Cost | | |
| Electric | 1,237,885 | 1,213,585 |
| Gas | 417,585 | 401,870 |
| | ----- | ----- |
| | 1,655,470 | 1,615,455 |
| | ----- | ----- |
| Less - Accumulated Provision for Depreciation | 812,630 | 769,792 |
| | ----- | ----- |
| | 842,840 | 845,663 |
| Construction Work in Progress | 30,075 | 21,550 |
| Other, Net of Depreciation | 7,796 | 22,188 |
| | ----- | ----- |
| Total Property, Plant and Equipment | 880,711 | 889,401 |
| | ----- | ----- |
| Other Assets: | 33,218 | 32,163 |
| | ----- | ----- |
| Total Assets | \$1,312,940 | \$1,334,819 |
| | ===== | ===== |

<FN>

The accompanying Notes to Financial Statements are an integral part of these balance sheets.

</TABLE>

<TABLE>

Consolidated Balance Sheets
CILCORP Inc. and Subsidiaries

<CAPTION>

Liabilities and Stockholders' Equity (As of December 31)

| | 1998 | 1997 |
|---|----------------|-------------|
| | (In thousands) | |
| <S> | <C> | <C> |
| Current Liabilities: | | |
| Current Portion of Long-Term Debt | \$ 13,027 | \$ 22,185 |
| Notes Payable | 96,200 | 62,150 |
| Accounts Payable | 136,840 | 132,286 |
| Accrued Taxes | 8,185 | 2,810 |
| Accrued Interest | 10,102 | 9,473 |
| FCA/PGA Over-Recoveries | 304 | 1,666 |
| Other | 8,881 | 19,798 |
| | ----- | ----- |
| Total Current Liabilities | 273,539 | 250,368 |
| | ----- | ----- |
| Long-Term Debt | 285,552 | 298,528 |
| | ----- | ----- |
| Deferred Credits and Other Liabilities: | | |
| Deferred Income Taxes | 239,306 | 241,013 |
| Regulatory Liab. of Regulated Subsidiary | 46,346 | 56,807 |
| Deferred Investment Tax Credit | 19,450 | 21,117 |
| Other | 47,089 | 48,273 |
| | ----- | ----- |
| Total Deferred Credits | 352,191 | 367,210 |
| | ----- | ----- |
| Preferred Stock of Subsidiary | 66,120 | 66,120 |
| | ----- | ----- |
| Stockholders' Equity: | | |
| Common Stock, no par value; Authorized 50,000,000 shares - Outstanding 13,610,680 and 13,610,680 shares | 192,853 | 192,567 |
| Retained Earnings | 143,530 | 160,702 |
| Accumulated Other Comprehensive Income | (845) | (676) |
| | ----- | ----- |
| Total Stockholders' Equity | 335,538 | 352,593 |
| | ----- | ----- |
| Total Liabilities and Stockholders' Equity | \$1,312,940 | \$1,334,819 |
| | ===== | ===== |

<FN>

The accompanying Notes to Financial Statements are an integral part of these balance sheets.

</TABLE>

<TABLE>
Statements of Segments of Business
CILCORP Inc. and Subsidiaries
<CAPTION>

1998

| | CILCO Electric | CILCO Gas | CILCO Other | Other Businesses | Discont. Operations | Totals |
|--|-------------------|--------------|----------------|---------------------|------------------------|-------------|
| | | | (In thousands) | | | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Revenues | \$360,009 | \$172,327 | \$ 1,743 | \$ 24,717 | \$ -- | \$ 558,796 |
| Interest income | | | 228 | | | 228 |
| Total | 360,009 | 172,327 | 1,971 | 24,717 | | 559,024 |
| Operating expenses | 235,801 | 138,459 | 3,600 | 23,422 | | 401,282 |
| Depreciation and amortization | 46,017 | 19,256 | 713 | 193 | | 66,179 |
| Total | 281,818 | 157,715 | 4,313 | 23,615 | | 467,461 |
| Interest expense | 16,261 | 6,514 | | 6,698 | | 29,473 |
| Preferred stock dividends | | | 3,194 | | | 3,194 |
| Fixed charges and other exp. | (34) | | 1,013 | | | 979 |
| Total | 16,227 | 6,514 | 4,207 | 6,698 | | 33,646 |
| Income from continuing oper. before income taxes | 61,964 | 8,098 | (6,549) | (5,596) | | 57,917 |
| Income taxes | 21,645 | 3,443 | (2,616) | (2,773) | | 19,699 |
| Net income from continuing operations | 40,319 | 4,655 | (3,933) | (2,823) | | 38,218 |
| Effect of discontinued operations | | | | | (21,908) | (21,908) |
| Segment net income | \$ 40,319 | \$ 4,655 | \$ (3,933) | \$ (2,823) | \$ (21,908) | \$ 16,310 |
| Capital expenditures | \$ 44,213 | \$ 22,889 | \$ -- | \$ 10 | \$ 8,916 | \$ 76,028 |
| Revenue from major customer Caterpillar Inc. | \$ 39,354 | \$ 948 | \$ -- | \$ 7,669 | \$ 1,130 | \$ 49,101 |
| Segment assets | \$730,354 | \$286,737 | \$ 5,072 | \$ 594,734 | \$ 121,647 | \$1,738,544 |

| | | | | | | |
|---------------------------|-----------|-----------|----------|------------|------------|-------------|
| Consolidation adjustments | (1,304) | (507) | -- | (423,789) | (4) | (425,604) |
| Total assets | \$729,050 | \$286,230 | \$ 5,072 | \$ 170,945 | \$ 121,643 | \$1,312,940 |

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1997

| | CILCO Electric | CILCO Gas | CILCO Other | Other Businesses | Discont. Operations | Totals |
|--|-------------------|--------------|----------------|---------------------|------------------------|------------|
| | <C> | <C> | <C> | <C> | <C> | <C> |
| Revenues | \$338,096 | \$208,758 | \$ -- | \$ 10,867 | \$ -- | \$ 557,721 |
| Interest income | | | 239 | | | 239 |
| Total | 338,096 | 208,758 | 239 | 10,867 | | 557,960 |
| Operating expenses | 217,700 | 165,020 | 2,831 | 12,214 | | 397,765 |
| Depreciation and amort. | 43,858 | 17,647 | 713 | 198 | | 62,416 |
| Total | 261,558 | 182,667 | 3,544 | 12,412 | | 460,181 |
| Interest exp. | 16,192 | 6,454 | | 4,816 | | 27,462 |
| Preferred stock dividends | | | 3,216 | | | 3,216 |
| Fixed charges and other exp. | (134) | | 1,177 | | | 1,043 |
| Total | 16,058 | 6,454 | 4,393 | 4,816 | | 31,721 |
| Income from continuing oper. before income taxes | 60,480 | 19,637 | (7,698) | (6,361) | | 66,058 |
| Income taxes | 21,901 | 7,416 | (3,049) | (3,919) | | 22,349 |
| Net income from cont. oper. before extraord. | | | | | | |

| | | | | | | |
|--|-----------|-----------|------------|------------|-------------|-------------|
| item | 38,579 | 12,221 | (4,649) | (2,442) | | 43,709 |
| Effect of discontinued operations and extraord. item | 4,100 | | | | (31,414) | (27,314) |
| Segment net income | \$ 42,679 | \$ 12,221 | \$ (4,649) | \$ (2,442) | \$ (31,414) | \$ 16,395 |
| Capital expenditures | \$ 35,196 | \$ 19,830 | \$ -- | \$ 29 | \$ 6,188 | \$ 61,243 |
| Revenue from major customer Caterpillar Inc. | \$ 40,106 | \$ 934 | \$ -- | \$ 1,208 | \$ 1,870 | \$ 44,118 |
| Segment assets | \$724,869 | \$290,958 | \$ 5,639 | \$606,786 | \$ 144,412 | \$1,772,664 |
| Consolidation adjustments | (1,070) | (416) | -- | (436,345) | (14) | (437,845) |
| Total assets | \$723,799 | \$290,542 | \$ 5,639 | \$170,441 | \$ 144,398 | \$1,334,819 |

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1996

| | CILCO Electric | CILCO Gas | CILCO Other | Other Businesses | Discont. Operations | Totals |
|-----------------|----------------|-----------|-------------|------------------|---------------------|------------|
| | (In thousands) | | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Revenues | \$322,785 | \$195,770 | \$ -- | \$ 7,825 | \$ -- | \$ 526,380 |
| Interest income | | | 680 | | | 680 |
| Total | 322,785 | 195,770 | 680 | 7,825 | | 527,060 |

Operating

| | | | | | | |
|--|-----------|-----------|------------|------------|------------|-------------|
| expenses | 208,566 | 154,099 | 2,234 | 10,204 | | 375,103 |
| Depreciation and amort. | 42,530 | 17,134 | 713 | 197 | | 60,574 |
| Total | 251,096 | 171,233 | 2,947 | 10,401 | | 435,677 |
| Interest exp. | 17,445 | 6,716 | | 4,803 | | 28,964 |
| Preferred stock dividends | | | 3,188 | | | 3,188 |
| Fixed charges and other exp. | (90) | | 679 | | | 589 |
| Total | 17,355 | 6,716 | 3,867 | 4,803 | | 32,741 |
| Income from continuing oper. before income taxes | 54,334 | 17,821 | (6,134) | (7,379) | | 58,642 |
| Income taxes | 19,576 | 6,972 | (2,466) | (3,380) | | 20,702 |
| Net income from continuing operations | 34,758 | 10,849 | (3,668) | (3,999) | | 37,940 |
| Effect of discontinued operations | | | | | (9,997) | (9,997) |
| Segment net income | \$ 34,758 | \$ 10,849 | \$ (3,668) | \$ (3,999) | \$ (9,997) | \$ 27,943 |
| Capital expenditures | \$ 28,032 | \$ 15,529 | \$ -- | \$ 119 | \$ 3,061 | \$ 46,741 |
| Revenue from major customer Caterpillar Inc. | \$ 37,724 | \$ 1,053 | \$ -- | \$ 68 | \$ 119 | \$ 38,964 |
| Segment assets | \$732,219 | \$296,343 | \$ 6,424 | \$ 585,732 | \$94,492 | \$1,715,210 |
| Consolidation adjustments | (352) | (137) | -- | (428,815) | (213) | (429,517) |
| Total assets | \$731,867 | \$296,206 | \$ 6,424 | \$ 156,917 | \$94,279 | \$1,285,693 |

</TABLE>

<TABLE>
 Consolidated Statements of Cash Flows
 CILCORP Inc. and Subsidiaries
 <CAPTION>

| For the Years Ended December 31 | 1998 | 1997 | 1996 |
|--|-----------|----------------|-----------|
| | | (In thousands) | |
| <S> | <C> | <C> | <C> |
| Cash Flows from Operating Activities: | | | |
| Net Income from Continuing Operations Before Preferred Dividends | \$ 41,412 | \$ 46,925 | \$ 41,128 |
| | ----- | ----- | ----- |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | | |
| Non-Cash Income | (6,150) | (4,102) | (4,297) |
| Cash Receipts in Excess of Debt Service on Leases | 7,618 | -- | -- |
| Depreciation and Amort. | 66,179 | 62,416 | 60,574 |
| Deferred Income Taxes, Investment Tax Credit and Regulatory Liability of Subsidiary, Net | (5,865) | (3,342) | (1,707) |
| Changes in Operating Assets and Liabilities: | | | |
| Decrease (Increase) in Accounts Receivable and Accrued Unbilled Revenue | 5,430 | (74) | (3,474) |
| (Increase) Decrease in Inventories | (5,093) | 3,294 | (5,310) |
| Increase (Decrease) in | | | |

| | | | |
|--|----------|----------|----------|
| Accounts Payable | 14,188 | (1,961) | 6,809 |
| Increase (Decrease) in Accrued Taxes | 10 | 3,893 | (5,843) |
| (Increase) Decrease in Other Assets | 209 | (17,027) | 2,197 |
| Increase (Decrease) in Other Liabilities | (6,426) | (9,039) | 11,036 |
| | ----- | ----- | ----- |
| Total Adjustments | 70,100 | 34,058 | 59,985 |
| | ----- | ----- | ----- |
| Net Cash Provided by Operating Activities | 111,512 | 80,983 | 101,113 |
| Net Cash Provided by (Used in) Operating Activities of Discontinued Operations | (43,202) | 10,031 | 1,263 |
| | ----- | ----- | ----- |
| Cash Flow from Operations | 68,310 | 91,014 | 102,376 |
| | ----- | ----- | ----- |
| Cash Flows from Investing Activities: | | | |
| Additions to Plant | (67,112) | (55,055) | (43,680) |
| Purchase of Long-Term Investments | -- | (6,933) | (4,713) |
| Other | (4,514) | (1,242) | 482 |
| | ----- | ----- | ----- |
| Net Cash Used in Investing Activities | (71,626) | (63,230) | (47,911) |
| Net Cash Provided by (Used in) Investing Activities of Discontinued Operations | 19,169 | 3,310 | (3,082) |
| | ----- | ----- | ----- |
| Cash Flow from Investing Activities | (52,457) | (59,920) | (50,993) |
| | ----- | ----- | ----- |

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| | | | |
|---|----------|----------|----------|
| Cash Flows from Financing Activities: | | | |
| Net Increase (Decrease) in Short-Term Debt | 34,050 | 34,250 | (19,200) |
| Repayment of Long-Term Debt | (22,102) | (22,954) | (19,393) |
| Common Dividends Paid | (33,482) | (33,482) | (33,142) |
| Preferred Dividends Paid | (3,194) | (3,216) | (3,188) |
| Common Stock Issued | -- | -- | 11,430 |
| | ----- | ----- | ----- |
| Net Cash Provided by (Used in) Financing Activities of | | | |

| | | | |
|--|----------|-----------|----------|
| Continuing Operations | (24,728) | (25,402) | (63,493) |
| Net Cash Provided by (Used in) Financing Activities of Discontinued Operations | (32) | (57) | (49) |
| | ----- | ----- | ----- |
| Net Cash Used in Financing Activities | (24,760) | (25,459) | (63,542) |
| | ----- | ----- | ----- |
| Net Increase (Decrease) in Cash and Temporary Cash Investments | (8,907) | 5,635 | (12,159) |
| Cash and Temporary Cash Investments at Beginning of Year | 10,576 | 4,941 | 17,100 |
| | ----- | ----- | ----- |
| Cash and Temporary Cash Investments at End of Year | \$ 1,669 | \$ 10,576 | \$ 4,941 |
| | ===== | ===== | ===== |

<FN>

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

</TABLE>

<TABLE>
Consolidated Statements of Stockholders' Equity
CILCORP Inc. and Subsidiaries
<CAPTION>

| | Common Stock | Retained Comprehensive | Other |
|--|--------------|------------------------|-------|
|--|--------------|------------------------|-------|

| <S> | Shares | Amount | Earnings | Income | Total |
|---|-------------------------------------|-----------|-----------|----------|-----------|
| | (In thousands except share amounts) | | | | |
| <C> | <C> | <C> | <C> | <C> | <C> |
| Balance at December 31, 1995 | 13,335,606 | \$179,330 | \$183,002 | \$ (354) | \$361,978 |
| Common Stock Issued | 275,074 | 11,430 | | | 11,430 |
| Cash Dividend Declared on Common Stock (\$2.46 per share) | | | (33,141) | | (33,141) |
| Additional Minimum Liability of Non-Qualified Pension Plan at December 31, 1996, net of \$(3) taxes | | | | (5) | (5) |
| Net Income | | | 27,943 | | 27,943 |
| ----- | | | | | |
| Balance at December 31, 1996 | 13,610,680 | \$190,760 | \$177,804 | \$ (359) | \$368,205 |
| CILCORP Shareholder Return Incentive Compensation | | 1,807 | | | 1,807 |
| Cash Dividend Declared on Common Stock (\$2.46 per share) | | | (33,482) | | (33,482) |
| Additional Minimum Liability of Non-Qualified Pension Plan at December 31, 1997, net of \$(208) taxes | | | | (317) | (317) |
| Other | | | (15) | | (15) |
| Net Income | | | 16,395 | | 16,395 |
| ----- | | | | | |
| Balance at December 31, 1997 | 13,610,680 | \$192,567 | \$160,702 | \$ (676) | \$352,593 |
| Cash Dividend Declared on Common Stock (\$2.46 per share) | | | (33,482) | | (33,482) |
| Additional Minimum Liability of Non-Qualified Pension Plan at December 31, 1998, net of \$(111) taxes | | | | (169) | (169) |
| Other | | 286 | | | 286 |
| Net Income | | | 16,310 | | 16,310 |
| ----- | | | | | |
| Balance at December 31, 1998 | 13,610,680 | \$192,853 | \$143,530 | \$ (845) | \$335,538 |
| ===== | | | | | |

<FN>

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

</TABLE>

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of CILCORP Inc. (CILCORP or the Holding Company), Central Illinois Light Company (CILCO), QST Enterprises Inc. (QST) and its subsidiaries (QST Environmental Inc., formerly known as Environmental Science & Engineering, Inc. (ESE) and QST Energy Inc. (QST Energy)) and CILCORP's other subsidiaries (collectively, the Company) after elimination of significant intercompany transactions. In 1998, the operations of QST and its subsidiaries were discontinued (see Note 10). Prior year amounts have been reclassified on a basis consistent with the 1998 presentation.

CILCORP is an investor-owned public utility holding company. CILCO, the Company's principal business subsidiary, is engaged in

the generation, transmission, distribution and sale of electric energy in an area of approximately 3,700 square miles in central and east-central Illinois, and the purchase, distribution, transportation and sale of natural gas in an area of approximately 4,500 square miles in central and east-central Illinois. Other CILCORP first-tier subsidiaries are CILCORP Investment Management Inc. (CIM), which manages the Company's investment portfolio and CILCORP Ventures Inc. (CVI), which pursues investment opportunities in energy-related products and services.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

See Management's Discussion and Analysis of Financial Condition and Results of Operations - New Accounting Pronouncements for a discussion of accounting pronouncements issued by the Financial Accounting Standards Board which are effective in 1998 or thereafter.

REGULATION

CILCO is a public utility subject to regulation by the Illinois Commerce Commission (ICC) and the Federal Energy Regulatory Commission (FERC) with respect to accounting matters, and maintains its accounts in accordance with the Uniform System of Accounts prescribed by these agencies.

CILCO is subject to the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS 71) for its regulated public utility operations. Under SFAS 71, assets and liabilities are recorded to represent probable future increases and decreases, respectively, of revenues to CILCO resulting from the ratemaking action of regulatory agencies.

The Electric Service Customer Choice and Rate Relief Law of 1997 (Customer Choice Law) became effective in Illinois in December 1997. Among other provisions, this law begins a nine-year transition process to a fully competitive market for electricity in Illinois. Electric transmission and distribution activities are expected to continue to be regulated, but a customer may choose to purchase electricity from another supplier (see Management's Discussion - Competition).

Due to the transition cost recovery limitations and base rate reductions of the Customer Choice Law, CILCO's electric generation activities will no longer be subject to the provisions of SFAS 71. Accordingly, regulatory assets of \$1.5 million and liabilities of \$5.6 million associated with electric generating plant were written-off or credited, respectively, to income in 1997 as a net \$4.1 million after-tax extraordinary item. Regulatory assets included on the Consolidated Balance Sheets at December 31, 1998 and 1997 are as follows:

<TABLE>

<CAPTION>

| | 1998 | 1997 |
|---------------------------------------|----------------|----------|
| | (In thousands) | |
| <S> | <C> | <C> |
| Included in prepayments and other: | | |
| Fuel and gas cost adjustments | \$ 4,740 | \$ 2,954 |
| Coal tar remediation cost - | | |
| estimated current | 609 | 844 |
| Gas transition costs | -- | 159 |
| | ----- | ----- |
| Current costs included in | | |
| prepayments and other | 5,349 | 3,957 |
| | ----- | ----- |
| Included in other assets: | | |
| Coal tar remediation cost, net of | | |
| recoveries | 1,281 | 2,745 |
| Regulatory tax asset | 5,723 | 7,578 |
| Deferred gas costs | 4,039 | 4,145 |
| Unamortized loss on reacquired debt | 3,261 | 3,581 |
| | ----- | ----- |
| Future costs included in other assets | 14,304 | 18,049 |
| | ----- | ----- |
| Total regulatory assets | \$19,653 | \$22,006 |
| | ===== | ===== |

</TABLE>

Regulatory assets at December 31, 1998 are related to CILCO's regulated electric and gas distribution activities. CILCO does not currently believe the costs recorded for its generating plants and related assets at December 31, 1998 to be impaired as a result of the Customer Choice Law. Regulatory liabilities, consisting of deferred tax items primarily related to CILCO's electric and gas transmission and distribution operations, are approximately \$46.3 million and \$56.8 million at December 31, 1998 and 1997, respectively.

CILCO's electric generation-related identifiable assets included in the balance sheet at December 31, 1998 and 1997 were:

| <TABLE> <CAPTION> | 1998 | 1997 |
|--|----------------|------------|
| | (In thousands) | |
| <S> | <C> | <C> |
| Property, Plant and Equipment | \$ 537,358 | \$ 535,065 |
| Less: Accumulated Depreciation | (266,461) | (259,988) |
| | ----- | ----- |
| | 270,897 | 275,077 |
| Construction Work in Progress | 3,268 | 1,979 |
| | ----- | ----- |
| Net Property, Plant and Equipment | 274,165 | 277,056 |
| Fuel, at Average Cost | 8,704 | 8,520 |
| Materials and Supplies, at Average Cost | 8,452 | 8,202 |
| | ----- | ----- |
| Total Identifiable Electric Generation Assets | \$ 291,321 | \$ 293,778 |
| | ===== | ===== |

</TABLE>

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Accumulated deferred income taxes associated with electric generation property at December 31, 1998 and 1997 were approximately \$72 million and \$79 million, respectively.

OPERATING REVENUES, FUEL COSTS AND COST OF GAS

Electric, gas, and non-regulated energy and energy services revenues include service provided but unbilled at year end. Substantially all electric rates and gas system sales rates of CILCO include a fuel adjustment clause and a purchased gas adjustment clause, respectively. These clauses provide for the recovery of changes in electric fuel costs, excluding coal transportation, and changes in the cost of gas on a current basis in billings to customers. CILCO adjusts the cost of fuel and cost of gas to recognize over or under recoveries of allowable costs. The cumulative effects are deferred on the Balance Sheets as a current asset or current liability (see Regulation, above) and adjusted by refunds or collections through future billings to customers.

CONCENTRATION OF CREDIT RISK

CILCO, as a public utility, must provide service to customers within its defined service territory and may not discontinue service to residential customers when certain weather conditions exist. CILCO continually reviews customers' creditworthiness and requests deposits or refunds deposits based on that review. At

December 31, 1998, CILCO had net receivables of \$35.8 million, of which approximately \$4.7 million was due from its major customers.

See Note 6 for a discussion of receivables related to CILCORP Investment Management Inc.'s leveraged lease portfolio.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of Cash and Temporary Cash Investments, Other Investments, and Notes Payable approximates fair value. The estimated fair value of the Company's Preferred Stock with Mandatory Redemption was \$23 million at December 31, 1998 and 1997, based on current market interest rates for other companies with comparable credit ratings, capital structure, and size. The estimated fair value of the Company's Long-Term Debt, including current maturities, was \$339 million at December 31, 1998, and \$352 million at December 31, 1997. The fair market value of these instruments was based on current market interest rates for other companies with comparable credit ratings, capital structures, and size.

DEPRECIATION AND MAINTENANCE

Provisions for depreciation of utility property for financial reporting purposes are based on straight-line composite rates. The annual provisions for utility plant depreciation, expressed as a percentage of average depreciable utility property, were 3.8% and 4.6% for electric and gas, respectively, for each of the last three years. Utility maintenance and repair costs are charged directly to expense. Renewals of units of property are charged to the utility plant account, and the original cost of depreciable property replaced or retired, together with the removal cost less salvage, is charged to the accumulated provision for depreciation.

Non-utility property is depreciated over estimated lives ranging from 3 to 40 years.

GOODWILL

As a result of significant downsizing of QST Environmental Inc. (QST Environmental) during 1996 and 1997 and continuing overcapacity and competition in the environmental segment in the fourth quarter of 1997, the Company

determined that an impairment to goodwill associated with QST Environmental existed. As a result, the Company wrote off the \$22.6 million unamortized goodwill balance. In late 1998, the Company decided to sell its 100% ownership interest in QST

Environmental and has classified its results as discontinued (see Note 10).

INCOME TAXES

The Company follows a policy of comprehensive interperiod income tax allocation. Investment tax credits related to utility property have been deferred and are being amortized over the estimated useful lives of the related property. CILCORP and its subsidiaries file a consolidated federal income tax return. Income taxes are allocated to the individual companies based on their respective taxable income or loss.

CONSOLIDATED STATEMENTS OF CASH FLOWS

The Company considers all highly liquid debt instruments purchased with a remaining maturity of three months or less to be cash equivalents for purposes of the Consolidated Statements of Cash Flows.

Cash paid for interest and income taxes was as follows:

<TABLE>

<CAPTION>

| | 1998 | 1997 | 1996 |
|--------------|----------------|----------|----------|
| | (In thousands) | | |
| <S> | <C> | <C> | <C> |
| Interest | \$26,067 | \$28,710 | \$28,988 |
| Income taxes | \$19,611 | \$28,537 | \$13,572 |
| | ----- | ----- | ----- |

</TABLE>

COMPANY-OWNED LIFE INSURANCE POLICIES

The following amounts related to Company-owned life insurance contracts, issued by one major insurance company, are included in Other Investments:

<TABLE>

<CAPTION>

| | 1998 | 1997 |
|-----------------------------------|----------------|-----------|
| | (In thousands) | |
| <S> | <C> | <C> |
| Cash surrender value of contracts | \$ 50,786 | \$ 45,297 |
| Borrowings against contracts | (48,132) | (42,898) |
| | ----- | ----- |
| Net investment | \$ 2,654 | \$ 2,399 |
| | ===== | ===== |

</TABLE>

Interest expense related to borrowings against Company-owned life

insurance, included in "Other" on the Consolidated Statements of Income, was \$3.6 million, \$3.5 million and \$2.7 million for 1998, 1997 and 1996, respectively.

NOTE 2 - INCOME TAXES

The Company uses the liability method to account for income taxes. Under the liability method, deferred income taxes are recognized at currently enacted income tax rates to reflect the tax effect of temporary differences between the financial reporting basis and the tax basis of assets and liabilities. Temporary differences occur because the income tax law either requires or permits certain items to be reported on the Company's income tax return in a different year than they are reported in the financial statements. CILCO has recorded a regulatory asset and liability to account for the effect of expected

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future regulatory actions related to unamortized investment tax credits, income tax liabilities initially recorded at tax rates in excess of current rates, the equity component of Allowance for Funds Used during Construction and other items for which deferred taxes had not previously been provided. The temporary differences related to the consolidated deferred income tax asset and liability at December 31, 1998, 1997, and 1996 were as follows:

<TABLE>

<CAPTION>

| December 31 | 1998 | 1997 | 1996 |
|---|----------------|----------|----------|
| | (In thousands) | | |
| <S> | <C> | <C> | <C> |
| Deferred tax assets: | | | |
| Deferred tax asset | \$20,742 | \$18,347 | \$16,452 |
| Adjustment to reflect regulatory asset | (5,723) | (7,578) | (4,777) |
| | ----- | ----- | ----- |
| Net deferred tax asset | \$15,019 | \$10,769 | \$11,675 |
| | ===== | ===== | ===== |

</TABLE>

<TABLE>

<CAPTION>

| December 31 | 1998 | 1997 | 1996 |
|-------------------------------------|----------------|-----------|-----------|
| | (In thousands) | | |
| <S> | <C> | <C> | <C> |
| Deferred tax liabilities: | | | |
| Deferred tax liability- property | \$196,301 | \$207,460 | \$214,356 |
| Adjustment to reflect | | | |

| | | | |
|---|-----------|-----------|-----------|
| regulatory liability | (46,346) | (56,807) | (68,565) |
| | ----- | ----- | ----- |
| Net deferred tax liability-property | 149,955 | 150,653 | 145,791 |
| Deferred tax liability-leases | 103,566 | 101,005 | 97,964 |
| Deferred tax liability-other | 804 | 124 | 3,159 |
| | ----- | ----- | ----- |
| Accumulated deferred income tax liability | \$254,325 | \$251,782 | \$246,914 |
| | ===== | ===== | ===== |
| Accumulated deferred income tax liability, net of deferred tax assets | \$239,306 | \$241,013 | \$235,239 |
| | ===== | ===== | ===== |

</TABLE>

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The following table reconciles the change in the accumulated deferred income tax liability to the deferred income tax expense included in the income statement:

<TABLE>

<CAPTION>

| | | |
|---|----------------|----------|
| December 31 | 1998 | 1997 |
| | (In thousands) | |
| | <C> | <C> |
| Net change in deferred income tax liability per above table | \$ (1,707) | \$ 5,774 |

| | | |
|---|------------|------------|
| Change in tax effects of income tax related regulatory assets and liabilities | (8,606) | (14,559) |
| Deferred taxes related to extraordinary item | -- | 5,634 |
| Other | (106) | 125 |
| | ----- | ----- |
| Deferred income tax benefit for the period | (10,419) | (3,026) |
| Less: Deferred income tax benefit for the period from discontinued operations | (6,115) | (1,245) |
| | ----- | ----- |
| Deferred income tax benefit for the period from continuing operations | \$ (4,304) | \$ (1,781) |
| | ===== | ===== |

</TABLE>

Income tax expenses were as follows:

<TABLE>

<CAPTION>

| December 31 | 1998 | 1997 | 1996 |
|---|----------------|----------|----------|
| | (In thousands) | | |
| <S> | <C> | <C> | <C> |
| Current income taxes | | | |
| Federal | \$ 13,731 | \$17,814 | \$15,129 |
| State | 3,791 | 3,836 | 2,169 |
| | ----- | ----- | ----- |
| Total current taxes | 17,522 | 21,650 | 17,298 |
| | ----- | ----- | ----- |
| Deferred income taxes, net | | | |
| Property-related | | | |
| deferred income taxes | (11,262) | (841) | (2,346) |
| Leveraged leases | 2,602 | 3,040 | 4,398 |
| Unbilled revenue | (287) | (885) | 425 |
| Gas take-or-pay settlements | 522 | (339) | (706) |
| Environmental remediation costs | (58) | 46 | (642) |
| Pension expenses | 869 | (1,798) | (1,726) |
| Other post-employment benefits expenses | (847) | (617) | 187 |
| Customer advances | 478 | (438) | (40) |
| Gas in underground storage | (1,681) | (191) | 405 |
| Amortization of debt discounts, premiums and expenses | (790) | (179) | (179) |
| CILCO Executive Deferred Compensation Plan | (671) | (191) | (525) |
| CILCORP Shareholder Return Incentive Comp. Plan | (717) | -- | -- |
| QST Gas Derivatives Mark to Market | 948 | -- | -- |
| Other | 475 | (633) | (360) |
| | ----- | ----- | ----- |
| Total deferred income taxes, net | (10,419) | (3,026) | (1,109) |
| | ----- | ----- | ----- |
| Investment tax credit amortization | (1,668) | (1,684) | (1,684) |

| | ----- | ----- | ----- |
|---|----------|----------|----------|
| Total income tax provisions before extraordinary item | 5,435 | 16,940 | 14,505 |
| Deferred taxes related to extraordinary item | -- | (5,634) | -- |
| | ----- | ----- | ----- |
| Total income tax provisions | \$ 5,435 | \$11,306 | \$14,505 |
| | ===== | ===== | ===== |

</TABLE>

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Total Income tax provisions are presented within the Income Statement as follows:

<TABLE>

<CAPTION>

| December 31 | 1998 | 1997 | 1996 |
|---|-----------|----------------|----------|
| | | (In thousands) | |
| | <C> | <C> | <C> |
| Income taxes from continuing operations | \$ 19,699 | \$22,349 | \$20,702 |
| Tax on income (loss) from operations of discontinued businesses | (16,278) | (7,298) | (6,197) |
| Tax on gain (loss) on sale/disposal of discontinued businesses | 2,014 | 1,889 | -- |
| Deferred taxes related to extraordinary item | -- | (5,634) | -- |
| | ----- | ----- | ----- |
| Total income tax provisions | \$ 5,435 | \$11,306 | \$14,505 |
| | ===== | ===== | ===== |

</TABLE>

The 1997 income tax provision has been reduced to reflect the crediting to income as an extraordinary item the regulatory liability related to electric generation property deferred taxes which were recorded at tax rates in excess of the current rate.

Total deferred income taxes, net, includes deferred state income taxes of \$(1,635,000) \$(229,000) and \$(538,000) for 1998, 1997 and 1996, respectively.

The following table represents a reconciliation of the effective tax rate with the statutory federal income tax rate.

| <TABLE> <CAPTION> Years Ended December 31 | 1998 | 1997 | 1996 |
|---|-------|--------|-------|
| <S> | <C> | <C> | <C> |
| Statutory federal income tax | 35.0% | 35.0% | 35.0% |
| | ----- | ----- | ----- |
| Amortization of property related deferred taxes provided at tax rates in excess of current rate | (8.3) | (3.9) | (3.4) |
| Amortization of investment tax credit | (7.6) | (6.1) | (4.0) |
| State income taxes | 5.5 | 9.0 | 4.8 |
| Goodwill write-off and amortization | -- | 29.2 | .6 |
| Preferred dividends of subsidiary and other permanent differences | 6.6 | 5.2 | 3.6 |
| Tax provision adjustment | -- | (1.6) | (.4) |
| Affordable housing tax credits | (6.1) | (3.4) | (.1) |
| Corporate-owned life insurance | (4.2) | (2.9) | (1.7) |
| AES transaction costs | 3.3 | -- | -- |
| Other differences | 1.1 | .7 | (.2) |
| | ----- | ----- | ----- |
| Total | (9.7) | 26.2 | (.8) |
| | ----- | ----- | ----- |
| Effective income tax rate before effect of extraordinary item | 25.3 | 61.2 | 34.2 |
| Tax effect of extraordinary item | -- | (20.4) | -- |
| | ----- | ----- | ----- |
| Effective income tax rate | 25.3% | 40.8% | 34.2% |
| | ===== | ===== | ===== |

</TABLE>

NOTE 3 - POSTEMPLOYMENT AND POSTRETIREMENT BENEFITS

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS AND HEALTH CARE

CILCO has recorded a liability of approximately \$1.5 million at December 31, 1998 and 1997, for benefits other than pensions or health care provided to former or inactive employees. The liability for these benefits (primarily long-term and short-term disability payments under plans self-insured by CILCO) is actuarially determined.

PENSION BENEFITS

Substantially all of CILCO's full-time employees, including those assigned to the Holding Company, are covered by trustee, non-contributory defined benefit pension plans. Benefits under these qualified plans reflect the employee's years of service, age at retirement and maximum total compensation for any consecutive sixty-month period prior to retirement. CILCO also has an unfunded nonqualified plan for certain employees.

Pension costs for the past three years were charged as follows:

<TABLE>

<CAPTION>

| | 1998 | 1997 | 1996 |
|-------------------------|----------------|--------|----------|
| | (In thousands) | | |
| <S> | <C> | <C> | <C> |
| Operating expenses | \$ (893) | \$ 493 | \$ 9,700 |
| Utility plant and other | 6 | 125 | 922 |
| | ----- | ----- | ----- |
| Net pension costs | \$ (887) | \$ 618 | \$10,622 |
| | ===== | ===== | ===== |

</TABLE>

Provisions for pension expense reflect the use of the projected unit credit actuarial cost method. At December 31, 1998 and 1997, CILCO recognized an additional minimum liability on the Balance Sheets for the plan in which the accumulated benefit obligation exceeds the fair value of plan assets.

POSTRETIREMENT HEALTH CARE BENEFITS

Provisions for postretirement benefits expenses are determined under the accrual method of accounting.

Substantially all of CILCO's full-time employees, including those assigned to the Holding Company, are currently covered by a trustee, non-contributory defined benefit postretirement health care plan. The plan pays stated percentages of most necessary medical expenses incurred by retirees, after subtracting payments by Medicare or other providers and after a stated deductible has been met. Participants become eligible for the benefits if they retire from CILCO after reaching age 55 with 10 or more years of service. Neither QST Enterprises nor its subsidiaries provide health care benefits to retired employees.

Postretirement health care benefit costs were charged as follows:

<TABLE>

<CAPTION>

| | 1998 | 1997 | 1996 |
|--|----------------|---------|---------|
| | (In thousands) | | |
| <S> | <C> | <C> | <C> |
| Operating expenses | \$3,904 | \$3,989 | \$5,096 |
| Utility plant and other | 1,260 | 1,825 | 1,883 |
| | ----- | ----- | ----- |
| Net postretirement health care benefit costs | \$5,164 | \$5,814 | \$6,979 |
| | ===== | ===== | ===== |

</TABLE>

The components of net periodic benefit costs follow:

<TABLE>

<CAPTION>

| | 1998 | 1997 | 1998 | 1997 |
|--|----------------|----------|----------|----------------|
| | (In thousands) | | | |
| | Pension | Benefits | Other | Postretirement |
| <S> | <C> | <C> | <C> | <C> |
| Service cost | \$ 5,410 | \$ 4,384 | \$ 1,417 | \$ 1,298 |
| Interest cost | 19,024 | 17,561 | 5,371 | 5,047 |
| Expected return on plan assets | (25,304) | (21,005) | (4,388) | (3,249) |
| Amortization of transition liability (asset) | (888) | (888) | 2,858 | 2,858 |
| Amortization of past service cost | 1,068 | 1,068 | -- | -- |
| Recognized actuarial loss | (197) | (502) | (94) | (140) |

| | | | | |
|---|------------|------------|----------|----------|
| Net benefit cost | \$ (887) | \$ 618 | \$ 5,164 | \$ 5,814 |
| | ===== | ===== | ===== | ===== |
| Pension Plans with Accumulated Benefit Obligations in Excess of Assets | | | | |
| Total projected benefit obligation | \$ (4,191) | \$ (3,692) | | |
| Total accumulated benefit obligation | \$ (3,582) | \$ (2,902) | | |
| Total fair value of assets | \$ -- | \$ -- | | |

</TABLE>

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Information on the plans' funded status follows:

<TABLE>

<CAPTION>

| | 1998 | 1997 | 1998 | 1997 |
|-------------------------------------|------------------|--------------|-------------------------------------|-------------|
| | (In thousands) | | | |
| | Pension Benefits | | Other Postretirement Benefits | |
| <S> | <C> | <C> | <C> | <C> |
| Change in Benefit Obligations | | | | |
| Benefit obligation at January 1, | \$ (254,929) | \$ (235,441) | \$ (72,542) | \$ (67,367) |
| Service cost | (5,410) | (4,384) | (1,417) | (1,298) |

| | | | | |
|--|--------------|--------------|-------------|-------------|
| Interest cost | (19,024) | (17,561) | (5,371) | (5,047) |
| Actuarial (gain) loss | (22,521) | (13,928) | (7,500) | (2,891) |
| Benefits paid | 16,238 | 16,385 | 4,514 | 4,061 |
| | ----- | ----- | ----- | ----- |
| Benefit obligation at December 31, | \$ (285,646) | \$ (254,929) | \$ (82,316) | \$ (72,542) |
| | ===== | ===== | ===== | ===== |
| Change in Plan Assets | | | | |
| Fair value of assets at January 1, | \$ 289,091 | \$ 254,824 | \$ 52,263 | \$ 39,601 |
| Actual return on assets | 36,467 | 50,489 | 5,781 | 9,907 |
| Company contributions | 163 | 163 | 863 | 6,816 |
| Participant contributions | -- | -- | -- | -- |
| Benefits paid | (16,238) | (16,385) | (4,514) | (4,061) |
| | ----- | ----- | ----- | ----- |
| Fair value of assets at December 31, | \$ 309,483 | \$ 289,091 | \$ 54,393 | \$ 52,263 |
| | ===== | ===== | ===== | ===== |
| Funded Status at December 31, | | | | |
| Benefit obligation less (greater) than plan assets | \$ 23,837 | \$ 34,162 | \$ (27,923) | \$ (20,279) |
| Unrecognized net transition liability (asset) | (4,011) | (4,899) | 30,297 | 33,155 |
| Unrecognized actuarial (gain) loss | (35,875) | (47,431) | (6,777) | (12,977) |
| Unrecognized prior service cost | 6,365 | 7,433 | -- | -- |
| Intangible asset | (415) | (455) | -- | -- |
| Accumulated other comprehensive income | (1,401) | (1,120) | -- | -- |
| | ----- | ----- | ----- | ----- |
| Prepaid (accrued) benefit cost | \$ (11,500) | \$ (12,310) | \$ (4,403) | \$ (101) |
| | ===== | ===== | ===== | ===== |
| Assumptions as of December 31, | | | | |
| Discount rate | 6.75% | 7.25% | 6.75% | 7.25% |
| Long-term return on assets | 9.00% | 8.50% | 8.50% | 8.50% |
| Long-term compensation increase | 3.50% | 4.50% | N/A | N/A |

</TABLE>

For measurement purposes, a 7.2 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 1998. The rate was assumed to decrease gradually to 5.7 percent for 2025 and remain level thereafter.

Increasing the assumed health care cost trend rate by 1% in each year would increase the accumulated postretirement benefit

obligation at December 31, 1998, by \$2.9 million and the aggregate of the service and interest cost components of net postretirement health care cost for 1998 by \$252,000. Decreasing the assumed health care cost trend rate by 1% in each year would decrease the accumulated postretirement benefit obligation at December 31,

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1998, by \$3.3 million and the aggregate of the service and interest cost components of net postretirement health care cost for 1998 by \$295,000.

NOTE 4 - CILCORP SHAREHOLDER RETURN INCENTIVE COMPENSATION PLAN

Under the Company's Shareholder Return Incentive Compensation Plan (the Plan), eligible key employees of the Company and its subsidiaries are entitled to receive shares of the Company's common stock based on a performance methodology established and periodically amended by the Compensation Committee of the Company's Board of Directors. During 1997, 350,000 fully-vested performance shares were distributed. Such shares are convertible into common stock with the number of shares received based upon the number of performance shares exercised multiplied by the difference between the average market price of the Company's common stock for the fifteen days prior to exercise and \$36, divided by the market price of common stock at the exercise date.

The compensation expense recognized under this Plan, based on the provisions of Statement of Financial Accounting Standards No. 123, (SFAS 123) was \$1.8 million in 1997 when the performance shares were distributed. These shares were convertible into common stock at any time until December 31, 1998 (the Performance Period). The fair value of each performance share granted under the Plan was \$5.98 - estimated using the Black-Scholes option-pricing model assuming a risk-free interest rate of 5.7%, dividend yield of 5.9%, expected life of one year and volatility of 16.1%.

In 1998, the Performance Period for the originally granted performance shares was extended to December 31, 1999. No additional expense was recorded following this extension, as a revaluation of the fair value of the performance shares per the provisions of SFAS 123 yielded no material valuation difference due to the one-year extension.

To the extent that the market price exceeds \$56, the Plan participants are entitled to receive cash in lieu of common stock. Consequently, the Company recognized expense of \$1.75 million in the fourth quarter 1998 to reflect a share price approximating \$61.

NOTE 5 - SHORT-TERM DEBT

Short-term debt at December 31, 1998, consisted of \$55.6 million of Holding Company bank borrowings and \$40.6 million of CILCO commercial paper. Short-term debt at December 31, 1997, included \$40.9 million of Holding Company bank borrowings and \$21.3 million of CILCO commercial paper.

The Holding Company had arrangements for bank lines of credit totaling \$60 million at December 31, 1998, of which \$55.6 million was used. These lines were maintained by commitment fees of 1/8 of 1% per annum in lieu of balances.

CILCO had arrangements for bank lines of credit totaling \$45 million at December 31, 1998, all of which were unused. These lines of credit were maintained by commitment fees of 1/20 of 1% per annum in lieu of balances. These bank lines of credit support CILCO's issuance of commercial paper.

NOTE 6 - LEVERAGED LEASE INVESTMENTS

The Company, through subsidiaries of CILCORP Investment Management Inc. (CIM), is a lessor in eight leveraged lease arrangements under which mining equipment, electric production facilities, warehouses, office buildings, passenger railway equipment and an aircraft are leased to third parties. The economic lives and lease terms vary with the leases. CIM's share of total equipment and facilities cost was approximately \$350 million at December 31, 1998, and 1997.

The cost of the equipment and facilities owned by CIM is partially financed by non-recourse debt provided by lenders, who have been granted, as their sole remedy in the event of a lessee default, an assignment of rents due under the

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leases and a security interest in the leased property. Such debt amounted to \$232 million at December 31, 1998, and \$237 million at December 31, 1997. Leveraged lease residual value assumptions, which are conservative in relation to independently appraised residual values of the lease portfolio, are tested on a periodic basis. In 1998, CIM decreased the estimated residual value of one of its leases by approximately \$6.8 million to reflect current conditions in the secondary market for the asset.

CIM's net investment in leveraged leases at December 31, 1998 and 1997 is shown below:

<TABLE>
<CAPTION>

| | 1998 | 1997 |
|---|----------------|-----------|
| | (In thousands) | |
| <S> | <C> | <C> |
| Minimum lease payments receivable | \$142,095 | \$136,916 |
| Estimated residual value | 87,569 | 94,368 |
| Less: Unearned income | 82,674 | 84,826 |
| | ----- | ----- |
| Investment in lease financing receivables | 146,990 | 146,458 |
| Less: Deferred taxes arising from leveraged leases | 103,566 | 101,005 |
| | ----- | ----- |
| Net investment in leveraged leases | \$ 43,424 | \$ 45,453 |
| | ===== | ===== |

</TABLE>

NOTE 7 - PREFERRED STOCK

PREFERRED STOCK OF SUBSIDIARY

<TABLE>
<CAPTION>

| At December 31 | 1998 | 1997 |
|--|----------------|----------|
| | (In thousands) | |
| <S> | <C> | <C> |
| Preferred stock, cumulative \$100 par value, authorized 1,500,000 shares | | |
| Without mandatory redemption | | |
| 4.50% series - 111,264 shares | \$11,126 | \$11,126 |
| 4.64% series - 79,940 shares | 7,994 | 7,994 |
| Class A, no par value, authorized 3,500,000 shares | | |
| Flexible auction rate - | | |
| 250,000 shares (*) | 25,000 | 25,000 |
| With mandatory redemption | | |
| 5.85% series - 220,000 shares | 22,000 | 22,000 |
| | ----- | ----- |
| Total preferred stock | \$66,120 | \$66,120 |
| | ===== | ===== |

<FN>

(*) Dividend rates at December 31, 1998 and 1997, were 4.04 % and 4.18%, respectively.

</TABLE>

All classes of preferred stock are entitled to receive cumulative dividends and rank equally as to dividends and assets, according to their respective terms.

The total annual dividend requirement for preferred stock

outstanding at December 31, 1998, is \$3.2 million, assuming a continuation of the auction dividend rate at December 31, 1998, for the flexible auction rate series.

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PREFERRED STOCK WITHOUT MANDATORY REDEMPTION

The call provisions of preferred stock redeemable at CILCO's option outstanding at December 31, 1998, are as follows:

<TABLE>

<CAPTION>

| Series | Callable Price Per Share (plus accrued dividends) |
|-----------------------|---|
| <S> | <C> |
| 4.50% | \$110 |
| 4.64% | \$102 |
| Flexible Auction Rate | \$100 |

</TABLE>

PREFERRED STOCK WITH MANDATORY REDEMPTION

CILCO's 5.85% Class A preferred stock may be redeemed in 2003 at \$100 per share. A mandatory redemption fund must be established on July 1, 2003. The fund will provide for the redemption of 11,000 shares for \$1.1 million on July 1 of each year through July 1, 2007. On July 1, 2008, the remaining 165,000 shares will be retired for \$16.5 million.

PREFERENCE STOCK OF SUBSIDIARY, CUMULATIVE

No Par Value, Authorized 2,000,000 shares, of which none have been issued.

PREFERRED STOCK OF HOLDING COMPANY

No Par Value, Authorized 4,000,000 shares, of which none were outstanding at December 31, 1998 and 1997.

COMMON STOCK RIGHTS

On October 29, 1996, the Board of Directors of CILCORP authorized and declared a dividend distribution of one right for each share of common stock of the Company to stockholders of record at November 12, 1996, and for each share of common stock issued thereafter. Each right gives the stockholder the right to purchase one one-hundredth of a share of preferred stock of the Company for \$100, subject to the conditions set forth in the agreement governing the rights plan.

NOTE 8 - LONG-TERM DEBT

<TABLE>

<CAPTION>

| At December 31 | 1998 | 1997 |
|-----------------------------------|----------------|-----------|
| | (In thousands) | |
| <S> | <C> | <C> |
| CILCO first mortgage bonds | | |
| 7 1/2% series due 2007 | \$ 50,000 | \$ 50,000 |
| 8 1/5% series due 2022 | 65,000 | 65,000 |
| Medium-term notes | | |
| 6.4% series due 2000 | 30,000 | 30,000 |
| 6.82% series due 2003 | 25,350 | 25,350 |
| 6.13% series due 2005 | 16,000 | 16,000 |
| 7.8% series due 2023 | 10,000 | 10,000 |
| 7.73% series due 2025 | 20,000 | 20,000 |
| Pollution control refunding bonds | | |
| 6.5% series F due 2010 | 5,000 | 5,000 |
| 6.2% series G due 2012 | 1,000 | 1,000 |
| 6.5% series E due 2018 | 14,200 | 14,200 |
| 5.9% series H due 2023 | 32,000 | 32,000 |
| | ----- | ----- |
| | 268,550 | 268,550 |
| Unamortized premium and discount | | |

| | | |
|--|-----------|-----------|
| on long-term debt, net | (666) | (714) |
| | ----- | ----- |
| Total CILCO | \$267,884 | \$267,836 |
| | ----- | ----- |
| CILCORP Inc. Unsecured medium-term notes; various maturities in 2001; interest rates ranging from 8.52% to 9.10% | 17,500 | 30,500 |
| Other | 168 | 192 |
| | ----- | ----- |
| Total long-term debt | \$285,552 | \$298,528 |
| | ===== | ===== |

</TABLE>

CILCO's first mortgage bonds are secured by a lien on substantially all of its property and franchises. Unamortized borrowing expense, premium and discount on outstanding long-term debt are being amortized over the lives of the respective issues.

Total consolidated maturities of long-term debt for 2000-2003 are as follows: \$30 million in 2000, \$18 million in 2001, no debt due in 2002, and \$25 million in 2003. The remaining maturities of long-term debt of \$214 million, occur in 2004 and beyond.

The 1999 and 1998 maturities of long-term borrowings have been classified as current liabilities.

NOTE 9 - COMMITMENTS & CONTINGENCIES

CILCO's 1999 capital expenditures are estimated to be \$56.6 million in connection with which CILCO has normal and customary purchase commitments at December 31, 1998.

CILCO acts as a self-insurer for certain insurable risks resulting from employee health and life insurance programs.

The International Brotherhood of Electrical Workers Local 51 (IBEW) ratified its current agreement on October 10, 1997. The contract expires on July 1, 2000. The IBEW represents approximately 389 CILCO gas and electric department employees. The National Conference of Firemen and Oilers Local 8 (NCF&O)

ratified its current contract with the Company on October 23, 1998. CILCO's previous contract with the NCF&O expired on July 1, 1998, and the NCF&O membership had been working without a contract since that time. The new contract expires on July 1, 2001. The NCF&O represents approximately 200 CILCO power plant employees.

In August 1990, CILCO entered into a firm, wholesale power purchase agreement with Central Illinois Public Service Company, now AmerenCIPS (CIPS). This agreement provided for a minimum contract delivery rate from CIPS of 90 MW until the contract expired in May 1998.

In March 1995, CILCO and CIPS amended a limited-term power agreement reached in November 1992. This agreement, which now expires in May 2009, provides for CILCO to purchase up to 150 MW of CIPS' capacity from June 1998 through May 2002, and 50 MW from June 2002 through May 2009.

In January 1997, CILCO intervened in a proceeding before the Federal Energy Regulatory Commission (FERC) to raise contract issues relating to CIPS' proposal to engage with a second utility in joint dispatch of their respective generating units. CILCO also challenged the validity of the power agreements with CIPS because of CIPS' failure to obtain FERC approval of the agreements. In the alternative, CILCO requested that FERC provide an "open season" during which CILCO may cancel the power agreements in whole or in part. In an October 1997 order, FERC rejected CILCO's challenges to joint dispatch and denied CILCO's request for an open season. However, CIPS was ordered to file the agreements with FERC and, on its own motion, FERC initiated a separate proceeding to investigate the terms of the agreements. Hearings in that proceeding have concluded, and the Administrative Law Judge has entered an order finding the agreements are, with minor exceptions, just and reasonable. CILCO is appealing that order to FERC and is requesting FERC to assess penalties against CIPS for CIPS' failure to file the 1990 agreement before providing service to CILCO under that agreement. FERC's October 1997 order failed to address certain contract issues raised by CILCO. FERC denied rehearing of that order in February 1998, and CILCO has appealed to the United States Court of Appeals for the District of Columbia Circuit for a review of FERC's orders concerning the CIPS agreements. CILCO also filed a separate complaint at FERC in December 1998, challenging the manner in which CIPS is performing, or failing to perform, under the agreements and has notified CIPS that CILCO considers CIPS to be in default under the agreements. On the ground that CIPS is in default regarding performance under the 1992 agreement, CILCO suspended capacity reservation payments to CIPS under the agreements as of January 21, 1999. CILCO cannot predict how FERC or the Court will ultimately rule on the issues pending before them. If CILCO's position is not upheld on certain issues, CILCO could be required to pay the suspended capacity reservation charges which are currently \$865,000 per month, plus interest, to CIPS. While the capacity payments are suspended, CILCO is purchasing power and energy from other sources.

Reference is made to Management's Discussion and Analysis of Financial Condition and Results of Operations - Environmental

Matters (regarding former gas manufacturing sites) for a discussion of that item.

NOTE 10 - QST ENTERPRISES DISCONTINUED OPERATIONS

Due to uncertainties related to energy deregulation across the country, the illiquidity of certain energy markets and its pending acquisition by AES, the Company will focus in the future on the opportunities in the Illinois energy market resulting from the deregulation of electricity under the Electric Service Customer Choice and Rate Relief Law of 1997 (see Management's Discussion and Analysis - Competition). As a result, the Company decided in the fourth quarter of 1998 to sell its 100% ownership interest in QST Environmental Inc., a first-tier subsidiary of QST providing environmental consulting and engineering services. In August 1998, QST sold its wholly-owned fiber optic-based telecommunications subsidiary, QST Communications, for \$20 million cash and

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stock options valued at \$5.5 million. Since incurring material losses in the wholesale electricity market in June 1998 and subsequent losses in its energy operations outside of Illinois, QST Energy has transferred its Pennsylvania retail customers to other marketers, ceased its Houston-based energy trading operations, and has begun an effort to negotiate an end to its obligation to provide electricity to its non-Illinois customers. Accordingly, the operations of QST Enterprises and its subsidiaries are shown as discontinued operations in the statements of income. The Company's investment in QST Enterprises, as of December 31, 1998, on the accompanying consolidated balance sheet, consists primarily of \$17.4 million in working capital, \$6.9 million in fixed assets and \$6.3 million of investments and other assets. Prior year financial statements, which also include the discontinued operations of ESE Land Corporation (sold by QST Environmental in November 1997, for \$9.5 million and residual interests in three limited liability corporations), have been reclassified to conform to the current year presentation.

NOTE 11 - LEASES

The Company and its subsidiaries lease certain equipment, buildings and other facilities under capital and operating leases. Several of the operating leases provide that the Company pay taxes, maintenance and other occupancy costs applicable to these premises.

Minimum future rental payments under non-cancellable capital and

operating leases having remaining terms in excess of one year as of December 31, 1998, are \$19.9 million in total. Payments due during the years ending December 31, 1999, through December 31, 2003, are \$8.1 million, \$5.6 million, \$3.4 million, \$1.9 million and \$.5 million, respectively.

NOTE 12 - FINANCIAL INSTRUMENTS AND PRICE RISK MANAGEMENT

CILCORP utilizes commodity futures contracts, options and swaps in the normal course of its natural gas business activities. However, it does not currently utilize these instruments to hedge its electric purchase and sale transactions or to participate in energy trading activities. Gains and losses arising from derivative financial instrument transactions which hedge the impact of fluctuations in energy prices are recognized in income concurrent with the related purchases and sales of the commodity. If a derivative financial instrument contract is terminated because it is probable that a transaction or forecasted transaction will not occur, any gain or loss as of such date is immediately recognized. If a derivative financial instrument contract is terminated early for other economic reasons, any gain or loss as of the termination date is deferred and recorded concurrently with the related purchase and sale of natural gas. CILCORP is subject to commodity price risk for deregulated sales to the extent that energy is sold under firm price commitments. Due to market conditions, at times CILCORP may have unmatched commitments to purchase and sell energy on a price and quantity basis. Physical and derivative financial instruments give rise to market risk, which represents the potential loss that can be caused by a change in the market value of a particular commitment. Market risks are actively monitored to ensure compliance with the Company's risk management policies, including limits to the Company's total net exposure at any time.

The net loss reflected in operating results from derivative financial instruments was \$2.2 million for the year 1998. As of December 31, 1998, CILCORP had fixed-price derivative financial instruments representing hedges of natural gas purchases of 5.6 Bcf and natural gas sales of 7.2 Bcf for commitments through September 1999. The net deferred loss and carrying amount on these fixed-price derivatives at December 31, 1998 was \$.9 million. At December 31, 1998, CILCORP had open positions in derivative financial instruments used to hedge basis of 1.0 Bcf for commitments through October 1999. The net deferred loss on these basis derivatives at December 31, 1998, was \$.1 million.

NOTE 13 - EARNINGS PER SHARE

The following data show the amounts used in computing earnings per share and the effect on income and the weighted average number of shares of dilutive potential common stock. The shares calculated for dilutive potential result from the CILCORP Shareholder Return Incentive Compensation Plan.

<TABLE>

<CAPTION>

| | 1998 | 1997 |
|---|----------------|----------|
| | (In thousands) | |
| <S> | <C> | <C> |
| Income available to common shareholders | \$16,310 | \$16,395 |
| Weighted average number of common shares used in Basic Earnings Per Share | 13,611 | 13,611 |
| Weighted number of dilutive potential common stock used in Diluted Earnings Per Share | 96 | 16 |

</TABLE>

The Company adopted Statement of Financial Accounting Standards No. 128, Earnings Per Share, beginning with the year ended December 31, 1997. Restatement of 1996 is not applicable as no potential common stock dilution occurred until 1997.

NOTE 14 - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following quarterly operating results are unaudited, but, in the opinion of management, include all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the Company's operating results for the periods indicated. The results of operations for each of the fiscal quarters are not necessarily comparable to, or indicative of, the results of an entire year due to the seasonal nature of the Company's business and other factors.

<TABLE>

<CAPTION>

For the Three Months Ended

| | March 31 | June 30 | September 30 | December 31 |
|---|---|-----------|--------------|-------------|
| | (In thousands except per share amounts) | | | |
| <S> | <C> | <C> | <C> | <C> |
| 1998 | | | | |
| Revenue | \$154,274 | \$121,435 | \$141,143 | \$142,172 |
| Income from continuing operations before income taxes | 17,566 | 10,254 | 29,020 | 1,077 |
| Income taxes | 6,250 | 2,519 | 10,983 | (53) |
| Net income from continuing operations | 11,316 | 7,735 | 18,037 | 1,130 |
| Loss from operations of discontinued business, net of tax of \$(2,355), \$(5,512), \$(2,354), \$(6,057) | (3,622) | (8,423) | (3,620) | (9,360) |
| Gain (loss) on sale/disposal of assets of discontinued | | | | |

| | | | | |
|--|-----------|-----------|-----------|-------------|
| business, net of tax of \$5,425, \$(3,411) | -- | -- | 8,252 | (5,135) |
| Net income (loss) | \$ 7,694 | \$ (688) | \$ 22,669 | \$ (13,365) |
| Earnings per average common share - basic | | | | |
| Continuing operations | \$ 0.83 | \$ 0.57 | \$ 1.33 | \$ 0.08 |
| Discontinued operations | (0.27) | (0.62) | 0.34 | (1.06) |
| Net income (loss) | \$ 0.56 | \$ (0.05) | \$ 1.67 | \$ (0.98) |
| Earnings per average common share - diluted | | | | |
| Continuing operations | \$ 0.83 | \$ 0.56 | \$1.32 | \$ 0.08 |
| Discontinued operations | (0.27) | (0.61) | 0.34 | (1.06) |
| Net income (loss) | \$ 0.56 | \$ (0.05) | \$1.66 | \$ (0.98) |
| 1997 | | | | |
| Revenue | \$168,595 | \$113,610 | \$125,050 | \$150,705 |
| Income from continuing operations before income taxes | 16,793 | 10,889 | 23,966 | 14,410 |
| Income taxes | 5,254 | 3,559 | 8,858 | 4,678 |
| Net income from continuing operations before extraordinary item | 11,539 | 7,330 | 15,108 | 9,732 |
| Loss from operations of discontinued business, net of tax of \$(1,060), \$(842), \$(1,195), \$(4,201) | (1,820) | (1,513) | (2,034) | (28,759) |
| Gain on sale of assets of discontinued business, net of tax of \$1,889 | -- | -- | -- | 2,712 |
| | | | | |
| Extraordinary item | -- | -- | -- | 4,100 |

| | | | | |
|---|----------|----------|-----------|-------------|
| Net income (loss) | \$ 9,719 | \$ 5,817 | \$ 13,074 | \$ (12,215) |
| Earnings per average common share - basic | | | | |
| Continuing operations | \$ 0.85 | \$ 0.54 | \$ 1.11 | \$ 0.71 |
| Discontinued operations | (0.14) | (0.11) | (0.15) | (1.91) |
| Extraordinary item | -- | -- | -- | 0.30 |
| Net income (loss) | \$ 0.71 | \$ 0.43 | \$ 0.96 | \$ (0.90) |
| Earnings per average common share - diluted | | | | |
| Continuing operations | \$ 0.85 | \$ 0.54 | \$ 1.11 | \$ 0.71 |
| Discontinued operations | (0.14) | (0.11) | (0.15) | (1.91) |
| Extraordinary item | -- | -- | -- | .30 |
| Net income (loss) | \$ 0.71 | \$ 0.43 | \$ 0.96 | \$ (0.90) |

</TABLE>

[DESCRIPTION] Graph Data attached to EXHIBIT 13

Information related to the eight graphs included in the CILCORP Inc. Annual Report in Management's Discussion and Analysis and Financial Statements follows.

A bar graph titled "Fixed Charge Coverage (Scale: # of Times)" depicting the following information appears in Management's Discussion and Analysis.

| | |
|------|-----|
| 1994 | 2.6 |
| 1995 | 2.7 |
| 1996 | 2.1 |
| 1997 | 1.8 |
| 1998 | 1.5 |

A bar graph titled "Utility Plant Expenditures (Scale: \$ Millions)" depicting the following information appears in Management's Discussion and Analysis.

| | |
|------|----|
| 1994 | 91 |
| 1995 | 70 |
| 1996 | 44 |
| 1997 | 55 |
| 1998 | 67 |

A bar graph titled "Electric Sales (Scale: Millions of kilowatt-hours)" depicting the following information appears in Management's Discussion and Analysis. Each bar consists of four sections which build on one another.

| | 1998 | 1997 | 1996 | 1995 | 1994 |
|-------------------|-------|-------|-------|-------|-------|
| BAR 1 RESIDENTIAL | 1,785 | 1,725 | 1,713 | 1,783 | 1,672 |
| BAR 2 COMMERCIAL | 1,658 | 1,568 | 1,564 | 1,537 | 1,470 |
| CUMULATIVE | 3,443 | 3,293 | 3,277 | 3,320 | 3,142 |
| BAR 3 INDUSTRIAL | 2,319 | 2,140 | 2,123 | 2,325 | 2,303 |
| CUMULATIVE | 5,762 | 5,433 | 5,400 | 5,645 | 5,445 |
| BAR 4 OTHER | 801 | 909 | 772 | 270 | 390 |
| CUMULATIVE | 6,563 | 6,342 | 6,172 | 5,915 | 5,835 |

A bar graph titled "Cooling Degree Days Per Year Compared to Normal" depicting the following information appears in Management's Discussion and Analysis. A horizontal bar depicting normal cooling days is shown at approximately 1061.5 days.

| | |
|------|---------|
| 1994 | 1,104.0 |
| 1995 | 1,222.0 |
| 1996 | 909.0 |
| 1997 | 953.0 |
| 1998 | 1,223.5 |

A bar graph titled "Gas Sales (Scale: Millions of mcf)" depicting the following information appears in Management's Discussion and Analysis. Each bar consists of three sections which build on one another.

| | 1998 | 1997 | 1996 | 1995 | 1994 |
|-------------------|--------|--------|--------|--------|--------|
| BAR 1 RESIDENTIAL | 16,204 | 19,593 | 21,547 | 20,080 | 18,929 |
| BAR 2 COMMERCIAL | 8,662 | 9,794 | 8,948 | 7,374 | 6,686 |
| CUMULATIVE | 24,866 | 29,387 | 30,495 | 27,454 | 25,615 |
| BAR 3 INDUSTRIAL | 2,132 | 2,537 | 1,659 | 1,242 | 1,186 |
| CUMULATIVE | 26,998 | 31,924 | 32,154 | 28,696 | 26,801 |

A bar graph titled "Heating Degree Days Per Year Compared to Normal" depicting the following information appears in Management's Discussion and Analysis. A horizontal bar depicting normal heating degree days is shown at approximately 5,918.0 days.

| | |
|------|---------|
| 1994 | 5,443.5 |
| 1995 | 5,920.5 |
| 1996 | 6,321.0 |
| 1997 | 5,966.5 |
| 1998 | 4,808.0 |

Two pie charts titled "Consolidated Assets by Segment" as percentage of the whole by year are printed below the Asset portion of the Balance Sheets.

| | 1998 | 1998 | 1997 | 1997 |
|---|-----------|--------|-----------|--------|
| Electric | 729,050 | 55.5% | 723,799 | 54.2% |
| Gas | 286,230 | 21.8% | 290,542 | 21.8% |
| Non-Regulated Energy & Energy Services | 121,643 | 9.3% | 144,398 | 10.8% |
| Environmental and Engineering Services | 5,072 | .4% | 5,639 | .4% |
| Other | 170,945 | 13.0% | 170,441 | 12.8% |
| Total | 1,312,940 | 100.0% | 1,334,819 | 100.0% |

Two pie charts titled "Consolidated Capitalization Including Short-Term Debt" as percentages of the whole by year are printed below the Liability portion of the Balance Sheets.

| | 1998 | 1998 | 1997 | 1997 |
|-----------------|---------|------|---------|------|
| S-T Debt | 109,227 | 14% | 84,335 | 11% |
| L-T Debt | 285,552 | 36% | 298,528 | 37% |
| Preferred Stock | 66,120 | 8% | 66,120 | 8% |
| Common Stock | 335,538 | 42% | 352,593 | 44% |
| Total | 796,437 | 100% | 801,576 | 100% |

BY-LAWS

of

CILCORP Inc.

(As Amended Effective January 26, 1999)

ARTICLE I

OFFICES

The corporation shall continuously maintain in the State of Illinois a registered office and a registered agent whose business office is identical with such registered office, and may have other offices within or without the State.

ARTICLE II

SHAREHOLDERS

SECTION 1. ANNUAL MEETING. An annual meeting of the shareholders for the purpose of electing directors and for the transaction of such other business as may come before the meeting shall be held as determined by the Board of Directors in accordance with the applicable provisions of the Illinois Business Corporation Act.

SECTION 2. SPECIAL MEETINGS. Special meetings of the shareholders may be called by the Chief Executive Officer, by the Board of Directors, or by the holders of not less than one-fifth of all the outstanding shares entitled to vote on the matter for which the meeting is called, for the purpose or purposes stated in the call of the meeting.

SECTION 3. PLACE OF MEETING. The Board of Directors may designate any place as the place of meeting for any annual meeting or for any special meeting called by the Board of Directors. If no designation is made, or if a special meeting be otherwise called, the place of meeting shall be at the principal office of the corporation in the City of Peoria, Illinois.

SECTION 4. NOTICE OF MEETINGS. Written notice stating the place, date and hour of the meeting, and in the case of a special meeting, the purpose or purposes for which the meeting is

called, shall be delivered not less than ten nor more than sixty days before the date of the meeting, or in the case of a merger, consolidation, share exchange, dissolution or sale, lease or exchange of assets, not less than twenty nor more than sixty days before the meeting, either personally or by mail, by or at the direction of the President, or the Secretary, or the officer or persons calling the meeting, to each shareholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the shareholder at his or her address as it appears on the records of the corporation, with postage thereon prepaid. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken.

SECTION 5. FIXING OF RECORD DATE. For the purpose of determining the shareholders entitled to notice of or to vote at any meeting of shareholders, or to receive payment of any dividend, or for the purpose of determining shareholders for any other proper purpose, the Board of Directors may fix in advance a record date which shall not be more than sixty days and, for a meeting of shareholders, not less than ten days, or in the case of a merger, consolidation, share exchange, dissolution or sale, lease or exchange of assets, not less than twenty days, before the date of such meeting. If no record date is fixed, the record date for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders shall be the date on which notice of the meeting is mailed, and the record date for the determination of shareholders for any other purpose shall be the date on which the Board of Directors adopts the resolution relating thereto. A determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting.

SECTION 6. VOTING LISTS. The officer or agent having charge of the transfer books for shares of the corporation shall make, within twenty days after the record date for a meeting of shareholders or ten days before such meeting, whichever is earlier, a complete list of the shareholders entitled to vote at such meeting, arranged in alphabetical order, with the address of and the number of shares held by each, which list, for a period of ten days prior to such meeting, shall be kept on file at the registered office of the corporation and shall be subject to inspection by any shareholder, and to copying at the shareholder's expense, for any purpose germane to the meeting, at any time during usual business hours. Such list shall also be produced and kept open at the time and place of the meeting and may be inspected by any shareholder during the whole time of the meeting. The original share ledger or transfer book, or a duplicate thereof kept in this State, shall be prima facie

evidence as to who are the shareholders entitled to examine such list or share ledger or transfer book or to vote at any meeting of shareholders.

SECTION 7. QUORUM. A majority of the outstanding shares of the corporation entitled to vote on a matter, represented in person or by proxy, shall constitute a quorum for consideration of such matter at a meeting of shareholders; provided, that if less than a majority of the outstanding shares entitled to vote on a matter are represented at said meeting, a majority of the shares so represented may adjourn the meeting as to that matter at any time without further notice. If a quorum is present, the affirmative vote of the majority of the shares represented at the meeting and entitled to vote on a matter shall be the act of the shareholders, unless the vote of a greater number or voting by classes is required by the Business Corporation Act of 1983, or the Articles of Incorporation. At any adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the original meeting. Withdrawal of shareholders from any meeting shall not cause failure of a duly constituted quorum at that meeting.

SECTION 8. PROXIES. Each shareholder entitled to vote at a meeting of shareholders or to express consent or assent to corporate action in writing without a meeting may authorize another person or persons to act for him by proxy, but no such proxy shall be valid after eleven months from the date thereof, unless otherwise provided in the proxy.

SECTION 9. VOTING OF SHARES. Each outstanding share shall be entitled to one vote upon each matter submitted to a vote at a meeting of shareholders.

SECTION 10. VOTING OF SHARES BY CERTAIN HOLDERS. Shares registered in the name of another corporation, domestic or foreign, may be voted by any officer, agent, proxy or other legal representative authorized to vote such shares under the law of incorporation of such corporation.

Shares registered in the name of a deceased person, a minor ward or person under legal disability, may be voted by his or her administrator, executor or court appointed guardian, either in person or by proxy, without a transfer of such shares into the name of such administrator, executor or court appointed guardian. Shares standing in the name of a trustee may be voted by him or her, either in person or by proxy.

Shares registered in the name of a receiver may be voted by such receiver, and shares held by or under the control of a receiver may be voted by such receiver without the transfer thereof into his or her name if authority so to do is contained

in an appropriate order of the court by which such receiver was appointed.

A shareholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter the pledgee shall be entitled to vote the shares so transferred.

Shares of the corporation held by it in a fiduciary capacity may be voted and shall be counted in determining the total number of outstanding shares entitled to vote at any given time.

SECTION 11. INSPECTORS. At any meeting of shareholders, the chairman of the meeting may, or upon the request of any shareholder shall, appoint one or more persons as inspectors for such meeting.

Such inspectors shall ascertain and report the number of shares represented at the meeting, based upon their determination of the validity and effect of proxies; count all votes and report the results; and do such other acts as are proper to conduct the election and voting with impartiality and fairness to all the shareholders.

Each report of an inspector shall be in writing and signed by him or her or by a majority of them if there be more than one inspector acting at such meeting. If there is more than one inspector, the report of a majority shall be the report of the inspectors. The report of the inspector or inspectors on the number of shares represented at the meeting and the results of the voting shall be prima facie evidence thereof.

SECTION 12. VOTING BY BALLOT. Voting on any question or in any election may be by voice unless the chairman of the meeting shall order or any shareholder entitled to vote shall demand that voting be by ballot.

ARTICLE III

DIRECTORS

SECTION 1. GENERAL POWERS. The business and affairs of the corporation shall be managed by or under the direction of its Board of Directors.

SECTION 2. NUMBER, TENURE AND QUALIFICATIONS. The number of directors of the corporation shall be ten.

Directors need not be residents of Illinois or

shareholders of the Corporation. Unless sooner terminated by any other provision hereof, the term of any Director shall automatically expire at the first annual meeting of the shareholders following his or her attainment of the age of 67. Provided, however, that the term of any Director serving in such capacity and over the age of 60 on August 20, 1993 shall automatically expire at the first annual meeting of the shareholders following his or her attainment of the age of 70. Notwithstanding any other provision hereof, the term of any Director who is an officer or other full-time employee of the Corporation shall automatically expire immediately upon his or her retirement or other termination of employment by the Company. If a vacancy occurs in the Board of Directors prior to the end of what would have been a three-year term but for the provisions of this paragraph, the vacancy shall be filled for the balance of said three year term in accordance with the provisions of Section 9 of this article."

SECTION 3. REGULAR MEETINGS. A regular meeting of the Board of Directors shall be held without other notice than this By-law, immediately after the annual meeting of shareholders. The Board of Directors may provide, by resolution, the time and place for the holding of additional regular meetings without other notice than such resolution.

SECTION 4. SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by or at the request of the Chief Executive Officer or any two directors. The person or persons authorized to call special meetings of the Board of Directors may fix any place as the place for holding any special meeting of the Board of Directors called by them.

SECTION 5. NOTICE. Notice of any special meeting shall be given by written notice to each director at his business address. If mailed, such notice shall be given at least seven days prior to the meeting, and shall be deemed to be delivered when deposited in the United States mail so addressed, with postage thereon prepaid. If notice be given by telegram, or overnight delivery service, such notice shall be given at least three days prior to the meeting and shall be deemed to be delivered when, in the case of a telegram, it is delivered to the telegraph company, or in the case of overnight delivery service, it is delivered to the carrier. The attendance of a director at any meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting.

SECTION 6. QUORUM. A majority of the number of directors fixed by these By-laws shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, provided that if less than a majority of such number of directors are present at said meeting, a majority of the directors present may adjourn the meeting at any time without further notice. The presence of a director who is directly or indirectly a party to a transaction to be acted upon by the Board of Directors, or who is otherwise not disinterested, may be counted in determining whether a quorum is present, but the vote of such director may not be counted when the Board of Directors or a committee of the Board takes action on the transaction.

SECTION 7. MANNER OF ACTING. The act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors, unless the act of a greater number is required by these By-laws or the Articles of Incorporation. Members of the Board of Directors or of any committee of the Board may participate in and act at a meeting through the use of a conference telephone or other communication equipment by means of which all persons participating in the meeting can hear each other. Participation in such meeting shall constitute attendance and presence in person at the meeting of the person or persons so participating.

SECTION 8. RESIGNATIONS. A director may resign at any time by giving written notice to the Board of Directors, its chairman, or to the President or Secretary of the corporation. A resignation is effective when the notice is given unless the notice specifies a future date.

SECTION 9. VACANCIES. Any vacancy occurring in the Board of Directors, including any vacancy occurring by reason of an increase in the number of directors, shall be filled by election at an annual meeting or at a special meeting of shareholders called for that purpose, provided that the Board of Directors may fill by appointment any such vacancy occurring between meetings of the shareholders. A director appointed by the Board of Directors pursuant to this Section to fill a vacancy shall serve until the next meeting of shareholders at which directors are to be elected. A director elected by the shareholders to fill a vacancy shall hold office for the balance of the term for which he or she was elected.

SECTION 10. ACTION WITHOUT A MEETING. Any action required to be taken at a meeting of the Board of Directors, or any other action which may be taken at a meeting of the Board of Directors or a committee thereof, may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all the directors entitled to vote with respect to

the subject matter thereof, or by all the members of such committee, as the case may be. The consent shall be evidenced by one or more written approvals, each of which sets forth the action taken and bears the signature of one or more directors. All such approvals shall be delivered to the Secretary to be filed in the corporate records. The action taken shall be effective when all the directors have approved the consent unless the consent specifies a different effective date. Any such consent signed by all the directors or all the members of a committee shall have the same effect as a unanimous vote, and may be stated as such in any document filed with the Secretary of State of Illinois or with anyone else.

SECTION 11. COMPENSATION. The Board of Directors, by the affirmative vote of a majority of directors then in office, and irrespective of any personal interest of any of its members, shall have authority to establish reasonable compensation of all directors for services to the corporation as directors, officers or otherwise. The directors shall be paid their expenses, if any, of attendance at each meeting of the Board. No such payment previously mentioned in this Section shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

SECTION 12. REMOVAL OF DIRECTORS. If the notice of a meeting of shareholders shall state that a purpose of the meeting is to vote upon the removal of one or more directors named in the notice, then one or more of such directors may be removed at such meeting by the affirmative vote of the holders of a majority of the outstanding shares then entitled to vote at an election of directors. Only the named director or directors may be removed at such meeting and directors may only be removed for cause.

SECTION 13. PRESUMPTION OF ASSENT. A director of the corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be conclusively presumed to have assented to the action taken unless his or her dissent is entered in the minutes of the meeting or unless he or she (a) files his or her written dissent to such action with the person acting as the Secretary of the meeting before the adjournment thereof, or (b) forwards such dissent by registered or certified mail to the Secretary of the corporation immediately after the adjournment of the meeting. Such right to dissent does not apply to a director who voted in favor of such action.

SECTION 14. COMMITTEES. A majority of the directors may create one or more committees and appoint members of the Board to serve on the committee or committees. Each committee shall have two or more members, who serve at the pleasure of the Board. Each committee, to the extent specified by the Board of

Directors, may exercise the authority of the Board of Directors in the management of the corporation, except as otherwise provided by law. Vacancies in the membership of the committee shall be filled by the Board of Directors at a regular or special meeting of the Board of Directors. Each committee shall render a report of its proceedings to the Board when required. Unless the resolution of appointment by the Board of Directors requires a greater number, a majority of any committee shall constitute a quorum, and a majority of a quorum shall be necessary for committee action. A committee may act by unanimous consent in writing without a meeting and, subject to the provisions of these By-laws or action of the Board of Directors, the committee by majority vote of its members shall determine the time and place of meetings and the notice required therefor.

SECTION 15. NOMINATIONS OF DIRECTORS. Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors. Nominations of persons for election to the Board of Directors of the corporation may be made at a meeting of shareholders (a) by or at the direction of the Board of Directors by any nominating committee or person appointed by the Board or, (b) by any shareholder of the corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this Section 15. Such nominations, other than those made by or at the direction of the Board, shall be made pursuant to timely notice in writing to the Secretary. To be timely, a shareholder's notice shall be delivered to, or mailed and received at, the principal executive offices of the corporation not less than sixty (60) days prior to the first anniversary of the date of the last annual meeting of shareholders. Such shareholder's notice to the Secretary shall set forth (a) as to each person whom the shareholder proposes to nominate for election or re-election as a director, (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class and number of shares of the corporation which are beneficially owned by the person, and (iv) such other information relating to the person that would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission as then in effect; and (b) as to the shareholder giving the notice (i) the name and record address of the shareholder, and (ii) the class and number of shares of the corporation which are beneficially owned by the shareholder.

If the Chairman of the meeting of shareholders shall determine that a nomination was not made in accordance with the foregoing procedure, he or she shall so declare to the meeting and the defective nomination shall be disregarded.

ARTICLE IV

OFFICERS

SECTION 1. NUMBER. The officers of the corporation shall be a Chairman of the Board (if one is elected by the Board of Directors), a President, one or more Vice Presidents (the number thereof to be determined by the Board of Directors), a Treasurer, and a Secretary to be elected by the Board of Directors, and such Assistant Treasurers, Assistant Secretaries, Controller or other officers as may be elected by the Board of Directors or appointed by the Board of Directors or the Chief Executive Officer of the corporation. The Chief Executive Officer of the corporation shall be the Chairman of the Board or the President as designated by the Board of Directors. In the event that a Chairman of the Board is not elected, the President shall be the Chief Executive Officer. Any two or more offices may be held by the same person.

SECTION 2. ELECTION AND TERM OF OFFICE. The elected officers of the corporation shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of shareholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as shall be convenient. Vacancies may be filled or new offices created and filled at any meeting of the Board of Directors. Each officer shall hold office until his or her successor shall have been duly elected and shall have qualified or until his or her death or until he or she shall resign or shall have been removed in the manner hereinafter provided. Election or appointment of an officer shall not of itself create contract rights.

SECTION 3. REMOVAL. Any elected officer may be removed by the Board of Directors whenever in its judgment the best interests of the corporation would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Any appointed officer may be similarly removed by either the Board of Directors or the Chief Executive Officer of the corporation.

SECTION 4. CHAIRMAN OF THE BOARD. The Chairman of the Board of Directors shall have such duties and functions as shall be assigned or delegated to him or her from time to time by the Board of Directors. The chairman shall report to the Board of Directors, and shall preside at the meetings of the shareholders and of the Board of Directors.

SECTION 5. PRESIDENT. Subject to the direction and control of the Board of Directors, the President shall be in

charge of the business of the corporation; he or she shall see that the resolutions and directions of the Board of Directors are carried into effect except in those instances in which that responsibility is specifically assigned to some other person by the Board of Directors; and, in general, he or she shall discharge all duties incident to the office of President and such other duties as may be prescribed by the Board of Directors from time to time. In the absence of the Chairman of the Board, the President shall preside at all meetings of the shareholders and of the Board of Directors. Except in those instances in which the authority to execute is expressly delegated to another officer or agent of the corporation or a different mode of execution is expressly prescribed by the Board of Directors or these By-laws, the President may execute for the corporation certificates for its shares, and any contracts, deeds, mortgages, bonds, or other instruments which the Board of Directors has authorized to be executed, and may accomplish such execution either under or without the seal of the corporation and either individually or with the Secretary, any Assistant Secretary, or any other officer thereunto authorized by the Board of Directors, according to the requirements of the form of the instrument. The President may vote all securities which the corporation is entitled to vote except to the extent such authority shall be vested in a different officer or agent of the corporation by the Board of Directors.

SECTION 6. THE VICE PRESIDENTS. Each Vice President shall assist the President in the discharge of his or her duties, as the President may direct, and shall perform such other duties as from time to time may be assigned to him or her by the President or by the Board of Directors. In the absence of the President or in the event of his or her inability or refusal to act, the Vice President (or in the event there be more than one Vice President, the Vice Presidents in the order designated by the Board of Directors, or by the President if the Board of Directors has not made such a designation, or in the absence of any designation, then in the order of seniority of tenure as Vice President) shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. Except in those instances in which the authority to execute is expressly delegated to another officer or agent of the corporation or a different mode of execution is expressly prescribed by the Board of Directors or these By-laws, the Vice President (or each of them if there are more than one) may execute for the corporation certificates for its shares and any contracts, deeds, mortgages, bonds or other instruments which the Board of Directors has authorized to be executed, and he or she may accomplish such execution either under or without the seal of the corporation and either individually or with the Secretary, any Assistant Secretary, or any other officer thereunto authorized by the Board of Directors,

according to the requirements of the form of the instrument.

SECTION 7. THE TREASURER. Subject to the supervision of the Board of Directors and Chief Executive Officer, the Treasurer shall have the custody of all funds and securities of the corporation and charge of the collection of amounts due the corporation. He or she shall disburse the funds of the corporation only upon receipt of properly authorized vouchers and shall keep a record of all receipts and disbursements of funds by him or her. He or she shall have authority to give receipts for moneys paid to the corporation and to endorse checks, drafts and warrants in the name of the corporation.

SECTION 8. THE SECRETARY. The Secretary shall: (a) record the minutes of the shareholders' and the Board of Directors' meetings in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these By-laws or as required by law; (c) be custodian of the corporate records and of the seal of the corporation; (d) keep a register of the post office address of each shareholder which shall be furnished to the Secretary by such shareholder; (e) sign with the President or a Vice President, or any other officer thereunto authorized by the Board of Directors, certificates for shares of the corporation, the issue of which shall have been authorized by the Board of Directors, and any contracts, deeds, mortgages, bonds, or other instruments which the Board of Directors has authorized to be executed, according to the requirements of the form of the instrument, except when a different mode of execution is expressly prescribed by the Board of Directors or these By-laws; (f) have general charge of the stock transfer books of the corporation; and (g) perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned to him or her by the President or by the Board of Directors. The Secretary shall have the authority to certify the By-laws, resolutions of the shareholders and Board of Directors and committees thereof, and other documents of the corporation as true and correct copies thereof.

SECTION 9. ASSISTANT TREASURERS, ASSISTANT SECRETARIES, CONTROLLER, AND OTHER OFFICERS. The Assistant Treasurers and Assistant Secretaries shall perform such duties as shall be assigned to them by the Treasurer or the Secretary, respectively, or by the President or the Board of Directors. The Assistant Secretaries may sign with the President, or a Vice President, or any other officer thereunto authorized by the Board of Directors, certificates for shares of the corporation, the issue of which shall have been authorized by the Board of Directors, and any contracts, deeds, mortgages, bonds, or other instruments which the Board of Directors has authorized to be executed, according to the requirements of the form of the instrument, except when a

different mode of execution is expressly prescribed by the Board of Directors or these By-laws. The Assistant Treasurers shall respectively, if required by the Board of Directors, give bonds for the faithful discharge of their duties in such sums and with such sureties as the Board of Directors shall determine. The Controller, if one be elected or appointed, shall be the principal accounting officer of the corporation and as such shall have and perform all duties normally incident to the office of principal accounting officer. The Assistant Treasurers, the Assistant Secretaries, the Controller and any other officers shall have and perform such other duties as may be assigned from time to time by the Board of Directors or the Chief Executive Officer of the corporation.

SECTION 10. SALARIES. The salaries of the officers shall be fixed from time to time by the Board of Directors or, if authorized by the Board, by the Chief Executive Officer of the corporation. No officer shall be prevented from receiving any salary by reason of the fact that he or she is also a director of the corporation.

ARTICLE V

CONTRACTS, LOANS, CHECKS AND DEPOSITS

SECTION 1. CONTRACTS. The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the corporation, and such authority may be general or confined to specific instances.

SECTION 2. LOANS. No loans shall be contracted on behalf of the corporation and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of the Board of Directors. Such authority may be general or confined to specific instances.

SECTION 3. CHECKS, DRAFTS, ETC. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the corporation, shall be signed by such officer or officers, agent or agents of the corporation and in such manner as shall from time to time be determined by resolution of the Board of Directors.

SECTION 4. DEPOSITS. All funds of the corporation not otherwise employed shall be deposited from time to time to the credit of the corporation in such banks, trust companies or other depositaries as the Board of Directors may select.

ARTICLE VI

CERTIFICATES FOR SHARES AND THEIR TRANSFER

SECTION 1. CERTIFICATES FOR SHARES. Certificates representing shares of the corporation shall be signed by the President or a Vice President or by such officer as shall be designated by resolution of the Board of Directors and by the Secretary or an Assistant Secretary, and shall be sealed with the seal or a facsimile of the seal of the corporation. If both of the signatures of the officers be by facsimile, the certificate shall be manually signed by or on behalf of a duly authorized transfer agent or clerk. Each certificate representing shares shall be consecutively numbered or otherwise identified, and shall also state the name of the person to whom issued, the number and class of shares (with designation of series, if any), the date of issue, and that the corporation is organized under Illinois law. If the corporation is authorized and does issue shares of more than one class or of a series within a class, the certificate shall also contain such information or statement with respect thereto as may be required by law.

The name and address of each shareholder, the number and class of shares held and the date on which the certificates for the shares were issued shall be entered on the books of the corporation. The person in whose name shares stand on the books of the corporation shall be deemed the owner thereof for all purposes as regards the corporation.

SECTION 2. LOST CERTIFICATES. If a certificate representing shares allegedly has been lost or destroyed, the Board of Directors may in its discretion, except as may be required by law, direct that a new certificate be issued upon such indemnification and other reasonable requirements as it may impose.

SECTION 3. TRANSFERS OF SHARES. Transfers of shares of the corporation shall be recorded on the books of the corporation and, except in the case of a lost or destroyed certificate, shall be made only upon surrender for cancellation of the certificate for such shares. A certificate presented for transfer must be duly endorsed and accompanied by proper guaranty of signature and other appropriate assurances that the endorsement is effective.

ARTICLE VII

INDEMNIFICATION

SECTION 1. The corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding,

whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he or she is or was a director, officer, employee or agent of the corporation, or who is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, if such person acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the corporation or, with respect to any criminal action or proceeding, had reasonable cause to believe that his or her conduct was unlawful.

SECTION 2. The corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit, if such person acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the corporation, provided that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his or her duty to the corporation, unless, and only to the extent that the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability, but in view of all circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses as the court shall deem proper.

SECTION 3. To the extent that a director, officer, employee or agent of the corporation has been successful, on the merits or otherwise, in the defense of any action, suit or proceeding referred to in Sections 1 and 2 of this Article, or in

defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therewith.

SECTION 4. Any indemnification under Sections 1 and 2 of this Article (unless ordered by a court) shall be made by the corporation only as authorized in the specific case, upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because he or she has met the applicable standard of conduct set forth in Section 1 or 2 of this Article. Such determination shall be made (a) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (b) if such a quorum is not obtainable, or even if obtainable, if a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (c) by the shareholders.

SECTION 5. Expenses incurred in defending a civil or criminal action, suit or proceeding may be paid by the corporation in advance of the final disposition of such action, suit or proceeding, as authorized by the Board of Directors in the specific case, upon receipt of an undertaking by or on behalf of the director, officer, employee or agent to repay such amount, unless it shall ultimately be determined that he or she is entitled to be indemnified by the corporation as authorized in this Article.

SECTION 6. The indemnification provided by this Article shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any by-law, agreement, vote of shareholders or disinterested directors, or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent, and shall inure to the benefit of the heirs, executors and administrators of such a person.

SECTION 7. The corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against such person and incurred by such person in any such capacity, or arising out of his or her status as such, whether or not the corporation would have the power to indemnify such person against such liability under the provisions of this Article.

SECTION 8. If the corporation has paid indemnity or has advanced expenses to a director, officer, employee or agent, the corporation shall report the indemnification or advance in writing to the shareholders with or before the notice of the next shareholders' meeting.

SECTION 9. For purposes of this Article, references to "the corporation" shall include, in addition to the surviving corporation, any merging corporation (including any corporation having merged with a merging corporation) absorbed in a merger which, if its separate existence had continued, would have had the power and authority to indemnify its directors, officers and employees or agents, so that any person who was a director, officer, employee or agent of such merging corporation, or was serving at the request of such merging corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article with respect to the surviving corporation as such person would have with respect to such merging corporation if its separate existence had continued.

SECTION 10. For purposes of this Article, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the corporation" shall include any service as a director, officer, employee or agent of the corporation which imposes duties on, or involves services by such director, officer, employee, or agent with respect to an employee benefit plan, its participants, or beneficiaries. A person who acted in good faith and in a manner he or she reasonably believed to be in the best interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the corporation" as referred to in this Article.

ARTICLE VIII

FISCAL YEAR

The fiscal year of the corporation shall begin on the first day of January in each year and end on the last day of December in each year.

ARTICLE IX

DISTRIBUTIONS

The Board of Directors from time to time may authorize, and the corporation may make, distributions to its shareholders in the manner and upon the terms and conditions provided by law and its Articles of Incorporation.

ARTICLE X

SEAL

The corporation shall have a corporate seal with the name of the corporation and the word "Illinois" inscribed about a circle and the phrase "Incorporated 1985" within such circle. Such seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any manner reproduced.

ARTICLE XI

WAIVER OF NOTICE

Whenever any notice is required to be given under the provisions of these By-laws, the Articles of Incorporation or the Business Corporation Act of 1983, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Attendance at any meeting shall constitute waiver of notice thereof unless the person at the meeting objects to the holding of the meeting because proper notice was not given.

ARTICLE XII

AMENDMENTS

In furtherance of, and not in limitation of, the powers conferred by statute, the Board of Directors of the Corporation is expressly authorized and empowered to adopt, amend or repeal the By-laws (or any portion thereof) of the Corporation. The shareholders of the Corporation are authorized and empowered to adopt, amend or repeal the By-laws only by an affirmative vote of 75% of the shares outstanding and entitled to vote thereon. The By-laws may contain any provisions for the regulation and management of the affairs of the Corporation not inconsistent with law or the Articles of Incorporation.

CENTRAL ILLINOIS LIGHT COMPANY

EXECUTIVE DEFERRAL PLAN

(EDP)

December 1, 1985

as amended

February 22, 1994

January 29, 1996

August 17, 1998

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EXECUTIVE DEFERRAL PLAN

OF

CENTRAL ILLINOIS LIGHT COMPANY

Purpose

The primary purpose of the Executive Deferral Plan of Central Illinois Light Company is to help attract and maintain high caliber employees in high-level management positions. Directors, executive officers of the Company and certain other key employees on the Company's management staff (i.e., elected officers, department heads, and other key employees reporting to executive officers) will be allowed to participate in the Executive Deferral Plan. Members of the management staff allowed to participate will be those key employees who, in the opinion of the administrative committee of the Executive Deferral Plan, contribute significantly to the health and well-being of the Company through their leadership and managerial talents and who occupy management positions of importance in the Company.

Article 1 - Definitions

For purposes hereof, unless otherwise clearly apparent from the context, the following phrases or terms shall have the following indicated meanings:

- 1.1 "Base Annual Salary" shall mean the yearly compensation excluding bonuses or other fees paid to a Participant for employment services rendered to the Employer, before reduction for compensation deferred pursuant to this plan.
- 1.2 "Beneficiary" shall mean the person or persons, or the entity designated by the Participant to receive any benefits payable under this Plan upon the death of a Participant. Any Participant's Beneficiary designation shall be made by written instrument filed with the Committee and shall become effective only when received,

accepted and acknowledged in writing by the Committee.

- 1.3 "Committee" shall mean the administrative committee appointed to manage and administer the Plan in accordance with its provisions pursuant to Article 15.
- 1.4 "Company" shall mean CENTRAL ILLINOIS LIGHT COMPANY, any corporation which is, along with the Company, a member of a controlled group of corporations as described in Section 414(b) of the Internal Revenue Code of 1954, as amended, and all successor companies thereto.
- 1.5 "Company Contributions" shall mean such amounts, if any, that an Employer, in its sole discretion, contributed to the Plan in any year for the benefit of all or some Participants.
- 1.5(a) "Continuing Director" means any member of the Board of the Company or of its majority shareholder (hereinafter the "Board"), while such person is a member of the Board, who was a member of the Board prior to January 29, 1996. A "Continuing Director" also means any person who subsequently becomes a member of the Board, while such person is a member of the Board, if such person's nomination for election or election to the Board is recommended or approved by resolution of a majority of the Continuing Directors.
- 1.6 "Covered Salary" shall mean a Participant's Base Annual Salary and bonuses which serves as a basis for computation of the Retirement, Survivor or Termination benefits pursuant to the terms and conditions of this Plan.
- 1.7 "Deferral Amount" shall mean the amount of Covered Salary deferred by a Participant each year pursuant to his election in the form of a Plan Agreement.
- 1.8 "Deferral Period" shall mean the period during which amounts of Covered Salary are being deferred pursuant to the deferral election of the Participant as set forth in the Participant's Plan Agreement.
- 1.9 "Disability". A Participant shall be considered totally disabled by bodily injuries, sickness or disease for purposes of the Plan for the period, excluding any period for which he receives benefits under the Company's Sick Pay Plan, if:
 - a. During the first two years of any period of total disability, the Participant is unable to perform the duties of his occupation; and

- b. During continuation of the period of total disability beyond two years, the Participant is unable to engage in any business or occupation or to perform any work for compensation, gain or profit for which he is reasonably fitted by education, training or experience.
- 1.10 "EDP Account" shall mean an individual account comprised of a Participant's Deferral Amounts, Rollover ESPP amounts, Company Contributions and interest credited thereon. An EDP Account shall be maintained for each Participant. A Participant's EDP Account shall be utilized solely as a device for the measurement and determination of the amounts to be paid to the Participant pursuant to this Plan. A Participant's EDP Account shall not constitute or be treated as a trust fund.
- 1.11 "Employer" shall mean the Company having one or more eligible Employees who have been selected by the Committee to participate. Where the context dictates, the term "Employer" as used herein refers to the particular Employer which has entered into a Plan Agreement with a specific Participant.
- 1.12 "Executive" shall mean directors and those persons in the regular full-time employment of the Company who are key employees and members of the management staff who are selected for participation in the Plan by the Committee.
- 1.12(a) "Hostile Takeover" shall mean the acquisition of beneficial ownership (determined in accordance with Rule 13(d)-3 of the Exchange Act) directly or indirectly, of more than 30% of the voting power of the outstanding stock of the Company or its majority shareholder by any person coupled with or followed by the failure of Continuing Directors to constitute a majority of the Board."
- 1.13 "Moody's Seasoned Corporate Bond Rate" (Moody's) shall mean an economic indicator which is an arithmetic average of yields of representative bonds: industrials, public utilities, Aaa, Aa, A, and Baa.
- 1.14 "Participant" shall mean any Executive who elects to participate in the Plan by executing a Plan Agreement.
- 1.15 "Plan" shall mean the Executive Deferral Plan of the Employer which shall be evidenced by this instrument and by each Plan Agreement, as amended from time to time.
- 1.16 "Plan Agreement" shall mean the form of written agreement, as amended from time to time, which is entered into by and

between an Employer and a Participant.

- 1.17 "Plan Anniversary Date" shall be the last day of the Plan Year.
- 1.18 "Plan Year" shall mean the 12 consecutive month period commencing on December 1 and ending on the next following November 30.
- 1.19 "Retirement" and "Retire" shall mean severance from employment with the Employer at or after the attainment of age fifty-five (55).
- 1.20 "Retirement Benefit Date" shall mean the date that the Retired Participant first receives Retirement benefits under the Plan.
- 1.21 "Rollover ESPP" shall mean the amount credited to a Participant under the Executive Salary Protection Plan which is to be credited to the Participant's EDP Account (one-time credit equal to the present value of the ESPP benefit).
- 1.22 "Secondary Account Balance" shall mean the portion of the EDP Account attributable to the 5% interest credited thereon which is above Moody's and any accumulation thereon at a crediting rate of Moody's plus five percent (5%).
- 1.23 "Termination of Employment" shall mean the ceasing of employment with the Company, voluntarily or involuntarily, for any reason other than Retirement, Disability or death.

Article 2 - Eligibility

2.1 Selection By Committee

The Committee shall have the sole discretion to determine the employees of the Company who are key employees and members of the management staff who are eligible to become Participants in accordance with the purpose of the Plan. The Committee shall also have the sole discretion to determine the directors of the Company who are eligible to become Participants. The foregoing notwithstanding, participation shall be limited to those individuals who are Participants as of June 15, 1994.

2.2 Plan Agreement of Executive

As a condition of participation, each Executive shall complete, execute and return to the Committee prior to the

beginning of the applicable Deferral Period a Plan Agreement.

Article 3 - Deferral Commitments

3.1 Minimum Deferral

The Participant may defer no less than \$2,000 per Plan Year.

3.2 Maximum Deferral

A Participant who became eligible to participate in the Plan on or before November 30, 1989, and all directors of the Company, may defer no more than 100% of Covered Salary or board fees, as applicable. A Participant who became eligible to participate in the Plan on or after December 1, 1989 may defer no more than 15% of Covered Salary.

3.3 Special Deferral

The Committee may specify the Plan Years, if any, in which each Participant may elect to defer an amount ("Special Deferral Amount") in addition to the amount or percentage of Covered Salary otherwise specified for deferral under the Plan Agreement. The Special Deferral Amount, if any, shall be set forth in the Plan Agreement of the Participant and shall be treated as a Deferral Amount under the provisions of the Plan except as otherwise provided in Sections 7.2 and 9.1.

3.4 Withholding of Deferral Amounts

The amount or percentage of Covered Salary elected to be deferred pursuant to the Plan Agreement of a Participant shall be withheld over the Deferral Period in the manner set forth in the Plan Agreement of the Participant.

3.5 Annual Rate

The Moody's rate for any Plan Year shall be fixed 60 days prior to the beginning of the Plan Year. Subject to the provisions and limitations of the Plan, the EDP Account will accrue annual interest at a crediting rate of Moody's plus five percent (5%) from the date of Plan inception.

3.6 Deferral Period

The Deferral Period for each Participant shall be a fixed 4 year period commencing on the December 1 coincident with or

next preceding the date on which the Participant's initial Deferral Amount is made to the Plan following the Participant's filing of a Plan Agreement with the Committee.

3.7 Default

Default occurs when the Participant does not defer the amount of Covered Salary previously committed to the Plan under that Participant's Plan Agreement. Termination of Employment is not considered a default. A Participant who has a Termination of Employment will receive Termination Benefits, as set forth in Article 8.

3.8 Deferral Penalty In the Event of Default

In the event of default by a Participant on a deferral commitment during the Deferral Period, the Participant may not defer any portion of his Covered Salary for the balance of the Plan Year in which the default occurs or for the next following Plan Year.

3.9 No Waiver of Default

The Committee may not waive any default penalty set forth in Section 3.8.

3.10 Crediting of Deferral Amounts, Company Contributions and Rollover ESPP Amounts

The amount or percentage of Covered Salary that a Participant elects to defer in the Plan Agreement executed by the Participant with respect to each Plan Year shall be credited by the Employer to the Participant's EDP Account throughout each Plan Year as the Participant is paid the nondeferred portion of Covered Salary for such Plan Year or on the date any lump sum Deferral Amount is contributed to the Plan. The amount or percentage of Covered Salary so credited to a Participant's EDP Account shall equal the amount deferred. The Participant shall designate in the Plan Agreement the amount or percentage of Covered Salary to be deferred. Company Contributions, if any, and Rollover ESPP amounts, if any, shall be credited to a Participant's EDP Account at the time made by the Employer.

3.11 Termination of Participation

A Participant may terminate participation in the Plan at any time by giving the Employer written notice of such termination not less than 30 days prior to the anniversary date of the execution of the most recent Plan Agreement of

the Participant. Benefits to a Participant who elects to terminate Plan participation shall be payable in accordance with the terms of the Plan.

Article 4 - 7th Year Distribution

4.1 7th-Year Distribution

Except as otherwise provided in Section 4.2, a Participant shall be paid his EDP Account, excluding that portion attributable to interest credited in excess of Moody's and any accumulation thereon, 45 days after the commencement of his seventh Plan Year of participation in the Plan. All other funds in the EDP Account will remain in the Plan until the Participant dies, incurs a Disability, Retires or incurs a Termination of Employment.

4.2 Supplemental Plan Agreements

Prior to the Plan Anniversary Date preceding the Plan Year in which the 7th-Year Distribution is payable to a Participant, the Participant may enter into a Supplemental Plan Agreement ("Supplemental Plan Agreement") whereby the Participant and the Employer agree to a further deferral until retirement of all or a portion of the amount that would otherwise be payable as a 7th-Year Distribution. The Supplemental Plan Agreement must be entered into a minimum of one (1) year prior to the Plan Anniversary Date preceding the Plan Year in which the 7th-Year Distribution is payable to a Participant, must be executed by the Participant in writing in a form acceptable to the Committee, and must be returned to the Committee one (1) year prior to the beginning of the Plan Year in which the 7th-Year Distribution would otherwise be payable. If a Supplemental Plan Agreement is timely executed all funds remaining in the EDP Account will remain in the Plan until the Participant's death, disability, retirement or termination of employment. No Retired Participant shall be eligible to enter into a Supplemental Plan Agreement under this provision.

4.3 Hardship Withdrawals

A Participant may make a "Hardship" withdrawal of his EDP Account balance only if: (1) the withdrawal is on account of an immediate and heavy financial need of the Participant; and (2) the withdrawal does not exceed the amount necessary to satisfy the immediate and heavy financial need. Any request for a withdrawal in accordance

with this subsection 4.3 shall be in writing filed with the Committee in such form and at such time as the Committee may require. A Participant will be deemed to have a Hardship if he has an immediate and heavy financial need and if such withdrawal is for the purpose of: (1) medical expenses of the Participant, his spouse or a dependent, (2) the purchase of a Participant's principal residence; (3) the post-secondary tuition (for a period following the date of the hardship request) of the Participant, his spouse or a dependent; or (4) the prevention of the eviction from or the foreclosure on a Participant's principal residence. A distribution will be deemed not to exceed the amount necessary to meet the Participant's immediate and heavy financial need if: (a) the amount of withdrawal under this paragraph 4.3 does not exceed the amount necessary to satisfy his immediate and heavy financial need; (b) he has received all distributions and taken all loans under any tax-qualified plan of the Company; (c) his ability to make contributions to any salary deferral plan, qualified or nonqualified, is suspended for a period of 12 months following a withdrawal under this paragraph 4.3; and (d) the maximum amount of contributions the Participant may make to any salary deferral plan, qualified or nonqualified, for the Plan Year next following the Plan Year in which a Hardship withdrawal, pursuant to this paragraph 4.3 is made, is reduced by the amount of contributions, if any, the Participant made during the Plan Year in which such a withdrawal was made.

Article 5 - Retirement Benefit

5.1 Retirement Benefit

A Participant who Retires shall become eligible to receive, in accordance with this Article 5, Retirement benefits on the Participant's Retirement Benefit Date. Unless a Post-Retirement Plan Agreement provides otherwise, the Retirement Benefit Date of a Participant who Retires shall be the first day of the month following his Retirement. Retirement benefits may be in the form of a lump sum or an amount per month based on his EDP Account as of the Participant's Retirement Benefit Date.

5.2 Rate of Interest for Retirement Benefits

The interest on the EDP Account will be based on a fixed rate which is an average of the annual Moody's Seasoned Corporate Bond Rate for a five (5) year period consisting of the Plan Year in which the Participant's Retirement Benefit Date occurs and the four (4) immediately preceding

Plan Years with an additional 5% interest credited to the fixed rate.

5.3 Form and Commencement of Retirement Benefits

Thirty (30) days before his Retirement the Participant must inform the Committee in writing of the form in which his Retirement benefits are to be paid, either in a lump sum or in equal monthly payments. If no election is timely made, the Plan will pay benefits in equal monthly installments. Unless otherwise provided pursuant to a Post-Retirement Plan Agreement, Retirement benefits, if a lump sum form of payment is selected, shall be paid on the first day of the month following the Participant's Retirement. If the Participant elects the monthly installment form of payment, his Retirement benefits shall commence on the first day of the month following the Retirement of the Participant and shall be paid over a period up to 120 months or a 180 or 240 month period, in equal monthly installments. Thirty (30) days before his Retirement, the Participant must inform the Committee in writing of the benefit payment period over which his monthly benefits are to be paid. If no election is timely made, the Plan will pay benefits over 240 months.

5.4 Post-Retirement Plan Agreements

A Participant may enter into a Post-Retirement Plan Agreement whereby the Participant and the Employer agree to a deferral to a date certain of the payment of the Retirement benefits that would otherwise be paid under Section 5.3, the form in which the benefits are to be paid and/or, if a monthly installment form has been selected, the time period over which such benefits are to be paid. The Post-Retirement Plan Agreement must be executed by the Participant in writing in a form acceptable to the Committee and delivered to the Committee at least thirty (30) days prior to the Participant's Retirement. Retirement benefits which are deferred by reason of a Post-Retirement Plan Agreement shall be paid to the Participant in the form and on the date certain as selected by the Participant. No Participant may defer the payment of his Retirement benefits to a date beyond the later of (1) ten (10) years following the Participant's commencement of Plan participation, (2) Retirement, or (3) age 65 (age 72 in the case of a Participant who was a Director on August 20, 1993).

5.5 Amount of Retirement Benefit

A Participant's Retirement benefits shall be equal to the

balance of his EDP Account as of his Retirement Benefit Date, except that the amount payable from the Participant's Secondary Account Balance shall be reduced, as appropriate, in accordance with the vesting schedule set forth in Section 8.3 and fixed as of the date that a lump sum payment is made or that monthly payments commence (the Retirement Benefit Date).

5.6 Death Prior to Completion of Retirement Benefits

If a Retired Participant who has elected the monthly installment form of payment dies after the commencement of Retirement benefit payments but before the applicable Retirement benefit is paid in full, the Participant's unpaid Retirement benefit payments shall continue and be paid to that Participant's Beneficiary in the same manner as selected by the Participant. If a Retired Participant dies prior to the payment of Retirement benefits, his Beneficiary shall be paid benefits in a lump sum on the first day of the month following the death of the Participant, unless the Participant had retired on or before January 1, 1995, in which case the benefit will be paid over a 240 month period. The aggregate benefits to be paid to the Participant's Beneficiary will be in an amount equal to the balance of the Participant's EDP Account as of the date of the Participant's death. Notwithstanding the foregoing, the Committee may, in its sole and absolute discretion, select a later commencement date or an alternate payment period not to exceed 120 months for the payment of benefits under this Section to any Beneficiary.

Article 6 - Rollover ESPP

6.1 Participants Eligible for ESPP Rollover

A Participant who had participated in the Executive Salary Protection Plan ("ESPP") shall be entitled to a Rollover ESPP only if such Participant is age 55 or older as of December 1, 1985. Each Participant who is eligible for a Rollover ESPP will be credited with such amount in his EDP Account. Individual Rollover ESPP amounts, if any, will be reported on the Participant's Plan Agreement.

6.2 ESPP Vesting Credit

All Participants who had participated in the ESPP shall be credited with three additional years of Plan participation for purposes of the vesting schedule set forth in Section 8.3 but for no other purpose under the Plan. The vesting years so credited shall be in addition to actual years (and

fractional years) of actual participation in the ESPP. A Participant's Rollover ESPP will at all times remain fully vested. For example, a Participant with four and one-half years in the ESPP will initially be 70% vested in his Secondary Account Balance (4 1/2 years + 3 years = 7 1/2 years = 70% vested).

Article 7 - Survivor Benefits

7.1 Pre-Retirement Survivor Benefit

If a Participant dies before Retirement, the Employer will pay a Survivor's Benefit to the designated Beneficiary of the Participant.

7.2 Amount of Survivor Benefits

The Beneficiary eligible for a Survivor Benefit will receive in a lump sum as soon as practicable the greater of:

- a. The existing EDP Account balance, or
- b. Ten (10) times the sum of:
 - i. the greatest Deferral Amount committed in one Plan Year by the Participant, except that only one-quarter (1/4) of any Special Deferral Amount shall be considered for this purpose, and
 - ii. the Company Contributions made for that Plan Year,provided, however, that if a Participant failed to meet the eligibility requirement set forth in Section 7.3(b), the Beneficiary of that Participant shall be limited to the Survivor Benefit set forth in paragraph (a) of this Section 7.2.

7.3 Eligibility Requirements For Survivor Benefit

The obligation of the Employer to pay the Survivor Benefit to any Beneficiary shall exist only if:

- a. at the time of death, the Participant was employed by the Employer, on an authorized leave of absence, or absent from employment due to Disability;
- b. all amounts committed for deferral under the Plan were actually deferred;
- c. the Participant's death was determined not to be from a

bodily or mental cause or causes, the information about which was withheld, or knowingly concealed, or falsely provided by the Participant, when requested by the Employer to furnish evidence of good health;

- d. proof of death in such form as determined acceptable by the Committee is furnished.

7.4 Restriction in the Event of Suicide

In the event of a Participant's suicide, the amount of the Survivor Benefit which the Employer shall be obligated to pay shall be limited to benefits granted more than two years prior to the date of such suicide.

Article 8 - Termination Benefit

8.1 Termination Benefits

If the Participant incurs a Termination of Employment prior to age 55 by means other than death or Disability, such Participant will be eligible to receive a Termination Benefit as set forth in this Article 8.

8.2 Termination Prior to 7 Years of Plan Participation and Prior to Age 55

A participant who incurs a Termination of Employment before completing 7 years of Plan participation, and prior to attaining age 55, shall be entitled to receive in a lump sum that portion of his EDP Account attributable to his Deferral Amount, his Rollover ESPP Benefit, if any, his Company Contributions, if any, and interest credited at Moody's. Such amount shall be paid to the Participant within 90 days of the date of his Termination of Employment.

8.3 Termination after 7 Years of Plan Participation and Prior to Age 55

A participant who incurs a Termination of Employment after completing 7 years of Plan participation, and prior to attaining age 55, shall receive, to the extent not otherwise distributed pursuant to Article 4, a distribution of his EDP Account, including that vested portion attributable to interest credited in excess of Moody's and any accumulation thereon, in a lump sum within 90 days of the date of his Termination of Employment. The vested portion of such Participant's Secondary Account Balance

shall be determined upon his Termination of Employment in accordance with the following schedule:

| Years of Plan Participation | Percentage of Secondary Account Balance |
|-----------------------------|---|
| Less than 7 years | 0% |
| 7 but less than 8 years | 70% |
| 8 but less than 9 years | 80% |
| 9 but less than 10 years | 90% |
| 10 or more years | 100% |

8.4 Involuntary Termination Without Cause Following A Change in Control of CILCORP Inc.

- a. A Participant who incurs a Termination of Employment involuntarily and other than for Cause within two years after a Change in Control of CILCORP Inc. will be eligible to make an irrevocable election to receive either a termination benefit as set forth in this Article 8 or retirement benefits as provided at Article 5, as if the Participant retired from the Company. In addition, the Participant shall, at the time of the involuntary termination, be considered to be 100% vested in the Participant's Secondary Account Balance.
- b. If, at the time of a Termination of Employment, a Participant elects to receive a termination benefit in the form of a lump sum payment, such payment shall be made to the Participant no earlier than 60 days from the date the Participant made an irrevocable election provided for under this Section 8.4 (a).
- c. The following definitions shall be applicable to the terms used in this Section 8.4:
 - i. "Change in Control" shall be deemed to have occurred:
 - (a) if CILCORP Inc. ("CILCORP") merges or consolidates with or into another corporation in a transaction in which neither CILCORP nor any member of a controlled group of corporations as defined in Article I, Section 1.4 is the surviving corporation; or upon a sale or other disposition of all or substantially all of CILCORP's assets to any corporation, person, other entity or group (other than to an entity whose stock is owned or controlled by CILCORP or any qualified or non-qualified plan maintained by CILCORP or an affiliate); or
 - (b) if any corporation, person, other entity or group (other than CILCORP or any affiliate) becomes the Beneficial Owner (as defined in CILCORP's Articles of Incorporation) of 30% or more of

the voting stock of CILCORP; or

(c) if, during any period of two consecutive years, Continuing Directors, as hereinafter defined, cease to comprise a majority of CILCORP's Board of Directors. Continuing Directors are:

(i) Members of the Board of Directors of CILCORP at the beginning of such period of two consecutive years; and

(ii) Any person who subsequently becomes a member of the Board of Directors if such person's nomination for election or election to the Board of Directors of CILCORP is recommended or approved by resolution of a majority of the Continuing Directors or such person is included as a nominee in a proxy statement of CILCORP distributed when a majority of the Board of Directors of CILCORP consists of Continuing Directors.

ii. "Cause" shall mean:

(d) the Participant has willfully and continually failed to perform substantially his/her duties with the Company other than such failure resulting from disability (as herein defined), after a written demand for substantial performance is delivered to the Participant by his/her supervisor which specifically identifies the manner in which the supervisor believes that the Participant has not substantially performed his/her duties; or

(e) the Participant's willfully engaging in illegal conduct or gross misconduct which his/her supervisor believes is materially and demonstrably injurious to the Company.

For purposes of this definition, no act or failure to act on the Participant's part shall be considered "willful" unless it is done, or omitted to be done, by the Participant in bad faith or without reasonable belief that his/her action or omission was in the best interests of the Company. Any act or failure to act, based on authority given pursuant to a resolution duly adopted by the Board or on the instructions of the CEO or a senior officer of the Company or based on the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Participant in good faith and in the best interests of the Company.

Article 9 - Disability Benefit

9.1 Amount of Disability Benefit

If the Committee determines that a Participant has a

Disability, the Participant shall be eligible to receive an annual Disability Benefit in an amount equal to one and one-half (1.5) times the greatest Deferral Amount committed under the Plan in any Plan Year prior to or coincident with the date in which benefits commence under the Sick Pay Plan of the Company, except that only one quarter (1/4) of any Special Deferral Amount shall be considered for this purpose.

9.2 Commencement and Termination of Disability Benefits

Disability Benefits will be paid to a Participant who has a Disability commencing on the date immediately following the expiration of benefits to that Participant under the Sick Pay Plan of the Company. The Disability Benefits of a Participant shall continue until the earliest of:

- a. the date of the death of the Participant;
- b. the date as of which the Participant ceases to be classified as having a Disability; or
- c. the date the Participant attains age 65.

9.3 Maximum Age for Disability Benefits

In order to be eligible to receive a Disability Benefit upon Disability as set forth in this Article 9, a Participant must first enter into a Plan Agreement prior to attaining age 60.

Article 10 - Beneficiary Designation

10.1 Beneficiary Designation

Each Participant shall have the right, at any time, to designate any person or persons as his Beneficiary or Beneficiaries (both principal as well as contingent).

10.2 Change of Beneficiary Designation

Any Beneficiary designation may be changed by a Participant at any time by the filing in writing of such change on a form prescribed by the Committee. The filing of a new Beneficiary designation form will cancel all Beneficiary designations previously filed. The Committee shall be entitled to rely on the last designation filed by the Participant prior to his death.

10.3 No Participant Designation

If a Participant fails to designate a Beneficiary as provided above, or if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's benefits, then the Participant's designated Beneficiary shall be deemed to be the surviving spouse. If the Participant has no surviving spouse, the benefits remaining under the Plan shall be payable to the Participant's personal representative (executor or administrator of the Participant's estate).

10.4 Effect of Payment

The payment of benefits under the Plan to the deemed Beneficiary shall completely discharge the Employer's obligations under this Plan.

Article 11 - Leave of Absence

11.1 Paid Leave of Absence

If a Participant is authorized by the Company for any reason to take a paid leave of absence from the employment of the Company, the deferral commitments for the Deferral Period shall remain in full force and effect during such leave of absence.

11.2 Unpaid Leave of Absence

If a Participant is authorized by the Company for any reason to take an unpaid leave of absence from the employment of the Company, the deferral commitments shall be suspended and shall be considered a default pursuant to Section 3.7.

Article 12 - Other Benefits and Agreements

12.1 Coordination With Other Benefits

The benefits provided for a Participant or for the Beneficiary of a Participant under the Plan are in addition to any other benefits to which the Participant or Beneficiary may be entitled under any other plan or program of the Employer. This Plan shall supplement and shall not supersede, modify or amend any other such plan or program except as may otherwise be expressly provided.

12.2 Restoration of Pension Benefits

The Company recognizes that amounts deferred under the Plan may not be considered as earnings for purposes of the computation of benefits under qualified plans under the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code of 1954, as amended. Therefore, any loss of retirement benefits incurred by a Participant under the Pension Plan for Management, Office & Technical Employees of Central Illinois Light Company, as may be amended and restated from time to time (the "Pension Plan"), which result from the deferrals made under the Plan by the Participant, shall be restored by the Company upon the Retirement of a Participant or upon the Termination of Employment of a Participant prior to Retirement. Such pension restoration benefit payments may be paid from this Plan or, in the sole discretion of the Committee, may be paid through an alternate vehicle. Such pension restoration benefits shall be in an amount designed to restore the benefits, if any, that were lost under the Pension Plan due to the deferral under this Plan, and the timing and other characteristics of the pension restoration benefit payments shall coincide as closely as practicable to benefit payments which would otherwise have been made under the Pension Plan.

Article 13 - Discontinuance, Amendment or Termination

13.1 Discontinuance

The Company reserves the right to discontinue the Plan at any time. Upon discontinuance of the Plan, the Participants' EDP Accounts shall be paid out according to the schedules set forth in Articles 5 and 8, as applicable. The discontinuance of the Plan shall not adversely affect any Participant or Beneficiary who has become entitled to the payment of benefits under the Plan.

13.2 Amendment

The Company may, at any time, amend or modify the Plan in whole or in part, provided, however, that no amendment or modification shall adversely affect any EDP Account in existence at the time the amendment or modification is made. The amendment or modification of the Plan shall not affect any Participant or Beneficiary who has become entitled to the payment of benefits under the Plan as of the date of the amendment or modification.

13.3 Termination

The Company reserves the right, in the event of a hostile

or non-negotiated takeover or acquisition of the Company, or upon a final decision of any court or administrative agency pertaining to the income tax treatment of Plan benefits or deductions to the Company or a Participant which is deemed adverse by the Company, to terminate the Plan and to distribute the present value of the Participants' estimated future EDP Accounts, as determined by the Company, to them as soon as practicable thereafter.

Article 14 - Miscellaneous

14.1 Unsecured General Creditor

Participants and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interest or claims in any property or assets of Employer, nor shall they be Beneficiaries of, or have any rights, claims or interests in any life insurance policies, annuity contracts or the proceeds therefrom owned or which may be acquired by the Employer ("Policies"). Such Policies or other assets of the Employer shall not be held under any trust for the benefit of Participants, their Beneficiaries, heirs, successors or assigns, or held in any way as collateral security for the fulfilling of the obligations of the Employer under this Plan. Any and all of the Employer's assets and Policies shall be, and remain, the general assets of the Employer. The Employer's obligation under the Plan shall be merely that of an unfunded and unsecured promise of the Employer to pay money in the future.

14.2 Nonassignability

Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt, the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are, expressly declared to be unassignable and nontransferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by Participant or any other person, nor be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency.

14.3 Not a Contract of Employment

The terms and conditions of this Plan shall not be deemed to constitute a contract of employment between the Employer

and the Participant, and the Participant (or his Beneficiary) shall have no rights against the Employer except as may otherwise be specifically provided herein. Moreover, nothing in this Plan shall be deemed to give a Participant the right to be retained in the service of the Employer or to interfere with the right of the Employer to discipline or discharge him at any time.

14.4 Protective Provisions

A Participant will cooperate with the Employer by furnishing any and all information requested by the Employer in order to facilitate the payment of benefits hereunder and by taking such physical examinations as the Employer may deem necessary and taking such other action as may be requested by the Employer.

14.5 Terms

Whenever any words are used herein in the masculine, they shall be construed as though they were used in the feminine in all cases where they would so apply; and whenever any words are used herein in the singular or in the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply.

14.6 Captions

The captions of the articles, sections and paragraphs of this Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.

14.7 Governing Law

The provisions of this Plan shall be construed and interpreted according to the laws of the State of Illinois.

14.8 Validity

In case any provision of this Plan shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal and invalid provision had never been inserted herein.

14.9 Notice

Any notice or filing required or permitted to be given to the Committee under this Plan shall be sufficient if in

writing and hand-delivered, or sent by registered or certified mail, to

Central Illinois Light Company
Executive Deferral Plan
Administrative Committee
300 Liberty Street
Peoria, Illinois 61602

Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

14.10 Successors

The provisions of this Plan shall bind and inure to the benefit of the Employer and its successors and assigns. The term successors as used herein shall include any corporate or other business entity which shall, whether by merger, consolidation, purchase or otherwise acquire all or substantially all of the business and assets of the Employer, and successors of any such corporation or other business entity.

14.11 Hostile Takeover

In the event of a hostile or non-negotiated takeover or acquisition of an Employer by another corporation or entity, the benefits to all persons under the Plan may become fully vested at the option of the Employer prior to such takeover or acquisition.

14.12 Attorney Fees

In the event that the Company breaches any of the terms of the Plan and it is necessary for a Participant to institute court proceedings to enforce the Plan provisions, the Participant, upon prevailing, shall also recover reasonable attorney's fees and costs as damages from the Company.

14.13 Late Payment Penalty

In the event that the Company fails or refuses to make any of the payments to a Participant or a Beneficiary required by the Plan, after the Participant or Beneficiary has advised the Company in writing of such failure or refusal and has given the Company thirty (30) days to make such payment, the Company shall pay interest to the Participant or Beneficiary on the amount of the late payment at the rate of two times Moody's, plus 10%, from the date such

payment was due until the date such payment is made by the Company.

14.14 Incompetent

In the event that it shall be found upon evidence satisfactory to the Committee that any Participant or Beneficiary to whom a benefit is payable under this Plan is unable to care for his affairs because of illness or accident, any payment due (unless prior claim therefor shall have been made by a duly authorized guardian or other legal representative) may be paid, upon appropriate indemnification of the Committee, to the spouse of such person or other person deemed by the Committee to have incurred expense for such Participant. Any such payment shall be a payment for the account of the Participant and shall be a complete discharge of any liability of the Plan for such payment amount.

Article 15 - Administration

15.1 Committee Duties

This Plan shall be administered by a Committee which shall consist of persons appointed by the Board of Directors of the Company. Members of the Committee may be Participants under this Plan. The Committee shall also have the authority to make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and decide or resolve any and all questions including interpretations of this Plan, as may arise in connection with the Plan.

15.2 Agents

In the administration of this Plan, the Committee may, from time to time, employ agents and delegate to them such administrative duties as it sees fit and may from time to time consult with counsel who may be counsel to the Employer.

15.3 Binding Effect of Decision

The decision or action of the Committee with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.

15.4 Indemnity of Committee

The Employer shall indemnify and hold harmless the members of the Committee against any and all claims, loss, damage, expense or liability arising from any action or failure to act with respect to this Plan, except in the case of willful misconduct by the Committee or any of its members.

15.5 Employer Information

To enable the Committee to perform its functions, the Employer shall supply full and timely information to the Committee on all matters relating to the Covered Salary of all Participants, the date and circumstances of the Retirement, Disability, death or Termination of Employment of all Participants, and such other pertinent information as the Committee may reasonably require.

15.6 Change in Payments

The Committee shall have the power, in its sole discretion, to change the manner and time of payments to be made to a Participant or Beneficiary from that which would be otherwise payable to such person.

CENTRAL ILLINOIS LIGHT COMPANY

EXECUTIVE DEFERRAL PLAN II

(EDP II)

December 1, 1989

as amended

January 29, 1996 and

August 17, 1998

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EXECUTIVE DEFERRAL PLAN II

OF

CENTRAL ILLINOIS LIGHT COMPANY

Purpose

The primary purpose of the Executive Deferral Plan II of Central Illinois Light Company is to help attract and maintain high caliber employees in high-level management positions. Directors, executive officers of the Company and certain other key employees on the Company's management staff (i.e., elected officers, department heads, and other key employees reporting to executive officers) will be allowed to participate in the Executive Deferral Plan II. Members of the management staff allowed to participate will be those key employees who, in the opinion of the administrative committee of the Executive Deferral Plan II, contribute significantly to the health and wellbeing of the Company through their leadership and managerial talents and who occupy management positions of importance in the Company.

Article 1 - Definitions

For purposes hereof, unless otherwise clearly apparent from the context, the following phrases or terms shall have the following indicated meanings:

- 1.1 "Base Annual Salary" shall mean the yearly compensation excluding bonuses or other fees paid to a Participant for employment services rendered to the Employer, before reduction for compensation deferred pursuant to this plan.
- 1.2 "Beneficiary" shall mean the person, persons, or the entity designated by the Participant to receive any benefits payable under this Plan upon the death of a Participant. Any Participant's Beneficiary designation shall be made by written instrument filed with the Committee and shall become effective only when received, accepted and acknowledged in writing by the Committee.
- 1.3 "Committee" shall mean the administrative committee appointed to manage and administer the Plan in accordance with its provisions pursuant to Article 14.
- 1.4 "Company" shall mean CENTRAL ILLINOIS LIGHT COMPANY, any corporation which is, along with the Company, a member of a controlled group of corporations as described in Section 414(b) of the Internal Revenue Code of 1986, as amended, and all successor companies thereto.
 - 1.4(a) "Continuing Director" means any member of the Board of the Company or of its majority shareholder (hereinafter the "Board"), while such person is a member of the Board, who was a member of the Board prior to January 29, 1996. A "Continuing Director" also means any person who subsequently becomes a member of the Board, while such person is a member of the Board, if such person's

nomination for election or election to the Board is recommended or approved by resolution of a majority of the Continuing Directors.

- 1.5 "Covered Salary" shall mean a Participant's Base Annual Salary and bonuses.
- 1.6 "Deferral Amount" shall mean the amount of Covered Salary deferred by a Participant pursuant to his election in the form of a Plan Agreement, or as changed pursuant to Article 3.4 hereof.
- 1.7 "Deferral Period" shall mean the period during which amounts of Covered Salary are being deferred pursuant to the deferral election of the Participant as set forth in the Participant's Plan Agreement.
- 1.8 "Disability". A Participant shall be considered totally disabled by bodily injuries, sickness or disease for purposes of the Plan for the period, excluding any period for which he receives benefits under the Company's Sick Pay Plan, if the Participant is unable to perform the duties of his occupation.
- 1.9 "EDP II Account" shall mean an individual account comprised of a Participant's Deferral Amounts and interest credited thereon. An EDP II Account shall be maintained for each Participant. A Participant's EDP II Account shall be utilized solely as a device for the measurement and determination of the amounts to be paid to the Participant pursuant to this Plan. A Participant's EDP II Account shall not constitute or be treated as a trust fund.
- 1.10 "Employer" shall mean the Company having one or more eligible Employees who have been selected by the Committee to participate. Where the context dictates, the term "Employer" as used herein refers to the particular Employer which has entered into a Plan Agreement with a specific Participant.
- 1.11 "Executive" shall mean directors and those persons in the regular full-time employment of the Company who are key employees and members of the management staff who are selected for participation in the Plan by the Committee.
- 1.11(a) "Hostile Takeover" shall mean the acquisition of beneficial ownership (determined in accordance with Rule 13(d)-3 of the Exchange Act) directly or indirectly, of more than 30% of the voting power of the outstanding stock of the Company or its majority shareholder by any person coupled with or followed by the failure of Continuing Directors to

constitute a majority of the Board."

- 1.12 "Moody's Seasoned Corporate Bond Rate" (Moody's) shall mean an economic indicator which is an arithmetic average of yields of representative Aaa, Aa, and Baa bonds for industrials and public utilities.
- 1.13 "Participant" shall mean any Executive who elects to participate in the Plan by executing a Plan Agreement.
- 1.14 "Plan" shall mean the Executive Deferral Plan II of the Employer which shall be evidenced by this instrument and by each Plan Agreement, as amended from time to time.
- 1.15 "Plan Agreement" shall mean the form of written agreement, as amended from time to time, which is entered into by and between and Employer and a Participant.
- 1.16 "Plan Anniversary Date" shall be the last day of the Plan Year.
- 1.17 "Plan Year" shall mean the 12 consecutive month period commencing on January 1 and ending on the next following December 31.
- 1.18 "Retirement" and 'Retire' shall mean severance from employment with the Employer at or after the attainment of age fifty-five (55).
- 1.19 "Retirement Benefit Date" shall mean the date that the Retired Participant first receives Retirement benefits under the Plan.
- 1.20 "Termination of Employment" shall mean the ceasing of employment with the Company, voluntarily or involuntarily, for any reason other than Retirement, Disability or death.

Article 2 - Eligibility

2.1 Selection By Committee

The Committee shall have the sole discretion to determine the employees of the Company who are key employees and members of the management staff who are eligible to become Participants in accordance with the purpose of the Plan. The Committee shall also have the sole discretion to determine the directors of the Company who are eligible to become Participants.

2.2 Plan Agreement of Executive

As a condition of participation, each Executive shall complete, execute and return to the Committee prior to the beginning of the applicable Deferral Period a Plan Agreement.

Article 3 - Deferral Commitments

3.1 Minimum Deferral

The Participant may defer no less than \$1.00 per Plan Year.

3.2 Maximum Deferral

The Participant may defer no more than 100% of Covered Salary or board fees, as applicable.

3.3 Deferral Election

The Participant may elect to participate in the Plan by executing a Plan Agreement. If the Participant executes a Plan Agreement on or before December 15, the Participant's Deferral Period shall begin on January 1 of the following Plan Year. However, if a Participant was participating in the Company's Executive Deferral Plan dated December 1, 1985, the Participant may begin his initial Deferral Period for this Plan on the December 1 immediately following the completion of his Deferral Period in that Plan by executing a Plan Agreement hereunder by December 1 of that year.

3.4 Changing Deferral Election

A Participant may change his Deferral Amount for any following Plan Year by providing the Employer with written notice of such change by December 15.

3.5 Withholding of Deferral Amounts

The amount or percentage of Covered Salary elected to be deferred pursuant to the Plan Agreement of a Participant shall be withheld over the Deferral Period in the manner set forth in the Plan Agreement of the Participant.

3.6 Annual Rate

The Moody's rate for any Plan Year shall be fixed 90 days prior to the beginning of the Plan Year. Subject to the provisions and limitations of the Plan, the EDP II Account will accrue annual interest at a crediting rate of Moody's. Interest shall accrue monthly on a Participant's EDP II

Account balance.

3.7 Deferral Period

The Deferral Period for each Participant shall be that individual's full time employment term, or directorship, with the Company.

3.8 Default

Default occurs when the Participant does not defer the amount of Covered Salary previously committed to the Plan under that Participant's Plan Agreement.

3.9 Deferral Penalty In the Event of Default

In the event of default by a Participant on a deferral commitment during the Deferral Period, the Participant may not defer any portion of his Covered Salary for the balance of the Plan Year in which the default occurs or for the next following Plan Year.

3.10 No Waiver of Default

The Committee may not waive any default penalty set forth in Section 3.9.

3.11 Crediting of Deferral Amounts

The amount or percentage of Covered Salary that a Participant elects to defer in the Plan Agreement executed by the Participant with respect to each Plan Year shall be credited by the Employer to the Participant's EDP II Account throughout each Plan Year as the Participant is paid the nondeferred portion of Covered Salary for such Plan Year. The amount or percentage of Covered Salary so credited to a Participant's EDP II Account shall equal the amount deferred. The Participant shall designate in the Plan Agreement the percentage of Covered Salary to be deferred.

Article 4 - 5th Year Distributions

4.1 5th-Year Distribution

A Participant may elect in writing, at the time of the execution of his Plan Agreement, to receive a distribution of all, or any percentage, of his EDP II Account, as it exists as of the distribution date, on January 15, 1995, January 15, 2000, January 15, 2005 and January 15, 2010. All other funds in the EDP II Account will remain in the Plan

until the Participant dies, incurs a Disability, Retires or incurs a Termination of Employment.

Article 5 - Retirement Benefit

5.1 Retirement Benefit

A Participant who Retires shall become eligible to receive, in accordance with this Article 5, an amount per month based on his EDP II Account as of the Participant's Retirement Benefit Date. The Retirement Benefit Date of a Participant who Retires shall be the first day of the month following his Retirement.

5.2 Rate of Interest for Retirement Benefits

The interest on the EDP II Account, for purposes of calculating the retirement benefit, will be based on a fixed rate which is an average of the annual Moody's Seasoned Corporate Bond Rate for a five (5) year period consisting of the Plan Year in which the Participant's Retirement Benefit Date occurs and the four (4) immediately preceding Plan Years.

5.3 Commencement of Retirement Benefits

Unless otherwise provided pursuant to a Pre-Retirement Plan Agreement as provided in Section 5.4, Retirement benefit payments of a Participant shall commence on the first day of the month following the Retirement of the Participant and shall be paid at the Participant's election in a lump sum or in equal monthly payments, not to exceed 240 months, pursuant to the election made by the Participant at the time of the execution of his Plan Agreement. Not less than thirty (30) days before his Retirement, the Participant must inform the Committee in writing of any desired change in the benefit payment period over which his benefits are to be paid. If no change in the election is timely made, the Plan will pay benefits pursuant to the Participant's Plan Agreement election.

5.4 Pre-Retirement Plan Agreements

A Participant may enter into a Pre-Retirement Plan Agreement whereby the Participant and the Employer agree to a change of the time period over which such benefits are to be paid. The Pre-Retirement Plan Agreement must be executed by the Participant in writing in a form acceptable to the Company not less than 30 days prior to the Participant's Retirement. Retirement benefit payments which are changed by reason of a

Pre-Retirement Agreement shall be paid to the Participant commencing on the first day of the month following the Retirement of the Participant pursuant to the terms of the Pre-Retirement Plan Agreement (the Retirement Benefit Date) in a lump sum or in equal monthly payments, not to exceed 240 months, as selected by the Participant.

5.5 Amount of Retirement Benefit

A Participant's Retirement benefits shall be equal to the balance of his EDP II Account as of his Retirement Benefit Date plus interest thereon at the rate set forth in Article 5.2 hereof on any undistributed balance.

5.6 Death Prior to Completion of Retirement Benefits

If a Retired Participant dies after the commencement of Retirement benefit payments, but before the applicable Retirement benefit is paid in full, the Participant's unpaid Retirement benefit payments shall continue and shall be paid to the Participant's Beneficiary in the same manner as selected by the Participant.

Article 6 - Survivor Benefits

6.1 Survivor Benefit

If a Participant dies before the commencement of Retirement benefit payments, the Employer will pay a Survivor's Benefit to the designated Beneficiary of the Participant.

6.2 Amount of Survivor Benefits

The Beneficiary eligible for a Survivor Benefit will receive in a lump sum as soon as practicable the existing EDP II Account balance.

Article 7 - Termination Benefit

7.1 Termination Benefits

If the Participant incurs a Termination of Employment, by means other than Retirement, Disability or death, such Participant shall receive in a lump sum his EDP II Account. Such amount shall be paid to the Participant within 90 days of the date of his Termination of Employment

7.2 Involuntary Termination Without Cause Following A Change in

Control of CILCORP Inc.

- a. A Participant who incurs a Termination of Employment involuntarily and other than for Cause within two years after a Change in Control of CILCORP Inc. will be eligible to make an irrevocable election to receive either a termination benefit as set forth in this Article 7 or retirement benefits as provided at Article 5, as if the Participant retired from the Company.
- b. If, at the time of a Termination of Employment, a Participant elects to receive a termination benefit in the form of a lump sum payment, such payment shall be made to the Participant no earlier than 60 days from the date the Participant made an irrevocable election provided for under this Section 7.2 (a).
- c. The following definitions shall be applicable to the terms used in this Section 7.2:
 - i. "Change in Control" shall be deemed to have occurred:
 - (a) if CILCORP Inc. ("CILCORP") merges or consolidates with or into another corporation in a transaction in which neither CILCORP nor any member of a controlled group of corporations as defined in Article I, Section 1.4 is the surviving corporation; or upon a sale or other disposition of all or substantially all of CILCORP's assets to any corporation, person, other entity or group (other than to an entity whose stock is owned or controlled by CILCORP or any qualified or non-qualified plan maintained by CILCORP or an affiliate); or
 - (b) if any corporation, person, other entity or group (other than CILCORP or any affiliate) becomes the Beneficial Owner (as defined in CILCORP's Articles of Incorporation) of 30% or more of the voting stock of CILCORP; or
 - (c) if, during any period of two consecutive years, Continuing Directors, as hereinafter defined, cease to comprise a majority of CILCORP's Board of Directors. Continuing Directors are:
 - (i) Members of the Board of Directors of CILCORP at the beginning of such period of two consecutive years; and
 - (ii) Any person who subsequently becomes a member of the Board of Directors if such person's nomination for election or election to the Board of Directors of CILCORP is recommended or approved by resolution of a majority of the Continuing Directors or such person is included as a nominee in a proxy statement of CILCORP distributed when a majority of the Board of

ii. "Cause" shall mean:

- (a) the Participant has willfully and continually failed to perform substantially his/her duties with the Company other than such failure resulting from disability (as herein defined), after a written demand for substantial performance is delivered to the Participant by his/her supervisor which specifically identifies the manner in which the supervisor believes that the Participant has not substantially performed his/her duties; or
- (b) the Participant's willfully engaging in illegal conduct or gross misconduct which his/her supervisor believes is materially and demonstrably injurious to the Company.

For purposes of this definition, no act or failure to act on the Participant's part shall be considered "willful" unless it is done, or omitted to be done, by the Participant in bad faith or without reasonable belief that his/her action or omission was in the best interests of the Company. Any act or failure to act, based on authority given pursuant to a resolution duly adopted by the Board or on the instructions of the CEO or a senior officer of the Company or based on the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Participant in good faith and in the best interests of the Company.

Article 8 - Disability Benefit

8.1 Amount of Disability Benefit

If the Committee determines that a Participant has a Disability, the Participant shall receive in a lump sum his EDP II Account. Such amount shall be paid to the participant within 90 days of the date that the Committee determines that the Participant is disabled.

Article 9 - Beneficiary Designation

9.1 Beneficiary Designation

Each Participant shall have the right, at any time, to designate any person or persons as his Beneficiary or

Beneficiaries (both principal as well as contingent).

9.2 Change of Beneficiary Designation

Any Beneficiary designation may be changed by a Participant at any time by the filing in writing of such change on a form prescribed by the Committee. The filing of a new Beneficiary designation form will cancel all Beneficiary designations previously filed. The Committee shall be entitled to rely on the last designation filed by the Participant prior to his death.

9.3 No Participant Designation

If a Participant fails to designate a Beneficiary as provided above, or if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's benefits, then the Participant's designated Beneficiary shall be deemed to be the surviving spouse. If the Participant has no surviving spouse, the benefits remaining under the Plan shall be payable to the Participant's personal representative (executor or administrator of the Participant's estate).

9.4 Effect of Payment

The payment of benefits under the Plan to the deemed Beneficiary shall completely discharge the Employer's obligations under this Plan.

Article 10 - Leave of Absence

10.1 Paid Leave of Absence

If a Participant is authorized by the Company for any reason to take a paid leave of absence from the employment of the Company, the Deferral Amount for the Deferral Period shall remain in full force and effect during such leave of absence.

10.2 Unpaid Leave of Absence

If a Participant is authorized by the Company for any reason to take an unpaid leave of absence from the employment of the Company, the Deferral Amount shall be suspended and shall be considered a Default pursuant to Section 3.8.

Article 11 - Other Benefits and Agreements

11.1 Coordination With Other Benefits

The benefits provided for a Participant or for the Beneficiary of a Participant under the Plan are in addition to any other benefits to which the Participant or Beneficiary may be entitled under any other plan or program of the Employer. This Plan shall supplement and shall not supersede, modify or amend any other such plan or program except as may otherwise be expressly provided.

11.2 Restoration of Pension Benefits

The Company recognizes that amounts deferred under the Plan may not be considered as earnings for purposes of the computation of benefits under qualified plans under the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code of 1986, as amended. Therefore, any loss of retirement benefits incurred by a Participant under the Pension Plan for Management, Office & Technical Employees of Central Illinois Light Company, as may be amended and restated from time to time (the "Pension Plan"), which result from deferrals made under the Plan by the Participant, shall be restored by the Company upon the Retirement of a Participant or upon the Termination of Employment of a Participant prior to Retirement. Such pension restoration benefit payments may be paid from this Plan or, in the sole discretion of the Committee, may be paid through an alternate vehicle. Such pension restoration benefits shall be in an amount designed to restore the benefits, if any, that were lost under the Pension Plan due to the deferral under this Plan, and the timing and other characteristics of the pension restoration benefit payments shall coincide as closely as practicable to benefit payments which would otherwise have been made under the Pension Plan.

Article 12 - Discontinuance, Amendment or Termination

12.1 Discontinuance

The Company reserves the right to discontinue the Plan at any time. Upon discontinuance of the Plan, the Participants' EDP II Accounts shall be paid out according to the Plan. The discontinuance of the Plan shall not adversely affect any Participant or Beneficiary who has become entitled to the payment of benefits under the Plan.

12.2 Amendment

The Company may, at any time, amend or modify the Plan in whole or in part, provided, however, that no amendment or modification shall adversely affect any EDP II Account in

existence at the time the amendment or modification is made. The amendment or modification of the Plan shall not affect any Participant or Beneficiary who has become entitled to the payment of benefits under the Plan as of the date of the amendment or modification.

12.3 Termination

The Company reserves the right, in the event of a hostile or nonnegotiated takeover or acquisition of the Company, or upon a final decision of any court or administrative agency pertaining to the income tax treatment of Plan benefits or deductions to the Company or a Participant which is deemed adverse by the Company, to terminate the Plan and to distribute the Participants' EDP II Accounts to them as soon as practicable thereafter.

Article 13 - Miscellaneous

13.1 Unsecured General Creditor

Participants and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interest or claims in any property or assets of Employer, nor shall they be Beneficiaries of, or have any rights, claims or interests in any life insurance policies, annuity contracts or the proceeds therefrom owned or which may be acquired by the Employer ("Policies"). Such Policies or other assets of the Employer shall not be held under any trust for the benefit of Participants, their Beneficiaries, heirs, successors or assigns, or held in any way as collateral security for the fulfilling of the obligations of the Employer under this Plan. Any and all of the Employer's assets and Policies shall be, and remain, the general assets of the Employer. The Employer's obligation under the Plan shall be merely that of an unfunded and unsecured promise of the Employer to pay money in the future.

13.2 Nonassignability

Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt, the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are, expressly declared to be unassignable and nontransferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by

Participant or any other person, nor be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency.

13.3 Not a Contract of Employment

The terms and conditions of this Plan shall not be deemed to constitute a contract of employment between the Employer and the Participant, and the Participant (or his Beneficiary) shall have no rights against the Employer except as may otherwise be specifically provided herein. Moreover, nothing in this Plan shall be deemed to give a Participant the right to be retained in the service of the Employer or to interfere with the right of the Employer to discipline or discharge him at any time.

13.4 Protective Provisions

A Participant will cooperate with the Employer by furnishing any and all information requested by the Employer in order to facilitate the payment of benefits hereunder and by taking such physical examinations as the Employer may deem necessary and taking such other action as may be requested by the Employer.

13.5 Terms

Whenever any words are used herein in the masculine, they shall be construed as though they were used in the feminine in all cases where they would so apply; and whenever any words are used herein in the singular or in the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply.

13.6 Captions

The captions of the articles, sections and paragraphs of this Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.

13.7 Governing Law

The provisions of this Plan shall be construed and interpreted according to the laws of the State of Illinois.

13.8 Validity

In case any provision of this Plan shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall

be construed and enforced as if such illegal and invalid provision had never been inserted herein.

13.9 Notice

Any notice or filing required or permitted to be given to the Committee under this Plan shall be sufficient if in writing and hand-delivered, or sent by registered or certified mail, to

Central Illinois Light Company
Executive Deferral Plan II
Administrative Committee
300 Liberty Street
Peoria, Illinois 61602

Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

13.10 Successors

The provisions of this Plan shall bind and inure to the benefit and detriment of the Employer and its successors and assigns. The term successors as used herein shall include any corporate or other business entity which shall, whether by merger, consolidation, purchase or otherwise acquire all or substantially all of the business and assets of the Employer, and successors of any such corporation or other business entity.

13.11 Attorney Fees

In the event that the Company breaches any of the terms of the Plan and it is necessary for a Participant to institute court proceedings to enforce the Plan provisions, the Participant, upon prevailing, shall also recover reasonable attorney's fees and costs as damages from the Company.

13.12 Late Payment Penalty

In the event that the Company fails or refuses to make any of the payments to a Participant or a Beneficiary required by the Plan, after the Participant or Beneficiary has advised the Company in writing of such failure or refusal and has given the Company thirty (30) days to make such payment, the Company shall pay interest to the Participant or Beneficiary on the amount of the late payment at the rate of two times Moody's from the date such payment was due until the date such payment is made by the Company.

13.13 Incompetent

In the event that it shall be found upon evidence satisfactory to the Committee that any Participant or Beneficiary to whom a benefit is payable under this Plan is unable to care for his affairs because of illness or accident, any payment due (unless prior claim therefor shall have been made by a duly authorized guardian or other legal representative) may be paid, upon appropriate indemnification of the Committee, to the spouse of such person or other person deemed by the Committee to have incurred expense for such Participant. Any such payment shall be a payment for the account of the Participant and shall be a complete discharge of any liability of the Plan for such payment amount.

Article 14 - Administration

14.1 Committee Duties

This Plan shall be administered by a Committee which shall consist of persons appointed by the Board of Directors of the Company. Members of the Committee may be Participants under this Plan. The Committee shall also have the authority and discretion to make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and decide or resolve any and all questions including interpretations of this Plan and the calculation of benefits, as may arise in connection with the Plan.

14.2 Agents

In the administration of this Plan, the Committee may, from time to time, employ agents and delegate to them such administrative duties as it sees fit and may from time to time consult with counsel who may be counsel to the Employer.

14.3 Binding Effect of Decision

The decision or action of the Committee with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.

14.4 Indemnity of Committee

The Employer shall indemnify and hold harmless the members

of the Committee against any and all claims, loss, damage, expense or liability arising from any action or failure to act with respect to this Plan, except in the case of willful misconduct by the Committee or any of its members.

14.5 Employer Information

To enable the Committee to perform its functions, the Employer shall supply full and timely information to the Committee on all matters relating to the Covered Salary of all Participants, the date and circumstances of the Retirement, Disability, death or Termination of Employment of all Participants, and such other pertinent information as the Committee may reasonable require.

14.6 Change in Payments

The Committee shall have the power, in its sole discretion, to change the manner and time of payments to be made to a Participant or Beneficiary from that which would be otherwise payable to such person.

CENTRAL ILLINOIS LIGHT COMPANY
BENEFIT REPLACEMENT PLAN
(Effective January 1, 1991)

Amended Effective November 12, 1998

CENTRAL ILLINOIS LIGHT COMPANY
BENEFIT REPLACEMENT PLAN

(Amended Effective November 12, 1998)

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CENTRAL ILLINOIS LIGHT COMPANY

BENEFIT REPLACEMENT PLAN

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CENTRAL ILLINOIS LIGHT COMPANY

BENEFIT REPLACEMENT PLAN

(Amended Effective November 12, 1998)

Article I. Establishment and Construction

1.1 The Plan and its Effective Date. The CENTRAL ILLINOIS LIGHT COMPANY BENEFIT REPLACEMENT PLAN (the "Plan") is hereby established by Central Illinois Light Company (the "Company") effective January 1, 1991.

1.2 Purpose. The purpose of the Plan is to provide each Eligible Employee of the Employer with additional retirement income that, when combined with retirement benefits payable from the Pension Plan For Management, Office and Technical Employees of Central Illinois Light Company ("MOT Plan"), will equal the retirement benefit such Eligible Employee would have received if he continued to accrue benefits under the MOT Plan through the date of his actual retirement, but without regard to (a) the limitations imposed under Code sections 415 and 401(a)(17), or (b) the exclusion of amounts deferred under the Central Illinois Light Company Executive Deferral Plan and the Central Illinois Light Company Executive Deferral Plan II (collectively "EDP Plans"), and the Central Illinois Light Company Deferred Compensation Stock Plan from the definition of "Earnings" under the MOT Plan.

1.3 Application of the Plan. The provisions of this Plan are applicable only to those Eligible Employees who, on or after January 1, 1991, are either (a) in the active employ of the Employer or (b) retired key management and executive staff who are receiving or who are eligible to receive benefit payments under the EDP Plans. Any other Eligible Employee who retired or whose active employment relationship with the Employer was terminated prior to January 1, 1991 shall not be covered under this Plan.

Article II. Definitions and Construction

2.1 Definitions. The terms used in this Plan shall have the

same meaning set forth below, except as otherwise indicated herein. The definition of any term in the singular shall also include the plural.

- (a) "Actuarial Equivalent" means a benefit having the same value as the benefit which it replaces, computed on the basis of the factors specified in the definition of "Actuarial Equivalent" in the MOT Plan.
- (b) "Affiliate" means any subsidiary or affiliated or associated corporation of the Company that is an "Affiliate" within the meaning of that term in the MOT Plan.
- (c) "Average Monthly Earnings" means "Average Monthly Earnings" as defined under the MOT Plan.
- (d) "Change in Control" means the occurrence of any of the following:
 - (1) the sale or transfer of the business of the Company or a Unit of the company to a person or entity not controlled, directly or indirectly, by CILCORP, whether such sale of the business of the Company or a Unit of the company, as the case may be, is effected through the (A) sale, directly or indirectly, of the voting stock of the Company, (B) merger or consolidation of the company, (C) sale, lease, exchange, or transfer of all or substantially all of the assets of the company or of a Unit of the Company, or (D) a combination of the foregoing;
 - (2) a merger or consolidation of CILCORP with one or more corporations, as a result of which CILCORP is not the surviving corporation or pursuant to which substantially all shares of CILCORP's common stock are converted into cash, securities, or other property;
 - (3) the acquisition of beneficial ownership, directly or indirectly, of more than 30 percent of the voting power of the outstanding stock of CILCORP by any "Person" (as such term is used in Section 13(d) of the Securities Exchange Act of 1934, as amended, and as in effect on the date of adoption of the Plan) coupled with or followed by the failure of Continuing Directors to constitute a majority of the board of directors of CILCORP; or
 - (4) the sale, lease, exchange, or transfer of all or substantially all the assets of CILCORP;

provided, however, that the term "Change in Control" shall not apply to any merger, consolidation, internal

reorganization, or recapitalization of CILCORP initiated voluntarily by CILCORP in which Continuing Directors constitute a majority of the members of the board of directors of CILCORP or any successor thereto and the holders of CILCORP's common stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation after the merger.

- (e) "CILCORP" means CILCORP Inc., an Illinois corporation, and any successor thereto.
- (f) "Code" means the Internal Revenue Code of 1986, as amended.
- (g) "Company" means the Central Illinois Light Company, an Illinois corporation, and any successor thereto.
- (h) "Continuing Director" means any member of the board of directors of CILCORP, while such person is a member of such board of directors, who was a member of such board of directors prior to the date of adoption of this Plan. A "Continuing Director" also means any person who subsequently becomes a member of the board of directors of CILCORP, while such person is a member of such board of directors, if such person's nomination for election or election to such board of directors is recommended or approved by resolution of a majority of the Continuing Directors.
- (i) "Deferred Compensation Stock Plan" means the Central Illinois Light Company Deferred Compensation Stock Plan.
- (j) "EDP Plans" means, individually or collectively (as the context requires), the Central Illinois Light Company Executive Deferral Plan and the Central Illinois Light Company Executive Deferral Plan II.
- (k) "Effective Date" means January 1, 1991.
- (l) "Eligible Employee" means--
 - (1) an employee of the Employer who is in a select group of management or highly compensated employees, participates in the MOT Plan, and has his benefits limited under the MOT Plan by:
 - (A) the limits under Code section 415 or 401(a)(17); or
 - (B) the "Earnings" definition which excludes deferrals under the EDP Plans or the Deferred Compensation Stock Plan;

and is designated as an Eligible Employee by the Employer's board of directors;

(2) any retired key management and executive employee of the Employer who, as of the Effective Date, is receiving or is eligible to receive benefit payments under the EDP Plans; and

(3) any other highly compensated, key employee of the Employer's management staff who may be designated, from time to time, by the Employer's board of directors.

(m) "Employer" means the Company and any Affiliate that, with the consent of the Company, has adopted the MOT Plan and this Plan for the benefit of its Eligible Employees.

(n) "Grantor Trust Agreement" means an agreement establishing a grantor trust referred to in section 5.2.

(o) "MOT Plan" means the Pension Plan for Management, Office and Technical Employees of Central Illinois Light Company.

(p) "Participant" means an Eligible Employee of the Employer who meets the participation requirements set forth in section 3.1.

(q) "Plan" means the Central Illinois Light Company Benefit Replacement Plan.

(r) "Plan Year" means the calendar year.

(s) "Service" means "Service" as defined under the MOT Plan.

(t) "Trustee" means the trustee or trustees of a Grantor Trust.

(u) "Unit of the Company" means an organizational department of the Company as may be so designated from time to time on the official organizational chart of the Company.

2.2 Gender and Number. Except when otherwise indicated by the context, words in the masculine gender shall include the feminine and neuter genders; the plural shall include the singular and the singular shall include the plural.

2.3 Severability. In the event any provision of the Plan shall be held invalid or illegal for any reason, any illegality or invalidity shall not affect the remaining parts of the Plan, but the Plan shall be construed and enforced as if the illegal or invalid provision had never been inserted, and the Company shall have the privilege and opportunity to correct and remedy such questions of illegality or invalidity by amendment as provided in the Plan.

2.4 Applicable Law. The Plan shall be governed and construed in accordance with the laws of the State of Illinois to the extent not superseded by the laws of the United States.

Article III. Participation

3.1 Eligibility. An Eligible Employee of the Employer shall become a Participant if benefits under the MOT Plan are limited, on or after the Effective Date, due to any of the following limitations:

- (a) Limit on Compensation under Code Section 401(a)(17). The Eligible Employee's benefits under the MOT Plan are limited to ensure compliance with Code section 401(a)(17).
- (b) Limit on Accruals under Code Section 415. The Eligible Employee's benefits under the MOT Plan are limited to ensure compliance with Code section 415.
- (c) Limit on "Earnings" Considered under the MOT Plan. The Eligible Employee's Average Monthly Earnings under the MOT Plan are limited because (1) the Eligible Employee participates in the MOT Plan and in the EDP Plans or the Deferred Compensation Stock Plan, and (2) "Earnings" under the MOT Plan formula is defined to exclude deferrals made under the EDP Plans or the Deferred Compensation Stock Plan, thus reducing Average Monthly Earnings.

3.2 Participation in the Plan. An Eligible Employee shall become a Participant as of the later of--

- (a) the first day as of which it is determined that his benefit under the MOT Plan, which would be payable at or after the earliest date on which he could receive a retirement benefit under the MOT Plan, is limited by the limitations described in section 3.1; or
- (b) the Effective Date.

Article IV. Benefits

4.1 Benefits. When a Participant's benefits under the MOT Plan are limited in accordance with the limits described in section 3.1(a), (b), or (c) for Plan Years beginning on or after January 1, 1991, this Plan shall provide a benefit determined as follows:

- (a) General Rule. This Plan shall provide a benefit equal to the excess of (1) over (2) below:
 - (1) The benefit which, but for the limitations described in section 3.1(a), (b), or (c) of this Plan, would have been provided under the MOT Plan, calculated as of the determination date and payable at the time and in the form payable pursuant to section 4.3.
 - (2) The benefit which has actually been provided under the MOT Plan, calculated as of the determination date, and expressed as a benefit payable at the time and in the form payable pursuant to section 4.3.

- (b) Exception. Notwithstanding the foregoing, if payment of the Participant's benefit under the MOT Plan commences prior to the date his benefit under this Plan is made or commences, this Plan shall provide a benefit equal to the sum of (1) and (2) below:
 - (1) The amount determined as described in (a) above as if the Participant had elected, pursuant to section 4.3 of this Plan, the same benefit commencement date as he elected under the MOT Plan (the MOT Plan benefit commencement date).
 - (2) An annuity which is payable at the time actually elected pursuant to section 4.3 (this Plan's benefit commencement date) and in the form elected pursuant to section 4.3 and which is the Actuarial Equivalent of the benefits which would have been paid under this Plan between the MOT Plan benefit commencement date and this Plan's benefit commencement date, had the Participant elected, pursuant to section 4.3 of this Plan, to commence receiving benefits under this Plan on the MOT Plan benefit commencement date.

4.2 Vesting. A Participant who completes at least five years of Service for purposes of vesting under the MOT Plan shall be fully vested in his benefit under this Plan. In addition, a Participant who attains age 65 while employed by an Employer shall be fully vested in his benefit under this Plan. Subject to

the special Service rules for rehired Participants, any other Participant shall forfeit his benefit upon termination of employment with the Employer.

4.3 Timing and Form of Retirement Benefits. No payments shall be made to a Participant under this Plan prior to the Participant's termination of employment with the Company and all Affiliates. After such termination of employment, benefits under section 4.1 shall become payable, at the Participant's election, in one of the forms available to the Participant under the MOT Plan, equal to the Actuarial Equivalent of his benefit under this Plan; provided, however, that upon becoming a Participant (or as soon as practicable after it is ascertained that he is a Participant) he shall elect-

- (a) the form in which his benefits under this Plan will be paid if he is married on the date as of which such benefits become payable; and
- (b) the form in which his benefits under this Plan will be paid if he is unmarried on the date as of which such benefits become payable.

For purposes of the preceding sentence-

- (1) If the Participant is married at the time he elects the form of payment under this Plan, the normal form of payment if he is married when his benefits under this Plan become payable shall be a joint and 100 percent spouse's annuity determined on the same basis as the annuity described in section 4.7(b) of the MOT Plan, and his spouse's consent, as described in section 4.9(a) of the MOT Plan, shall be required for the Participant to reject such joint and 100 percent spouse's annuity;
- (2) At the time he elects the form of payment under this Plan, the Participant shall elect the date as of which such payment will be made or commence, provided that (A) such date shall not be before the earliest date as of which the Participant can begin receiving benefit payments under the MOT Plan and (B) such payment will not commence before the Participant's employment with the Employer is terminated;
- (3) Once the Participant has elected the timing of his benefit payments as described in this section 4.3, he shall not be permitted to change such election;
- (4) Once the Participant has elected the form of his benefit payments as described in this section 4.3, he

shall not be permitted to change such election, provided that if his final election on form of payment made pursuant to sections 4.7, 4.8, and 4.9 of the MOT Plan differs from his election on form of payment made pursuant to the preceding provisions of this section 4.3, his election pursuant to this section 4.3 shall automatically be changed to match said final election under the MOT Plan; and

- (5) Notwithstanding the preceding provisions of this section 4.3, no election will be available to any Participant who is a retired employee described in section 2.1(1)(2); instead, such Participant's benefits under this Plan shall be payable in the same form and at the same times as the benefits the Participant was receiving under the MOT Plan immediately prior to the Effective Date.

4.4 Death Benefits. Upon the death of a Participant (including a Participant who has suffered a Disability) before payment of his benefits under this Plan has commenced, if the Participant leaves a surviving spouse to whom he had been continuously married for the one-year period ending on the date of his death, this Plan shall provide a benefit to such spouse equal to the excess of (a) over (b), where--

- (a) is the monthly benefit which would have been payable for the life of the surviving spouse under section 4.6 of the MOT Plan, but for the limitations described in section 3.1(a), (b), and (c) of this Plan; and
- (b) is the monthly benefit actually payable for the life of the surviving spouse under section 4.6 of the MOT Plan.

Benefit payments under this section 4.4 shall commence as of the earliest date on which the surviving spouse is entitled to receive benefit payments under section 4.6 of the MOT Plan, regardless of the date on which the spouse actually begins to receive payments under said section 4.6. The amount of such payments shall be adjusted for the timing of the payments, in accordance with Article IV of the MOT Plan.

Article V. Financing

5.1 Unfunded Plan. Except as otherwise provided pursuant to section 5.2, the benefits under this Plan shall be paid in cash out of the general assets of the Company.

5.2 Grantor Trust. Notwithstanding section 5.1, the Company and each other Employer may establish a trust for the

purpose of accumulating assets to assist it in fulfilling its obligations under the Plan, provided that--

- (a) such trust shall be a "grantor trust" with the result that the corpus and income of the trust be treated as assets and income of the Employer pursuant to sections 671 through 679 of the Code; and
- (b) the Plan shall be an "unfunded plan" within the meaning of that term under the Code and the Employee Retirement Income Security Act of 1974 as amended.

5.3 Unsecured Interest. No Participant hereunder shall have any interest whatsoever in any specific asset of the Employer. To the extent that any person acquires a right to receive payments under this Plan, such right shall be no greater than the right of any unsecured general creditor of the Employer.

5.4 Nonalienation. Except as otherwise provided by law, no Participant entitled to receive benefits in accordance with the provisions hereof shall have power to sell, assign, transfer, pledge, or mortgage the benefits so payable to the Participant, nor shall benefits be subject to levy, sale, seizure, attachment, garnishment, or any other judicial process issued by or on behalf of any creditor of a Participant.

Article VI. Administration

6.1 Administration. The Company shall be responsible for the administration of the Plan. The Company shall have all such powers as may be necessary to carry out the provisions hereof and may, from time to time, establish rules for the administration of the Plan and the transaction of the Plan's business. The Company shall have the exclusive right to make any finding of fact necessary or appropriate for any purpose under the Plan including, but not limited to, the determination of the eligibility for and the amount of any benefit payable under the Plan. The Company shall have the exclusive right to interpret the terms and provisions of the Plan and to determine any and all questions arising under the Plan or in connection with the administration thereof, including, without limitation, the right to remedy or resolve possible ambiguities, inconsistencies, or omissions, by general rule or particular decision. The Company shall make, or cause to be made, all reports or other filings, if any, necessary to meet the reporting and disclosure requirement of ERISA. To the extent permitted by law, all findings of fact, determinations, interpretations, and decisions of the Company shall be conclusive and binding upon all persons having or claiming to have any interest or right under the Plan.

6.2 No Enlargement of Employee Rights. Nothing contained in the Plan shall be deemed to give any employee the right to be retained in the service of the Employer or to interfere with the right of the Employer to discharge or retire any employee at any time.

6.3 Appeals from Denial of Claim. If any claim for benefits under the Plan is wholly or partially denied, the claimant shall be given notice in writing within a reasonable period of time after receipt of the claim by the Plan (not to exceed 90 days after receipt of the claim or, if special circumstances require an extension of time, written notice of the extension shall be furnished to the claimant and an additional 90 days will be considered reasonable) by registered or certified mail of such denial, written in a manner calculated to be understood by the claimant, setting forth the following information:

- (a) the specific reasonings for such denial;
- (b) specific reference to pertinent Plan provisions on which the denial is based;
- (c) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and
- (d) an explanation of the Plan's claim review procedure.

The claimant also shall be advised that he or his duly authorized representative may request a review by the Company of the decision denying the claim by filing with the Company, within 60 days after such notice has been received by the claimant, a written request for such review, and that he may review pertinent documents, and submit issues and comments in writing within the same 60-day period. If such request is so filed, such review shall be made by the Company within 60 days after receipt for such request, unless special circumstances require an extension of time for processing, in which case the claimant shall be so notified and a decision shall be rendered as soon as possible, but not later than 120 days after receipt of the request for review. The Participant or beneficiary shall be given written notice of the decision resulting from such review, which notice shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, and specific references to the pertinent Plan provisions on which the decision is based.

6.4 Notice of Address and Missing Persons. Each person entitled to benefits under the Plan must file with the Company, in writing, his post office address and each change of post office address. Any communication, statement, or notice

addressed to such a person at his latest reported post office address will be binding upon him for all purposes of the Plan and neither the Company nor any Trustee shall be obliged to search for or ascertain his whereabouts. In the event that such person cannot be located, the Company may direct that such benefit and all further benefits with respect to such person shall be discontinued and all liability for the payment thereof shall terminate; provided, however, that in the event of the subsequent reappearance of the Participant or beneficiary prior to the termination of the Plan, the benefits which were due and payable and which such person missed shall be paid in a single sum, and the future benefits due such person shall be reinstated in full.

6.5 Data and Information for Benefits. All persons claiming benefits under the Plan must furnish to the Company or its designated agent such documents, evidence, or information as the Company or its designated agent consider necessary or desirable for the purpose of administering the Plan, and such person must furnish such information promptly and sign such documents as the Company or its designated agent may require before any benefits become payable under the Plan.

6.6 Indemnity for Liability. The Company shall indemnify any individual who is directed by the Company to carry out responsibilities and duties imposed by this Plan against any and all claims, losses, damages, and expenses, including counsel fees, approved by the Company, and any liability, including any amounts paid in settlement with the Company's approval, arising from the individual's action or failure to act, in connection with such person's responsibilities and duties under the Plan, except when the same is judicially determined to be attributable to the gross negligence or willful misconduct of such person.

6.7 Tax Liability. The Company may withhold from any payment of benefits hereunder any taxes required to be withheld and such sum as the Company may reasonably estimate to be necessary to cover any taxes for which the Employer may be liable and Which may be assessed with regard to such payment.

Article VII. Amendment and Termination

7.1 Amendment. The Company reserves the right to amend the Plan at any time by action of its board of directors, provided that retroactive Plan amendments may not decrease the accrued benefits of any Participant determined as of the time the amendment is adopted.

7.2 Termination. The Company reserves the right to terminate the Plan at any time by action of its Board of Directors.

7.3 Change in Control. Notwithstanding the preceding provisions of this Article VII, no termination, amendment, or change to this Plan which would have the effect of reducing benefits or benefit accruals hereunder, which would rescind an alternative procedure for accelerated payment previously adopted, or which would otherwise have an adverse effect on the determination of benefits hereunder shall be made after a Change in Control occurs, and this Plan shall be, and the Company shall require this Plan to be, a continuing obligation of the surviving entity resulting from any Change in Control. Participants shall be given written notice of any such termination, amendment, or change within a reasonable time after any such action is taken.

Article VIII. Participation in and Withdrawal
from the Plan by an Employer

8.1 Participation in the Plan. Any Affiliate which desires to become an Employer hereunder may elect, with the consent of the Company's board of directors, to become a party to the Plan and any Grantor Trust Agreement by adopting the Plan for the benefit of its eligible employees, effective as of the date specified in such adoption--

- (a) by filing with the Company a certified copy of a resolution of its board of directors to that effect, and such other instruments as the Company may require; and
- (b) by the Company's filing with the then Trustee (if any) a copy of such resolution, together with a certified copy of resolutions of the Company's board of directors approving such adoption.

The adoption resolution or decision may contain such specific changes and variations in Plan or Grantor Trust Agreement terms and provisions applicable to such adopting Employer and its employees as may be acceptable to the Company and the Trustee. However, the sole, exclusive right of any other amendment of whatever kind or extent to the Plan or any Grantor Trust Agreement is reserved by the Company. The Company may not amend specific changes and variations in the Plan or any Grantor Trust Agreement terms and provisions as adopted by the Employer in its adoption resolution without the consent of such Employer. The adoption resolution or decision shall become, as to such adopting organization and its employees, a part of this Plan as then amended or thereafter amended and any related Grantor Trust Agreement. It shall not be necessary for the adopting organization to sign or execute the original or then amended Plan or any Grantor Trust Agreement documents. The coverage date of the Plan for any such adopting organization shall be that stated in the resolution or decision of adoption, and from and after

such effective date, such adopting organization shall assume all the rights, obligations, and liabilities of an individual employer entity hereunder and under any Grantor Trust Agreement. The administrative powers and control of the Company, as provided in the Plan and any Grantor Trust Agreement, including the sole right to amendment, and of appointment and removal of the Trustee and successor Trustees, shall not be diminished by reason of the participation of any such adopting organization in the Plan and any Grantor Trust Agreement.

8.2 Withdrawal from the Plan. Any Employer, by action of its board of directors or other governing authority, may withdraw from the Plan and any Grantor Trust Agreement after giving 90 days' notice to the Company's board of directors, provided the Company's board of directors consents to such withdrawal. Distribution of vested benefits (if any) to Participants affected by such a withdrawal may be implemented through any method determined by the Company and agreed to by the withdrawing Employer.

MANAGEMENT CONTINUITY AGREEMENT

THIS AGREEMENT is made and entered into as of the _____ day of _____, 1998, by and between CILCORP Inc., an Illinois corporation (hereinafter referred to as the "Company") and _____ (hereinafter referred to as the "Key Employee").

WITNESSETH:

WHEREAS, the Company has determined it should enter into management continuity agreements with certain key employees of the Company;

WHEREAS, _____ is a Key Employee of the Company or one of its subsidiaries; and

WHEREAS, should the possibility of a Change-in-Control of the Company arise, the Company believes it to be in the best interests of the Company and its shareholders to minimize

concerns that the Key Employee might be distracted by the personal uncertainties and risks created by the possibility of a Change-in-Control;

NOW THEREFORE, to assure the Company that it will have the continued service and dedication of the Key Employee notwithstanding the possibility, threat, or occurrence of a Change-in-Control of the Company, to induce the Key Employee to remain in the employ of the Company, and for other good and valuable consideration, the Company and the Key Employee agree as follows:

Section 1. Definition of Change-in-Control; Change-in-Control Period.

1.1 Change-in-Control.

For purposes of this Agreement, a "Change-in-Control" of the Company shall be deemed to have occurred:

(a) if the Company merges or consolidates with or into another corporation in a transaction in which neither the

Company nor any of its wholly-owned subsidiaries is the surviving corporation; or sells or otherwise disposes of all or substantially all of the Company's assets to any corporation, person, other entity or group (other than the Company or any of its wholly-owned subsidiaries or any qualified or nonqualified plan maintained by the Company);

(b) if any corporation, person, other entity or group (other than the Company or any of its wholly-owned subsidiaries) becomes the Beneficial Owner (as defined in the Company's articles of incorporation) of 30% or more of the voting stock of the Company; or

(c) if during any period of two consecutive years, Continuing Directors, as hereinafter defined, cease to comprise a majority of the Company's Board of Directors.

Continuing Directors are:

(i) members of the Board of Directors of the Company at the beginning of such period of two

consecutive years; and

(ii) any person who subsequently becomes a member of the Board of Directors if such person's nomination for election or election to the Board of Directors of the Company is recommended or approved by resolution of a majority of the Continuing Directors or such person is included as a nominee in a proxy statement of the Company distributed when a majority of the Board of Directors of the Company consists of Continuing Directors.

1.2 Change-in-Control Period.

The Change-in-Control Period shall mean the period beginning on the date of a Change-in-Control and ending on the second anniversary of the date thereof.

Section 2. Termination of Employment.

2.1 Termination by the Company with Cause. For purposes of this Agreement, the Company may terminate the Key Employee's

employment during the Change-in-Control Period for Cause. In the event of such termination, the Company shall give the Key Employee a Notice of Termination in conformity with Section 6 herein. For purposes of this Agreement, Cause shall mean:

(a) the Key Employee's willful and continued failure to perform substantially his/her duties with the Company or one of its subsidiaries other than such failure resulting from disability (as hereinafter defined), as determined by the Chief Executive Officer of the Company (the "CEO"), after a written demand for substantial performance is delivered to the Key Employee by the CEO which specifically identifies the manner in which the CEO believes that the Key Employee has not substantially performed his/her duties; or

(b) the Key Employee's willful engaging in illegal conduct or gross misconduct which the CEO believes is materially and demonstrably injurious to the Company.

For purposes of this provision, no act or failure to act, on the Key Employee's part, shall be considered "willful" unless it is done, or omitted to be done, by the Key Employee in bad faith or without reasonable belief that his/her action or omission was in the best interests of the Company. Any act or failure to act, based on authority given pursuant to a resolution duly adopted by the Board or on the instructions of the CEO or a senior officer of the Company or based on the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Key Employee in good faith and in the best interests of the Company. The termination of the Key Employee's employment shall not be deemed to be for Cause unless and until there shall have been delivered to him/her a copy of the resolution duly adopted by the affirmative vote of not less than three-quarters (3/4) of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice is provided to the Key Employee and the Key Employee is given an

opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Key Employee is guilty of the conduct described above.

2.2 Termination by the Employee for Good Reason.

The Key Employee's employment with the Company shall be deemed to be terminated by him/her for Good Reason if, during the Change-in-Control Period:

(a) there is a reduction by the Company in the Key Employee's Annual Compensation (as hereinafter defined);

(b) there is a material reduction in his/her benefits;

(c) the Company requires the Key Employee to travel on Company business to a substantially greater extent than required immediately prior to the Change-in-Control; or

(d) the Company notifies the Key Employee that he/she will be required to change the Key Employee's principal place of employment during the Change-in-Control Period to a location that is more than 75 miles from the Key Employee's principal

place of employment immediately prior to the effective date of the Change-in-Control; and

(e) as a result of one of the foregoing events, the Key Employee voluntarily terminates his/her employment relationship with the Company.

In the event the Key Employee terminates his/her employment for Good Reason, the Key Employee shall notify the Company in accordance with Section 6 within 30 days of the date following the first occurrence of an event described herein.

2.3 Termination by Retirement or Death.

For purposes of this Agreement, termination of the Key Employee's employment based on Retirement during the Change-in-Control Period shall mean voluntary termination in accordance with the Company's retirement policy, including early retirement, generally applicable to the Company's salaried employees. The Key Employee's death during the Change-in-Control Period shall automatically terminate his/her employment. In either the event

of retirement or death, the Company shall pay the Key Employee or the Key Employee's beneficiary(ies) any unpaid Annual Compensation and pay for any accrued, unused vacation through the Date of Termination, at the salary rate then in effect, plus all other amounts to which the Key Employee or the Key Employee's beneficiary(ies) are entitled under any retirement, survivor's benefits, insurance, and other applicable programs of the Company then in effect, and the Company shall have no further obligations to the Key Employee and the Key Employee's beneficiary(ies) under this Agreement.

2.4 Termination by Disability.

If the Company determines in good faith that the Key Employee's Disability has occurred during the Change-in-Control Period (pursuant to the definition of Disability as set forth in the Company's Long-Term Disability Plan then in effect), it may give the Key Employee written notice, in accordance with Section 6 herein, of its intention to terminate the Key Employee's

employment. In such event, the Key Employee's employment with the Company will terminate within 30 days after written Notice of Termination is received by the Key Employee ("Disability Effective Date") and provided that within 30 days after receiving such notice, the Key Employee has not returned to the full-time performance of his/her duties. The Key Employee shall receive his/her unpaid Annual Compensation through the Disability Effective Date at which point the Key Employee's compensation and benefits, if any, shall be determined in accordance with the Company's retirement, insurance, and other applicable plans and programs in effect on the Disability Effective Date, and the Company shall have no further obligations to the Key Employee under this Agreement.

Section 3. Obligations of the Company Upon Termination.

3.1 If, during the Change-in-Control Period, the Company terminates the Key Employee's employment other than for Cause, Death, Disability, or Retirement or if the Key Employee

terminates employment for Good Reason, the Key Employee shall receive, in addition to any salary, benefit or compensation due the Key Employee as of the Termination Date, the aggregate of the following amounts:

(a) an amount equal to two times the Key Employee's Annual Compensation if the Key Employee is terminated within 12 months following a Change-in-Control and one time if the Key Employee is terminated after 12 months following a Change-in-Control but before the end of the Change-in-Control Period;
and

(b) an amount equal to 18 times the monthly premium charged to a terminated employee who selects continuation coverage under the Company's comprehensive hospital and medical insurance plan (commonly known as "COBRA payments").

The Company shall also provide the Key Employee with years of service and compensation credits, along with commensurate additional benefits, if any, the Key Employee would have accrued

during the Change-in-Control Period, but for the termination, in any qualified or nonqualified pension, retirement, supplemental benefit or compensation deferral plan in effect on the Date of Termination.

For purposes of this Agreement, Annual Compensation shall include Annual Base Salary (the greater of annual base pay rate in effect during the month immediately preceding a Date of Termination or the annual base pay rate in effect during the month immediately prior to a Change-in-Control) plus, pro rata, the annual target level of any bonus established for the Key Employee for the fiscal year in which a Change-in-Control occurs, assuming an achievement level of 100% of any target award established under an incentive compensation or bonus plan of the Company in which the Key Employee participates. For purposes of this section, COBRA payments shall be that amount necessary to provide either family or individual comprehensive hospital or medical insurance coverage as had been elected by the Key Employee in the month

immediately preceding the Date of Termination.

3.2 Timing of Payments.

At the Key Employee's irrevocable election at the time of his/her signing of this Agreement, all payments made by the Company pursuant to Section 3.1 shall be paid either:

(a) in a lump sum payment in cash within 30 days after his/her Date of Termination;

(b) in 18 equal, monthly installments beginning on the first day of the month following his/her Date of Termination.

3.3 Tax Indemnity.

In the event it shall ultimately be determined by a court or the Internal Revenue Service that any payment by the Company to or for the benefit of the Key Employee (whether paid or payable pursuant to the terms of this Agreement) would be subject to the excise tax (including penalties and interest) imposed by Section 4999 of the Internal Revenue Code of 1986, as amended, (the

"Code"), then the Key Employee shall be entitled to receive a lump sum cash payment sufficient to place the Key Employee in the same net after-tax position as if the excise tax had not been imposed (a "gross up" payment). The determination of the maximum gross up amount payable to the Key Employee shall be made by an accounting firm designated by the Company and shall be paid to the Key Employee within 30 days of such determination.

Section 4. Administration of the Agreement.

4.1 Administration.

The CEO or his/her assignee shall administer the Agreement. The CEO shall have the authority to interpret the Agreement and adopt rules for the implementation thereof.

4.2 Date of Termination.

The "Date of Termination" shall mean:

- (a) if the Key Employee's employment is terminated by the Company for Cause or the Key Employee terminates his/her employment for Good Reason, the date of the receipt of the

Notice of Termination (as defined in Section 6);

(b) if the Key Employee's employment is terminated by the Company other than for Cause, the Date of Termination shall be the date on which the Company notifies the Key Employee of the termination; and

(c) if the Key Employee's employment is terminated by reason of Death, Disability or Retirement, the Date of Termination shall be the date of the Key Employee's Death, Retirement or Disability Effective Date, as the case may be.

Section 5. Notice.

For purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when hand delivered or mailed by United States registered mail, return receipt requested, postage prepaid, provided that all notices to the Company be addressed to:

CILCORP Inc.
Corporate Secretary

300 Hamilton Boulevard
Suite 300
Peoria, Illinois 61602

or to the Corporate Secretary of any successor company at its principal place of business;

and if to the Key Employee:

(Insert Key Employee's name and address)

Section 6. Notice of Termination.

Any termination by the Company for Cause or Disability or by the Key Employee for Good Reason shall be communicated by a written notice of termination ("Notice of Termination") to the other party hereto and shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon by the party, shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Key Employee's employment under the provision indicated and the Date of Termination (as defined above). The failure by the Company or the Key Employee to set forth in the Notice of Termination any fact or circumstance which contributes to a

showing of Good Reason or Cause shall not waive any right of the Company or the Key Employee, respectively, from asserting such fact or circumstance in enforcing the Key Employee's or the Company's rights hereunder.

Section 7. Not a Contract of Employment.

The employment-at-will relationship between the Key Employee and the Company shall continue except as modified by this Agreement.

Section 8. Governing Law.

This Agreement shall be governed by, and construed in accordance with, the laws of the State of Illinois.

Section 9. Successors and Assigns.

This Agreement shall be binding on the Company and any assignee or successor in interest to the Company and on the Key Employee and his/her heirs, assigns or legatees.

Section 10. Non-exclusive Rights.

Nothing in this Agreement shall prevent or limit the Key Employee's continuing or future participation in any plan,

program, policy or practice provided by the Company or any of its subsidiaries for which the Key Employee may qualify, nor shall it affect such rights as the Key Employee may have under any contract or agreement with the Company or any of its subsidiaries. The foregoing notwithstanding, should the Key Employee be entitled to or paid any of the amounts set forth in Section 3.1, then the Key Employee shall not be eligible for or paid any severance pay or comprehensive hospital and medical insurance coverage, payment or benefits except to the extent that such comprehensive hospital and medical insurance coverage must be offered under federal COBRA laws.

Section 11. Arbitration and Legal Fees.

The Key Employee and the Company agree to have any dispute or controversy arising under or in connection with this Agreement settled by arbitration using an Arbitration Panel. For the purposes of this Agreement, the term "Arbitration Panel" shall mean three independent arbitrators, one of whom shall be selected

by the Company, one by the Key Employee and the third shall be selected by the two other arbitrators. In the event that agreement cannot be reached on the selection of the third arbitrator, such arbitrator shall be selected by the American Arbitration Association. All arbitrators shall be selected from a list provided by the American Arbitration Association, and all matters presented to the Arbitration Panel shall be decided by majority vote. The Key Employee and the Company agree that any decision rendered in any such arbitration proceeding shall be final and binding and that each of the parties waives their rights to seek remedies in court, including the right to jury trial. All expenses of such arbitration, including the fees and expenses of the counsel for the Key Employee and the Company shall be borne by the Company and/or the Key Employee in the amount determined by the arbitrator. Any such arbitration shall be held in the city where the Key Employee's principal place of business while employed by the Company is located, unless the

Company and Key Employee mutually agree on another location.

Section 12. Amendment of Agreement.

Upon the occurrence of a Change-in-Control, and until the end of the Change-in-Control Period, this Agreement may not be terminated, or amended in any manner which has a significant adverse effect on the Key Employee's rights hereunder without the Key Employee's written consent. Notwithstanding any other provision hereof, in the sole and absolute discretion of the Company, the Agreement may be amended only to the extent necessary in order to obtain or maintain the status of the Company's retirement plans as qualified plans under Section 401(a) of the Code.

Section 13. Entire Agreement.

This Agreement constitutes the entire agreement between the parties and supersedes all prior agreements, if any, understandings and arrangements, oral or written, between the parties hereto, including the Company's predecessors, with

respect to the subject matter hereof.

Section 14. Termination of Agreement.

The Agreement shall continue until, and terminate, three years from the date hereof.

By: _____
Officer
(Title)

By:

Date: _____ Date:

Timing of Payments Election

As a Key Employee and signatory to this Agreement, I hereby irrevocably elect the following method of payment of any amount payable under Section 3.1 of this Agreement:

1. Lump sum

2. Monthly installments

Central Illinois Light Company

Compensation Protection Program

Introduction

The Compensation Protection Program is designed to provide certain eligible employees with pay and medical insurance protection if they are terminated due to a Layoff or Reduction in Force within a one-year period following the date of a change in control. Some of these important terms are defined in the "Definitions" section of this document. This benefit program is not intended to create a contract of employment, and all eligible employees shall retain their present status as "employees at will".

Participation in the Program

Eligibility

To be eligible for the Compensation Protection Program, an employee must have been classified as a regular, full-time employee of CILCO, CILCORP or an affiliate company continuously during the 12-month period immediately before the date of a change in control. Furthermore, to be eligible an employee must be Actively Working (as that term is later defined). In addition, eligibility in this Program is limited to those employees working in nonunion-represented Management, Office and Technical positions on the date of a termination of employment. (Executive officers of CILCO and

CILCORP are not eligible.) Employees who are Retirement Eligible (as that term is later defined) may elect participation either in this program or in the retirement plan for which they are eligible.

When the Program Would Take Effect

In order for this Program to go into effect, there must be a Change in Control (as that term is later defined). For a 12-month period after the change-in-control effective date, if an eligible employee's employment is terminated because of a Layoff or a Reduction in Force, he/she will be entitled to receive the benefits under this Program. An employee who is terminated for any other reason is not eligible for Program benefits.

Description of Benefits

Compensation Benefit

An employee who satisfies all of the eligibility requirements will receive a one-time, lump sum payment equal to base pay (at the rate in effect at the date of the change in control or at the date of termination, whichever is greater) for the greater of 6 months or the number of whole months between the termination date and the date that is 12 months after the date of a change in control. CILCO will withhold all required amounts from this payment, but no other deductions will be made, such as to the Employees' Savings Plan [401(k)], the United Way, Political Action Committee, etc. Payment of the compensation benefit will be made on the date that is the

later of two weeks after the employee's termination date or the next regular pay date.

Medical Insurance Coverage

Medical insurance coverage will be extended up to the level of coverage (family or individual) in effect immediately prior to termination for a period equal to the number of weeks for which the employee receives termination pay, but continuing until the last calendar day of the month in which termination pay ceases. Once this coverage expires, an employee may continue to receive COBRA continuation benefits for the remainder of the 18 months by paying the full COBRA premium in accordance with the federal law known as COBRA. (Employees will receive a separate notice of their COBRA rights. The period of Company-provided coverage runs concurrently with, and does not extend, the employee's maximum COBRA coverage period of 18 months.) CILCO becomes the secondary medical provider in accordance with applicable federal law if the employee elects COBRA coverage at the end of the benefit pay period and takes a job at another employer with group benefits.

Other Benefits

Compensation Protection Program benefits are in addition to any other benefits for which employees may be eligible, such as vested Management, Office and Technical Employees' Pension Plan benefits, EDP benefits, accrued vacation pay, etc. (As

noted above, employees who are Retirement Eligible when they are notified of their termination must choose between retiring or accepting benefits under this Program. However, if an employee accepts benefits under this Program, he/she will not forfeit any vested pension benefits. There would, however, be a loss of any medical benefits being offered to retirees - and if the individual begins receiving pension benefits before age 65 there would be a significant reduction in those benefits.)

Definitions

Actively Working is defined as being on CILCO's payroll as a regular full-time employee who is not on long-term disability or an unauthorized leave of absence on the date of termination.

Base Pay is defined as an employee's weekly salary -- excluding overtime, performance and incentive payments, bonuses, awards, tuition refunds, allowances and deferred compensation payments.

Change in Control is defined as:

- (a) if CILCORP merges or consolidates with or into another corporation in a transaction in which neither CILCORP, CILCO nor any of CILCORP's wholly-owned subsidiaries is the surviving corporation; or sells or otherwise disposes of all or substantially all of CILCORP's assets to any corporation, person, other entity or group (other than CILCORP or any of its wholly-owned subsidiaries or any qualified or nonqualified plan maintained by CILCORP or CILCO); or
- (b) if any corporation, person, other entity or group (other

than CILCORP or any of its wholly-owned subsidiaries) becomes the Beneficial Owner (as defined in CILCORP's articles of incorporation) of 30% or more of the voting stock of CILCORP; or

(c) if during any period of two consecutive years, Continuing Directors, as defined, cease to comprise a majority of CILCORP's Board of Directors. Continuing Directors are:

(i) members of the Board of Directors of CILCORP at the beginning of such period of two consecutive years; and

(ii) any person who subsequently becomes a member of the Board of Directors if such person's nomination for election or election to the Board of Directors of CILCORP is recommended or approved by resolution of a majority of the Continuing Directors or such person is included as a nominee in a proxy statement of CILCORP distributed when a majority of the Board of Directors of CILCORP consists of Continuing Directors.

Layoff is defined as terminated -- with or without an expectation of recall -- due to lack of work.

Reduction in Force is defined as terminated due to elimination of job duties, redundancy of job duties, or a reduction in the number of employees of the Company or its successor.

Retirement Eligible is defined as being 55 years or older with 10 or more years of service as defined in the MOT CILCO pension plan.

CENTRAL ILLINOIS LIGHT COMPANY
(Organized April 11, 1913)

ARTICLES OF INCORPORATION
Composite

As Amended From Time to Time to and Including the Amendment Filed in the Office of the Secretary of State of Illinois on May 29, 1998.

ARTICLE 1. The name of such corporation is Central Illinois Light Company.

ARTICLE 2. The object for which it is formed is to manufacture or generate and sell and distribute light, heat, and power to the public in the form of gas, electricity, steam, hot water or other agency and for the transaction of any or all lawful businesses for which corporations may be incorporated under the Illinois Business Corporation Act."

ARTICLE 3. The aggregate number of shares which the Company is authorized to issue is 27,000,000 divided into four (4) classes. The designation of each class, the number of shares of each class (and the par value, if any, of the shares of each class, or a statement that the shares of any class are without par value), are as follows:

| Class | Series | No. of Shares | Par value Per Share |
|------------|----------------|---------------|---------------------|
| Common | None | 20,000,000 | No par value |
| Preferred | 4 1/2% | 111,264 | \$100 |
| Preferred | 4.64% | 79,940 | \$100 |
| Preferred | Undesignated | 1,308,796 | \$100 |
| Class | A 5.85% | 220,000 | No par value |
| Preferred | | | |
| Class | A Flexible | 250,000 | No par value |
| Preferred | Auction Rate | | |
| Class | A Undesignated | 3,030,000 | No par value |
| Preferred | | | |
| Preference | Undesignated | 2,000,000 | No par value |
| | | 27,000,000 | |

Shares of Common Stock without par value may be issued

for such consideration as may be fixed from time to time by the Board of Directors and the entire amount of the consideration received for any such shares so issued shall be stated capital.

The preferences, qualifications, limitations, restrictions and the special or relative rights in respect of the shares of each class, the provisions, if any, for the division into and issue in series of shares of July 21, 1993 each class, the designation of each series authorized by the Articles of Incorporation, the variations in the relative rights and preferences as between the different series of any class insofar as the same are to be fixed in the Articles of Incorporation, and the statement of the authority vested in the Board of Directors to establish series of any class and fix and determine the variations in the relative rights and preferences as between series of any class, are as follows:

PREFERRED STOCK

Provision for Division Into and Issue in Series of Preferred Stock and Grant of Authority to Board of Directors

The shares of the Preferred Stock may be divided into and issued in series. Each series shall be designated so as to distinguish the shares thereof from the shares of all other series and classes and all shares of the Preferred Stock irrespective of series shall be identical except as to the following relative rights and preferences in respect of any or all of which there may be variations between different series and authority is hereby expressly vested in the Board of Directors, to the extent that series are not established by the Articles of Incorporation and the variations and the relative rights and preferences as between series fixed and determined therein, to establish series and to fix and determine the following relative rights and preferences of the shares thereof in accordance with the provisions of the Business Corporation Act of Illinois applicable thereto:

- (a) The rate of dividend;
- (b) The price at which shares may be redeemed, such price to be not less than \$100.00 or more than \$115.00 per share, plus accrued dividends to the date of redemption;
- (c) The amount payable upon shares in event of involuntary liquidation, which amount shall not be less than \$100.00 per share or more than \$115.00 per

share, plus accrued dividends;

- (d) The amount payable upon shares in event of voluntary liquidation, which amount shall not be less than \$100.00 per share or more than \$115.00 per share, plus accrued dividends.

The Board of Directors is hereby authorized to issue and sell all the authorized and unissued shares of Preferred Stock as shares of any series which shall have been duly established, and in the event that the Company shall acquire, by purchase or redemption or otherwise, any issued shares of its Preferred Stock of any series, the Board of Directors may resell or convert and sell, in their discretion, any shares so acquired as shares of the same or of any other series of Preferred Stock which shall have been duly established.

Series of Preferred Stock Established by
Articles of Incorporation

Without limitation of the foregoing authority conferred upon the Board of Directors, there is hereby established a series of Preferred Stock designated as 4 1/2% Preferred Stock. The relative rights and preferences of the shares of said series in those respects in which the shares thereof may vary from the shares of other series, shall be as follows:

- (a) The rate of dividend shall be 4 1/2%;
- (b) The price at which shares may be redeemed shall be \$110.00 per share, plus accrued dividends to the date of redemption;
- (c) The amount payable in event of involuntary liquidation shall be \$100.00 per share, plus accrued dividends;
- (d) The amount payable in event of voluntary liquidation shall be \$105.00 per share, plus accrued dividends.

Series of Preferred Stock Established by
the Board of Directors

Pursuant to the foregoing authority conferred upon

the Board of Directors, 80,000 of the authorized but unissued shares of Preferred Stock of the Company shall be established as a series of Preferred Stock which is hereby designated 4.64% Preferred Stock, and the relative rights and preferences of the shares of said series in those respects in which the shares thereof may vary from the shares of other series, shall be as follows:

- (a) The rate of dividend shall be 4.64%;
- (b) The price at which shares may be redeemed shall be \$106.00 per share if the date of redemption is on or prior to July 1, 1961, \$104.00 per share if the date of redemption is after July 1, 1961 and on or prior to July 1, 1966 and \$102.00 per share if the date of redemption is after July 1, 1966 plus accrued dividends in each case to the date of redemption;
- (c) The amount payable in event of involuntary liquidation shall be \$100.00 per share, plus accrued dividends;
- (d) The amount payable in event of voluntary liquidation shall be \$100.00 per share, plus accrued dividends.

General Provisions

The following provisions shall apply to all the Preferred Stock irrespective of series:

(1) The holders of the Preferred Stock of each series shall be entitled to receive dividends, payable quarterly on the first days of January, April, July and October of each year, when and as declared by the Board of Directors, at the rates determined for the respective series, from the first day of the current dividend period within which such stock shall have been originally issued except that, as to any share of Preferred Stock originally issued subsequent to December 31, 1973, from the date upon which such share shall have been originally issued, before any dividends shall be declared or paid upon or set apart for the Common Stock or any other class of stock of the Company not having preference over the Preferred Stock as to payment of dividends. Such dividends shall be cumulative so that if for any dividend period or periods dividends shall not have been paid or declared and set apart for payment upon all outstanding Preferred

Stock at the rates determined for the respective series, the deficiency shall be fully paid, or declared and set apart for payment, before any dividends shall be declared or paid upon the Common Stock or any other class of stock of the Company not having preference over the Preferred Stock as to payment of dividends. Dividends shall not be declared and set apart for payment, or paid, on the Preferred Stock of any one series, for any dividend period, unless dividends have been or are contemporaneously declared and set apart for payment or paid on the Preferred Stock of all series for all dividend periods terminating on the same or an earlier date.

(2) When full cumulative dividends as aforesaid upon the Preferred Stock of all series then outstanding for all past dividend periods and for the current dividend period shall have been paid or declared and set apart for payment, the Board of Directors may, subject to the provisions of the laws of the State of Illinois and of the Articles of Incorporation, declare dividends on the Common Stock or any other class of stock over which the Preferred Stock has a preference as to payment of dividends, and no holders of any series of the Preferred Stock as such shall be entitled to share therein; provided, however, that no dividends shall be paid on Common Stock or on any other class of stock over which the Preferred Stock has preference as to payment of dividends or as to assets, either out of paid-in surplus or any surplus created by a reduction of stated capital or capital stock, or if, at the time of declaration thereof there shall not remain to the credit of earned surplus account, (after deducting therefrom the amount of such dividends), an amount at least equal to two times the annual dividend requirements on all then outstanding shares of the Preferred Stock and of all other classes of stock over which the Preferred Stock does not have preference as to the payment of dividends or as to assets.

(3) Upon any dissolution, liquidation or winding up of the Company, whether voluntary or involuntary, the holders of Preferred Stock of each series, without any preference of the shares of any series of Preferred Stock over the shares of any other series of Preferred Stock, shall be entitled to receive out of the assets of the Company, whether capital, surplus or other, before any distribution of the assets to be distributed shall be made to the holders of Common Stock or of any other class of stock not having preference as to assets over the Preferred Stock, the amount determined to be payable on the shares of such series in the event of voluntary or involuntary liquidation, as the case may be. After payment to the holders of the Preferred Stock of the full preferential amounts hereinbefore provided for, the holders of the Preferred Stock as such shall have no right or claim to any of the remaining assets of the Company, either upon any distribution of such assets or upon dissolution, liquidation or winding up, and the remaining assets to be distributed, if

any, upon a distribution of such assets or upon dissolution, liquidation or winding up, may be distributed, subject to the provisions of the laws of the State of Illinois and the Articles of Incorporation, among the holders of the Common Stock or of any other class of stock over which the Preferred Stock has preference as to assets. Without limiting the right of the Company to distribute its assets or to dissolve, liquidate or wind up in connection with any sale, merger or consolidation, the sale of all the property of the Company to, or the merger or consolidation of the Company into or with any other corporation shall not be deemed to be a distribution of assets or a dissolution, liquidation or winding up for the purposes of this paragraph.

(4) At the option of the Board of Directors of the Company, the Company may redeem any series of Preferred Stock determined to be redeemable, or any part of any series, at any time at the redemption price determined for such series; provided, however, that not less than thirty nor more than sixty days previous to the date fixed for redemption a notice of the time and place thereof shall be given to the holders of record of the Preferred Stock so to be redeemed, by mail or publication, in such manner as may be prescribed by the Bylaws of the Company or by resolution of the Board of Directors; and, provided, further, that in every case of redemption of less than all of the outstanding shares of any one series of Preferred Stock, the shares of such series to be redeemed shall be chosen by lot in such manner as may be prescribed by resolution of the Board of Directors. At any time after notice of redemption has been given in the manner prescribed by the Bylaws of the Company or by resolution of the Board of Directors to the holders of stock so to be redeemed, the Company may deposit, or may cause its nominee to deposit, the aggregate redemption price with some bank or trust company named in such notice, payable on the date fixed for redemption as aforesaid and in the amounts aforesaid to the respective orders of the holders of the shares so to be redeemed, on endorsement to the Company or its nominee, or otherwise, as may be required, and upon surrender of the certificates for such shares. Upon the deposit of said money as aforesaid, or, if no such deposit is made, upon said redemption date (unless the Company defaults in making payment of the redemption price as set forth in such notice), such holders shall cease to be shareholders with respect to said shares, and from and after the making of said deposit, or, if no such deposit is made, after the redemption date (the Company not having defaulted in making payment of the redemption price as set forth in such notice), the said holders shall have no interest in or claim against the Company or its nominee with respect to said shares, but shall be entitled only to receive said moneys on the date fixed for redemption as aforesaid from said bank or trust company, or if no such deposit is made, from the Company, without interest thereon,

upon endorsement, if required, and surrender of the certificates as aforesaid.

If such deposit shall be made by a nominee of the Company as aforesaid, such nominee shall upon such deposit become the owner of the shares with respect to which such deposit was made and certificates of stock may be issued to such nominee in evidence of such ownership.

In case the holder of any such Preferred Stock shall not, within six years after said deposit, claim the amount deposited as above stated for the redemption thereof, the Depositary shall upon demand pay over to the Company such amounts so deposited and the Depositary shall thereupon be relieved from all responsibility to the holder thereof.

Nothing herein contained shall limit any legal right of the Company to purchase any shares of the Preferred Stock.

(5) At all meetings of the shareholders of the Company, the holders of the Preferred Stock shall be entitled to one vote for each share of such Preferred Stock held by them respectively.

(6) So long as any shares of the Preferred Stock are outstanding, no amendment to the Articles of Incorporation shall be adopted without the affirmative vote of the holders of at least 66-2/3% of the shares of Preferred Stock outstanding at the time of the adoption of such amendment, which would either (a) create any class of shares preferred as to dividends or assets over the Preferred Stock, or (b) change the designations, preferences, qualifications, limitations, restrictions or other special or relative rights of the then outstanding Preferred Stock; provided, however, that nothing in this paragraph contained shall authorize the adoption of any amendment of the Articles of Incorporation by the vote of the holders of a less number of shares of Preferred Stock, or of any other class of stock, or of all classes of stock, than is required for the adoption of such amendment by the laws of the State of Illinois at that time applicable thereto.

(7) So long as any shares of the Preferred Stock shall be outstanding, the Company shall not issue or assume any evidences of indebtedness maturing more than twelve months from the date of issue or assumption in an amount at any one time outstanding exceeding 15% of the aggregate, at the time of such issue or assumption, of the stated capital represented by the outstanding shares of Preferred Stock and any other class of stock over which the Preferred Stock has a preference as to dividends or assets and of the surplus of the Company (paid-in, earned, and other, if any), unless (i) such evidences of indebtedness are either

(a) bonds issued under the Mortgage and Deed of Trust to Bankers Trust Company, New York, as Trustee, dated as of April 1, 1933, assumed by the Company, or (b) bonds or other evidences of indebtedness issued under another mortgage and deed of trust on substantially all the mortgageable property of the Company, under which mortgage and deed of trust bonds or other evidences of indebtedness have been issued, upon the basis, directly or indirectly, of the refunding of bonds issued under said Mortgage and Deed of Trust, dated as of April 1, 1933 and permitting the issuance of additional bonds or evidences of indebtedness upon the basis directly or indirectly, of the refunding of the remainder thereof, if any, or (c) indebtedness secured by the pledge of bonds or evidences of indebtedness issued under said Mortgage and Deed of Trust, dated as of April 1, 1933, or such other mortgage and deed of trust, to an equal principal amount of such bonds or such evidences of indebtedness pledged, or (ii) the issue and assumption of said evidence of indebtedness has been submitted to the vote of the shareholders of the Company at any annual or special meeting thereof, has been approved at such meeting by the affirmative vote of the holders of a majority of the outstanding shares of the Company, irrespective of class, and has not been voted against at such meeting by the holders of 33-1/3% or more of the outstanding shares of Preferred Stock.

(8) So long as any shares of Preferred Stock shall be outstanding

(a) No shares of Preferred Stock or of any other class of stock over which the Preferred Stock does not have preference as to the payment of dividends and as to assets, shall be issued, sold or otherwise disposed of unless the net income of the Company available for the payment of dividends for a period of twelve consecutive calendar months within the fifteen calendar months immediately preceding the issuance, sale or disposition of such stock is at least equal to 2 1/2 times the annual dividend requirements of all outstanding shares of Preferred Stock and of all other classes of stock over which the Preferred Stock does not have preference as to the payment of dividends and as to assets,

including the shares proposed to be issued;

- (b) After the Company has issued 131,464 shares of Preferred Stock, no additional shares of Preferred Stock shall be issued unless prior thereto, the total of the stated capital of the Company represented by shares of stock over which the Preferred Stock has a preference as to the payment of dividends and as to assets, shall have been increased over the stated capital represented by the Common Stock on March 31, 1936 by an amount at least equal to the aggregate par value of the additional shares of Preferred Stock proposed to be issued.

(9) The term "accrued dividends" shall be deemed to mean in respect of any share of the Preferred Stock of any series, as of any given date, the amount, if any, by which the product of the rate of dividend per annum, determined upon the shares of such series, multiplied by the number of years and any fractional part of a year which shall have elapsed from the date after which dividends on such stock became cumulative to such given date, exceeds the total dividends actually paid on such stock and the dividends declared and set apart for payment. Accumulations of dividends shall not bear interest.

The term "outstanding", whenever used herein with respect to shares of Preferred Stock or of any other class of stock which are by their terms redeemable, shall not include any such shares which have been called for redemption in accordance with the provisions applicable thereto, of which call for redemption notice shall have been given as required by such provisions, and for the redemption of which a sum of money sufficient to pay the amount payable on such redemption shall have been deposited with a bank or trust company, irrevocably in trust for such purpose.

CLASS A PREFERRED STOCK

Provision for Division Into and Issue in Series of Class A Preferred

Stock and Grant of Authority to Board of Directors

The shares of the Class A Preferred Stock may be divided into and issued in series. Each series shall be designated so as to distinguish the shares thereof from the shares of all other series and classes and all shares of the Class A Preferred Stock irrespective of series shall be identical except as to the following relative rights and preferences in respect of any or all of which there may be variations between different series and authority is hereby expressly vested in the Board of Directors, to the extent that series are not established by the Articles of Incorporation and the variations and the relative rights and preferences as between series fixed and determined therein, to establish series and to fix and determine the following relative rights and preferences of the shares thereof in accordance with the provisions of the Business Corporation Act of Illinois applicable thereto:

- (a) The rate of dividend;
- (b) The price at and the terms and conditions on which shares may be redeemed;
- (c) The amount payable upon shares in event of involuntary liquidation;
- (d) The amount payable upon shares in event of voluntary liquidation;
- (e) Sinking fund provisions for the redemption or purchase of shares (the term "sinking fund", as used herein, including any analogous fund, however designated).

The Board of Directors is hereby authorized to issue and sell all the authorized and unissued shares of Class A Preferred Stock as shares of any series which shall have been duly established, and in the event that the Company shall acquire, by purchase or redemption or otherwise, any issued shares of its Class A Preferred Stock of any series, the Board of Directors may resell or convert and sell, in their discretion, any shares so acquired as shares of the same or of any other series of Class A Preferred Stock which shall have been duly established.

Shares of any series of Class A Preferred Stock, without par value, may be issued for such consideration, not less than the aggregate preferential amount payable upon such shares in the event of involuntary liquidation, as may be fixed by the

Board of Directors prior to the time of such issuance and, except as otherwise determined by the Board of Directors in accordance with the provisions of the Business Corporation Act of Illinois applicable thereto, the entire amount of such consideration shall be stated capital.

The General Provisions heretofore set forth in this Article 3 following the heading, "Preferred Stock" shall be applicable in all respects to the Class A Preferred Stock and any reference therein to "Preferred Stock" shall in each instance include, within the meaning of that term, the Class A Preferred Stock. In applying said General Provisions, the reference in paragraph (b) thereof to "aggregate par value" shall, in the case of the Class A Preferred Stock, be deemed to refer to the aggregate amount payable in event of involuntary liquidation upon the additional shares of Class A Preferred Stock proposed to be issued.

In addition to the requirement concerning the declaration of dividends on the Common Stock or any class of stock over which the Preferred Stock and the Class A Preferred Stock have preference as to payment of dividends, which are contained in paragraph (2) under the General Provisions referred to in the preceding paragraph, it shall also be a condition to the declaration of dividends on the Common Stock or any class of stock over which the Preferred Stock and the Class A Preferred Stock have preference as to payment of dividends, by the Board of Directors as contemplated in said paragraph (2) that all amounts required to be paid or set aside for any sinking fund for the retirement of Class A Preferred Stock of any series, with respect to all preceding sinking fund dates, shall have been paid or set aside.

Series of Class A Preferred Stock Established by
the Board of Directors

Pursuant to the foregoing authority conferred upon the Board of Directors, 220,000 of the authorized but unissued shares of Class A Preferred Stock of the Company shall be established as a series of Class A Preferred Stock which is hereby designated 5.85% Class A Preferred Stock, and the relative rights and preferences of the shares of said series in those respects in which the shares thereof may vary from the shares of other series, shall be as follows:

- (a) The rate of dividend shall be \$5.85 per annum.
- (b) The shares will not be redeemable prior

to July 1, 2003. On and after July 1, 2003, the shares will be redeemable at the option of the Company, in whole or in part, at a price of \$100 per share plus accrued dividends to the date of redemption.

- (c) The amount payable in event of involuntary liquidation shall be \$100 per share, plus accrued dividends.
- (d) The amount payable in event of voluntary liquidation shall be \$100 per share, plus accrued dividends.
- (e) The 5.85% Class A Preferred Stock will be entitled to a sinking fund as follows: 11,000 shares of such stock shall be redeemed on July 1, 2003 and on each July 1 thereafter to and including July 1, 2007, and 165,000 shares of such stock shall be redeemed on July 1, 2008, in each case at \$100 per share, plus accrued dividends to the redemption date. This sinking fund requirement may be satisfied in whole or in part by crediting against such requirement shares of such stock redeemed by the Company at its option, purchased by the Company in the open market or acquired by the Company otherwise than through the sinking fund.

Series of Class A Preferred Stock Established by
the Board of Directors

Pursuant to the foregoing authority conferred upon the Board of Directors, 250,000 of the authorized but unissued shares of Class A preferred stock of the Company shall be established as a series of Class A preferred stock which is hereby designated Flexible Auction Rate Preferred Stock, without par value, and that the relative rights and preferences of the shares of said series in those respects in which shares thereof may vary from the shares of other series, shall be as follows:

Definitions. As used herein, the following terms shall have the following meanings, unless the context otherwise requires. To the extent definitions contain procedures or

specifications concerning the determination of time periods, rates or other matters, such procedures and specifications shall be applicable to the shares of the Flexible Auction Rate Preferred Stock, without par value, as fully as if set forth independently from such definitions.

(i) "60-day 'AA' Composite Commercial Paper Rate", on any date, shall mean (i) the interest equivalent of the 60-day rate on commercial paper placed on behalf of issuers whose corporate bonds are rated "AA" by S&P or "Aa" by Moody's or the equivalent of either or both of such ratings by such agencies or another rating agency, as such 60-day rate is made available on a discount basis or otherwise by the Federal Reserve Bank of New York on the Business Day immediately preceding such date or (ii) in the event that the Federal Reserve Bank of New York does not make available such a rate, then the arithmetic average of the interest equivalent of the 60-day rate on commercial paper placed on behalf of such issuers, as quoted on a discount basis or otherwise by the Commercial Paper Dealers, to the Auction Agent for the close of business on the Business Day immediately preceding such date. If any Commercial Paper Dealer does not quote a rate required to determine the 60-day "AA" Composite Commercial Paper Rate, the 60-day "AA" Composite Commercial Paper Rate shall be determined on the basis of the quotation or quotations furnished by the remaining Commercial Paper Dealer and any Substitute Commercial Paper Dealer or Dealers selected by the Company to provide such rate or rates not being supplied by any Commercial Paper Dealer or Dealers, as the case may be, or, if the Company does not select any such Substitute Commercial Paper Dealer or Dealers, by the remaining Commercial Paper Dealer. If the number of Dividend Period Days in a Short-Term Dividend Period shall be (i) fewer than 70 days, such rate shall be the interest equivalent of the 60-day rate on such commercial paper, (ii) 70 or more days but fewer than 85 days, such rate shall be the arithmetic average of the interest equivalent of the 60-day and 90-day rates on such commercial paper, and (iii) 85 or more days but fewer than 3 months, such rate shall be the interest equivalent of the 90-day rate on such commercial paper. For the purpose of this definition, any arithmetic average shall be rounded to the nearest one-thousandth (.001) of one percent (or, if there is no nearest one-thousandth (.001) of one percent, to the next highest one-thousandth (.001) of one percent), and "interest equivalent" means the equivalent yield on a 360-day basis of a discount-basis security to an interest-bearing security.

(ii) "90-day 'AA' Composite Commercial Paper Rate", on any date, shall mean (i) the interest equivalent of the 90-day rate on commercial paper placed on behalf of issuers whose corporate bonds are rated "AA" by S&P or "Aa" by Moody's or the equivalent of either or both of such ratings by such agencies or

another rating agency, as such 90-day rate is made available on a discount basis or otherwise by the Federal Reserve Bank of New York on the Business Day immediately preceding such date or (ii) in the event that the Federal Reserve Bank of New York does not make available such a rate, then the arithmetic average of the interest equivalent of the 90-day rate on commercial paper placed on behalf of such issuers, as quoted on a discount basis or otherwise by the Commercial Paper Dealers, to the Auction Agent for the close of business on the Business Day immediately preceding such date. If any Commercial Paper Dealer does not quote a rate required to determine the 90-day "AA" Composite Commercial Paper Rate, the 90-day "AA" Composite Commercial Paper Rate shall be determined on the basis of the quotation or quotations furnished by the remaining Commercial Paper Dealer and any Substitute Commercial Paper Dealer or Dealers selected by the Company to provide such rate or rates not being supplied by any Commercial Paper Dealer or Dealers, as the case may be, or, if the Company does not select any such Substitute Commercial Paper Dealer or Dealers, by the remaining Commercial Paper Dealer. For the purpose of this definition, any arithmetic average shall be rounded to the nearest one-thousandth (.001) of one percent (or, if there is no nearest one-thousandth (.001) of one percent, to the next highest one-thousandth (.001) of one percent), and "interest equivalent" means the equivalent yield on a 360-day basis of a discount-basis security to an interest-bearing security.

(iii) "Affiliate" shall mean any Person known to the Auction Agent to be controlled by, in control of or under common control with the Company.

(iv) "Agent Member" shall mean the member of or participant in the Securities Depository that will act on behalf of a Bidder and is identified as such in such Bidder's Master Purchaser's Letter.

(v) "Applicable 'AA' Composite Commercial Paper Rate", for any Multiple Quarterly Dividend Period or Long-Term Dividend Period, on any date, shall mean in the case of any Multiple Quarterly Dividend Period or Long-Term Dividend Period having a term (i) more than 49 days but fewer than 120 days, the interest equivalent of the 90-day rate, (ii) 120 days or more but fewer than 148 days, the arithmetic average of the interest equivalent of the 90-day and 180-day rates, (iii) 148 days or more but fewer than 210 days, the interest equivalent of the 180-day rate, (iv) 210 days or more but fewer than 238 days, the arithmetic average of the interest equivalent of the 180-day and 270-day rates, and (v) 238 or more days but less than one year, the interest equivalent of the 270-day rate, on commercial paper placed on behalf of issuers whose corporate bonds are rated "AA" by S&P or "Aa" by Moody's, or the equivalent of either or both of

such ratings by such agencies or such rating by another rating agency, as made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date or in the event that the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of such rates, as quoted on a discount basis or otherwise by the Commercial Paper Dealers to the Auction Agent for the close of business on the Business Day next preceding such date. If any Commercial Paper Dealer does not quote a rate required to determine the Applicable "AA" Composite Commercial Paper Rate, the Applicable "AA" Composite Commercial Paper Rate shall be determined on the basis of the quotation or quotations furnished by the remaining Commercial Paper Dealer and any Substitute Commercial Paper Dealer or Dealers selected by the Company to provide such rate or rates not being supplied by any Commercial Paper Dealer or Dealers, as the case may be, or, if the Company does not select any such Substitute Commercial Paper Dealer or Dealers, by the remaining Commercial Paper Dealer. For the purpose of this definition, any arithmetic average shall be rounded to the nearest one-thousandth (.001) of one percent (or, if there is no nearest one-thousandth (.001) of one percent, to the next highest one-thousandth (.001) of one percent) and "interest equivalent" means the equivalent yield on a 360-day basis of a discount-basis security to an interest-bearing security.

(vi) "Applicable Rate" shall mean dividend rate per annum applicable to the shares of Flexible Preferred during a Dividend Period. If an Auction is not held on an Auction Date for any reason (other than because of the discontinuation of Auctions that results in the Applicable Rate becoming the Default Rate or because of the prior call for redemption of all shares of Flexible Preferred then outstanding), except in certain limited circumstances discussed under paragraph (f) of the definition of Auction Procedures, the dividend rate for the next succeeding Dividend Period shall be the Maximum Applicable Rate for a Quarterly Dividend Period or, if the next succeeding Dividend Period is a Seven-Day Dividend Period, a Short-Term Dividend Period, determined as of such Auction Date.

(vii) "Applicable Treasury Rate", on any date, with respect to Flexible Preferred with a Multiple Quarterly Dividend Period or a Long-Term Dividend Period of one year or more, means the interest equivalent of the rate for direct obligations of the United States Treasury having an original maturity which is equal to, or next lower than, the length of such Multiple Quarterly Dividend Period or Long-Term Dividend Period, as the case may be, or thirty years, in the case of a Perpetual Dividend Period, as published weekly by the Federal Reserve Board in "Federal Reserve Statistical Release H.15(519)--Selected Interest Rates", or any successor publication by the Federal Reserve Board, within five

Business Days preceding such date. In the event that the Federal Reserve Board does not publish such weekly per annum interest rate, or if such release is not yet available, the Applicable Treasury Rate will be the arithmetic average of the secondary market bid rates as of approximately 3:30 PM, New York City time, on the Business Day next preceding such date, of Kidder, Peabody & Co. Incorporated and Smith Barney, Harris Upham & Co. Incorporated or, in lieu of either thereof, their respective affiliates or successors (the "U.S. Government Securities Dealers") obtained by the Auction Agent (or in lieu thereof, the Company) for the issue of direct obligations of the United States Treasury, in an aggregate principal amount of at least \$1,000,000 with a remaining maturity equal to, or next lower than, the length of such Multiple Quarterly Dividend Period or Long-Term Dividend Period, as the case may be, or thirty years, in the case of a Perpetual Dividend Period. If any U.S. Government Securities Dealer does not quote a rate required to determine the Applicable Treasury Rate, the Applicable Treasury Rate shall be determined on the basis of the quotation or quotations furnished by the remaining U.S. Government Securities Dealer or any Substitute U.S. Government Securities Dealer or Dealers selected by the Company to provide such rate or rates not being supplied by any U.S. Government Securities Dealer or Dealers, as the case may be, or, if the Company does not select any such Substitute U.S. Government Securities Dealer or Dealers, by the remaining U.S. Government Securities Dealer; provided, that in the event the Company is unable to cause such quotations to be furnished to the Auction Agent (or, if applicable, to the Company) by such sources, the Company may cause the Applicable Treasury Rate to be furnished to the Auction Agent (or, if applicable, to the Company) by such alternative source or sources as the Company in good faith deems to be reliable. For the purpose of this definition, (i) any arithmetic average shall be rounded to the nearest one-thousandth (.001) of one percent (or, if there is no nearest one-thousandth (.001) of one percent, to the next highest one-thousandth (.001) of one percent), (ii) the "interest equivalent" means the equivalent yield on a 360-day basis of a discount-basis security to an interest-bearing security and (iii) "Substitute U.S. Government Securities Dealer" means any dealer in United States Treasury obligations, the principal office of which is located in New York City, that is a nationally recognized leading dealer in the market for United States Treasury obligations, provided that no such dealer may be a U.S. Government Securities Dealer or any affiliate of the Company.

(viii) "Articles" shall mean the Articles of Incorporation of the Company, as amended.

(ix) "Auction" shall mean the periodic implementation of the Auction Procedures.

(x) "Auction Agent" shall mean Bankers Trust Company (together with any successor bank or trust company or other entity entering into an Auction Agent Agreement with the Company).

(xi) "Auction Agent Agreement" shall mean an agreement entered into by the Company with a bank or trust company or other entity which will provide, among other things, that such bank or trust company or other entity will follow the Auction Procedures for the purposes of determining the Applicable Rate.

(xii) "Auction Date" shall mean the Business Day immediately preceding the first day of each Dividend Period which commences after the initial Dividend Period and, in connection with an Auction with respect to a Quarterly Dividend Period or a Multiple Quarterly Dividend Period that was cancelled because of an event or events not within the control of the Company and not directly involving the Company or its properties, the first Business Day following the date of such cancelled Auction that the Auction Agent determines an Auction can be held.

(xiii) "Auction Procedures" shall mean the following procedures pursuant to which the Applicable Rate is determined:

(a) The headings of the various subdivisions below are for convenience of reference only and shall not affect the interpretation of any of the provisions hereof.

(b) Orders by Existing Holders and Potential Holders.

(i) Prior to the Submission Deadline on each Auction Date:

(A) each Existing Holder may submit to a Broker-Dealer information as to:

(1) the number of Outstanding shares, if any, of Flexible Preferred held by such Existing Holder which such Existing Holder desires to continue to hold without regard to the Applicable Rate for the next succeeding Dividend Period;

(2) the number of Outstanding shares, if any, of Flexible Preferred that such Existing Holder desires to sell, provided that the Applicable Rate for the next succeeding Dividend Period shall be less than the rate per annum specified by such Existing Holder; and/or

(3) the number of Outstanding shares, if any, of Flexible Preferred held by such Existing Holder which such Existing Holder offers to sell without regard to

the Applicable Rate for the next succeeding Dividend Period;
and

(B) each Broker-Dealer, using a list of Potential Holders that shall be maintained by such Broker-Dealer in good faith for the purpose of conducting a competitive Auction, shall contact Potential Holders, including Persons that are not Existing Holders, on such list to determine the number of shares, if any, of Flexible Preferred that each such Potential Holder offers to purchase, provided that the Applicable Rate for the next succeeding Dividend Period shall not be less than the rate per annum specified by such Potential Holder.

For the purposes hereof, the communication to a Broker-Dealer of the information referred to in this paragraph (b)(i) is hereinafter referred to as an "Order" and each Existing Holder and each Potential Holder placing an Order is hereinafter referred to as a "Bidder"; an Order containing the information referred to in clause (A)(1) of this paragraph (b)(i) is hereinafter referred to as a "Hold Order"; an Order containing the information referred to in clause (A)(2) or (B) of this paragraph (b)(i) is hereinafter referred to as a "Bid"; and an Order containing the information referred to in clause (A)(3) of this paragraph (b)(i) is hereinafter referred to as a "Sell Order". Each Order by an Existing Holder or a Potential Holder must specify the number of shares of Flexible Preferred subject to such Order in whole Units. Any Order that specifies a number of shares other than in whole Units will not be accepted by the Auction Agent and will not be considered a Submitted Order for purposes of the Auction.

(ii) (A) A Bid by an Existing Holder shall constitute an irrevocable offer to sell:

(1) the number of Outstanding shares of Flexible Preferred specified in such Bid if the Applicable Rate determined on such Auction Date shall be less than the rate per annum specified in such Bid;

(2) the number of Outstanding shares of Flexible Preferred specified in such Bid or a lesser number of Outstanding shares of Flexible Preferred to be determined as set forth in paragraph (e)(i)(D) if the Applicable Rate determined on such Auction Date shall be equal to the rate per annum specified in such Bid; or

(3) the number of Outstanding shares of Flexible Preferred specified in such Bid or a lesser number of Outstanding shares of Flexible Preferred to be determined as set forth in paragraph (e)(ii)(C) if the rate per annum

specified in such Bid shall be higher than the Maximum Applicable Rate and Sufficient Clearing Bids do not exist.

(B) A Sell Order by an Existing Holder shall constitute an irrevocable offer to sell:

(1) the number of Outstanding shares of Flexible Preferred specified in such Sell Order if Sufficient Clearing Bids do exist; or

(2) the number of Outstanding shares of Flexible Preferred specified in such Sell Order or a lesser number of Outstanding shares of Flexible Preferred to be determined as set forth in paragraph (e)(ii)(C) if Sufficient Clearing Bids do not exist.

(C) A Bid by a Potential Holder shall constitute an irrevocable offer to purchase:

(1) the number of Outstanding shares of Flexible Preferred specified in such Bid if the Applicable Rate determined on such Auction Date shall be higher than the rate per annum specified in such Bid; or

(2) the number of Outstanding shares of Flexible Preferred specified in such Bid or a lesser number of Outstanding shares of Flexible Preferred to be determined as set forth in paragraph (e)(i)(E) if the Applicable Rate determined on such Auction Date shall be equal to the rate per annum specified in such Bid.

(c) Submission of Orders by Broker-Dealers to Auction Agent.

(i) Each Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline on each Auction Date all Orders obtained by such Broker-Dealer and shall specify with respect to each Order:

(A) the name of the Bidder placing such Order;

(B) the aggregate number of shares of Flexible Preferred that are subject of such Order;

(C) to the extent that such Bidder is an Existing Holder;

(1) the number of shares, if any, of Flexible Preferred subject to any Hold Order placed by such

Existing Holder;

(2) the number of shares, if any, of Flexible Preferred subject to any Bid placed by such Existing Holder and the rate specified in such Bid; and

(3) the number of shares, if any, of Flexible Preferred subject to any Sell Order placed by such Existing Holder; and

(D) to the extent that such Bidder is a Potential Holder, the rate and the number of shares of Flexible Preferred specified in such Potential Holder's Bid.

(ii) If any rate specified on any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next higher one thousandth (.001) of one percent.

(iii) If any Order or Orders covering all of the Outstanding shares of Flexible Preferred held by an Existing Holder is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Holder covering the number of Outstanding shares of Flexible Preferred held by such Existing Holder and not subject to Orders submitted to the Auction Agent.

(iv) If one or more Orders covering in the aggregate more than the number of Outstanding shares of Flexible Preferred held by an Existing Holder are submitted to the Auction Agent, such Orders shall be considered valid as follows and in the following order of priority:

(A) Any Hold Order submitted on behalf of such Existing Holder shall be considered valid up to and including the number of Outstanding shares of Flexible Preferred held by such Existing Holder; provided that if more than one Hold Order is submitted on behalf of such Existing Holder and the number of shares of Flexible Preferred subject to such Hold Orders exceeds the number of Outstanding shares of Flexible Preferred held by such Existing Holder, the number of shares of Flexible Preferred subject to such Hold Orders shall be reduced pro rata in whole Units so that such Hold Orders shall cover the number of Outstanding shares of Flexible Preferred held by such Existing Holder.

(B) Any Bid shall be considered valid to the extent and in the order of priority specified in this clause

(B) :

(1) any Bid shall be considered valid up to and including the excess (the "Bid Excess") of the number of Outstanding shares of Flexible Preferred held by such Existing Holder over the number of shares of Flexible Preferred subject to Hold Orders referred to in paragraph (c) (iv) (A); and

(2) subject to clause (1) above, if more than one Bid with the same rate is submitted on behalf of such Existing Holder and the number of Outstanding shares of Flexible Preferred subject to such Bids is greater than the Bid Excess, the number of shares of Flexible Preferred subject to such Bids shall be reduced pro rata in whole Units so that such Bids shall cover the number of shares of Flexible Preferred equal to the Bid Excess; and

(3) subject to clause (1) above, if more than one Bid with different rates is submitted on behalf of such Existing Holder, such Bids shall be considered valid in the ascending order of their respective rates up to and including the Bid Excess, provided that, in any event, the number, if any, of Outstanding shares subject to Bids not valid under this clause (B) shall be treated as the subject of a Bid by a Potential Holder.

(C) Any Sell Order shall be considered valid to the extent and in the order of priority specified in this clause (C) :

(1) any Sell Order shall be considered valid up to and including the excess (the "Sell Excess") of the number of Outstanding shares of Flexible Preferred held by such Existing Holder over the number of shares of Flexible Preferred, subject to Hold Orders referred to in paragraph (c) (iv) (A) and Bids referred to in paragraph (c) (iv) (B); and

(2) subject to clause (1) above, if more than one Sell Order is submitted on behalf of such Existing Holder and the number of Outstanding shares of Flexible Preferred subject to such Sell Orders is greater than the Sell Excess, the number of shares of Flexible Preferred subject to such Sell Orders shall be reduced pro rata in whole Units so that such Sell Orders shall cover the number of shares of Flexible Preferred equal to the Sell Excess.

(v) If more than one Bid is submitted on behalf of any Potential Holder, each Bid submitted shall be a separate Bid with the rate and number of shares of Flexible

Preferred therein specified.

(vi) Each Order by an Existing Holder or a Potential Holder must specify numbers of shares subject to such Order in whole Units. Any Order that specifies a number of shares other than in whole Units will not be accepted and will not be considered a Submitted Order for purposes of an Auction.

(d) Determination of Sufficient Clearing Bids, Winning Bid Rate and Applicable Rate.

(i) Not earlier than the Submission Deadline on each Auction Date, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to individually as a "Submitted Hold Order", a "Submitted Bid" or a "Submitted Sell Order", as the case may be, or as a "Submitted Order") and shall determine:

(A) the excess of the total number of Outstanding shares of Flexible Preferred over the number of Outstanding shares of Flexible Preferred that are the subject of Submitted Hold Orders (such excess being hereinafter referred to as the "Available Flexible Preferred");

(B) from the Submitted Orders whether the number of Outstanding shares of Flexible Preferred that are the subject of Submitted Bids by Potential Holders specifying one or more rates equal to or lower than the Maximum Applicable Rate exceeds or is equal to the sum of:

(x) the number of Outstanding shares of Flexible Preferred that are the subject of Submitted Bids by Existing Holders specifying one or more rates higher than the Maximum Applicable Rate; and

(y) the number of Outstanding shares of Flexible Preferred that are subject to Submitted Sell Orders

(if such excess or such equality exists (other than because the number of shares of Flexible Preferred in clauses (x) and (y) is each zero because all of the Outstanding shares of Flexible Preferred are the subject of Submitted Hold Orders), such Submitted Bids by Potential Holders being hereinafter referred to collectively as "Sufficient

Clearing Bids"); and

(C) If Sufficient Clearing Bids exist, the lowest rate specified in the Submitted Bids (the "Winning Bid Rate") which if the Auction Agent accepted:

(1) each Submitted Bid from Existing Holders specifying such lowest rate and all other Submitted Bids from Existing Holders specifying rates lower than such lowest rate; and

(2) each Submitted Bid from Potential Holders specifying such lowest rate and all other Submitted Bids from Potential Holders specifying rates lower than such lowest rate would result in such Existing Holders described in subclause (1) continuing to hold an aggregate number of Outstanding shares of Flexible Preferred that, when added to the number of Outstanding shares of Flexible Preferred to be purchased by such Potential Holders described in subclause (2), would equal not less than the Available Flexible Preferred.

(ii) Promptly after the Auction Agent has made the determinations pursuant to paragraph (d)(i), the Auction Agent shall advise the Company of the Maximum Applicable Rate and, based on such determinations, the Applicable Rate for the related Dividend Period as follows:

(A) if Sufficient Clearing Bids exist, that the Applicable Rate for such Dividend Period shall be equal to the Winning Bid Rate so determined;

(B) if Sufficient Clearing Bids do not exist (other than because all of the Outstanding shares of Flexible Preferred are the subject of Submitted Hold Orders), then (a) if the Company has not given a Notice of Adjustment of Dividend Period with respect to the next succeeding Dividend Period or has given a Notice of Revocation with respect thereto, that such next succeeding Dividend Period will be a Quarterly Dividend Period, unless the existing Dividend Period is a Short-Term Period or a Long-Term Dividend Period, in either of such cases the succeeding Dividend Period will be a Short-Term Dividend Period, and that the Applicable Rate for the applicable Dividend Period will be the Maximum Applicable Rate on the Auction Date for a Quarterly Dividend Period or a Short-Term Dividend Period, as applicable, and (b) if the Company has given a Notice of Adjustment of Dividend Period with respect to the next succeeding Dividend Period and has not given a

Notice of Revocation with respect thereto, that such next succeeding Dividend Period will, notwithstanding such Notice of Adjustment of Dividend Period, be a Quarterly Dividend Period, unless the existing Dividend Period is a Short-Term Dividend Period or a Long-Term Dividend Period, in either of such cases the succeeding Dividend Period will be a Seven-Day Dividend Period, all Bids and Sell Orders will be rejected and that the Applicable Rate for the applicable Dividend Period will be the greater of (1) the Maximum Applicable Rate on the Auction Date for a Quarterly Dividend Period or a Short-Term Dividend Period, as applicable, and (2) the dividend rate in effect for the Dividend Period during which such Auction occurred; if Sufficient Clearing Bids have not been made, Existing Holders that have submitted Sell Orders will not be able to sell in the Auction all, and may not be able to sell in the Auction any, shares which are the subject of such submitted Sell Orders;

(C) if all of the Outstanding shares of Flexible Preferred are the subject of Submitted Hold Orders, that the Applicable Rate for the next succeeding Dividend Period shall (1) in the case of a Short-Term Dividend Period, be equal to 59% of the 60-day "AA" Composite Commercial Paper Rate in effect on such Auction Date, (2) in the case of a Quarterly Dividend Period, be equal to 59% of the 90-day "AA" Composite Commercial Paper Rate in effect on such Auction Date and (3) in the case of a Multiple Quarterly Dividend Period or a Long-Term Dividend Period, 59% of the Reference Rate in effect on such Auction Date, subject in each case to a maximum of 25% per annum.

(e) Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocations of Shares. Existing Holders shall continue to hold shares of Flexible Preferred that are the subject of Submitted Hold Orders and, based on the determinations made pursuant to paragraph (d)(i), the Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

(i) If Sufficient Clearing Bids have been made, subject to the provisions of paragraph (e)(iii), Submitted Bids and Submitted Sell Orders shall be accepted or rejected in the following order of priority and all other Submitted Bids shall be rejected:

(A) the Submitted Sell Orders of Existing Holders shall be accepted and the Submitted Bid of each of the Existing Holders specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each

such Existing Holder to sell the shares of Flexible Preferred that are the subject of such Submitted Sell Order or Submitted Bid;

(B) the Submitted Bid of each of the Existing Holders specifying any rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Holder to continue to hold the shares of Flexible Preferred that are the subject of such Submitted Bid;

(C) the Submitted Bid of each of the Potential Holders specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Holder to purchase the number of shares of Flexible Preferred subject to such Submitted Bid;

(D) the Submitted Bid of each of the Existing Holders specifying a rate that is equal to the Winning Bid Rate shall be rejected, thus entitling each such Existing Holder to continue to hold the shares of Flexible Preferred that are the subject of such Submitted Bid, unless the number of Outstanding shares of Flexible Preferred subject to all such Submitted Bids shall be greater than the number of shares of Flexible Preferred ("Remaining Shares") equal to the excess of the Available Flexible Preferred over the number of shares of Flexible Preferred subject to Submitted Bids described in paragraphs (e)(i)(B) and (e)(i)(C), in which event the Submitted Bids of each such Existing Holder shall be accepted, and each such Existing Holder shall be required to sell shares of Flexible Preferred, but only in an amount equal to the difference between (1) the number of Outstanding shares of Flexible Preferred then held by such Existing Holder subject to such Submitted Bid and (2) the number of shares of Flexible Preferred obtained by multiplying (x) the number of Remaining Shares by (y) a fraction, the numerator of which shall be the number of Outstanding shares of Flexible Preferred held by such Existing Holder subject to such Submitted Bid and the denominator of which shall be the sum of the number of Outstanding shares of Flexible Preferred subject to such Submitted Bids made by all such Existing Holders that specified a rate equal to the Winning Bid Rate; and

(E) the Submitted Bid of each of the Potential Holders specifying a rate that is equal to the Winning Bid Rate shall be accepted, but only in an amount equal to the number of shares of Flexible Preferred obtained by multiplying the difference between the Available Flexible Preferred and the number of shares of Flexible Preferred subject to Submitted Bids described in paragraphs (e)(i)(B),

(e) (i) (C) and (e) (i) (D) by a fraction, the numerator of which shall be the number of Outstanding shares of Flexible Preferred held by such Potential Holder subject to such Submitted Bid and the denominator of which shall be the sum of the number of Outstanding shares of Flexible Preferred subject to such Submitted Bids made by all such Potential Holders that specified a rate equal to the Winning Bid Rate.

(ii) If Sufficient Clearing Bids have not been made (other than because all of the Outstanding shares of Flexible Preferred are subject to Submitted Hold Orders) in an Auction relating to a Quarterly Dividend Period, subject to the provisions of paragraphs (e) (iii) and (e) (iv), Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) the Submitted Bid of each Existing Holder specifying any rate that is equal to or lower than the Maximum Applicable Rate shall be rejected, thus entitling such Existing Holder to continue to hold the shares of Flexible Preferred that are the subject of such Submitted Bid;

(B) the Submitted Bid of each Potential Holder specifying any rate that is equal to or lower than the Maximum Applicable Rate shall be accepted, thus requiring such Potential Holder to purchase the shares of Flexible Preferred that are the subject of such Submitted Bid; and

(C) the Submitted Bids of each Existing Holder specifying any rate that is higher than the Maximum Applicable Rate shall be accepted and the Submitted Sell Orders of each Existing Holder shall be accepted, in both cases only in an amount equal to the difference between (1) the number of outstanding shares of Flexible Preferred then held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and (2) the number of shares of Flexible Preferred obtained by multiplying (x) the difference between the Available Flexible Preferred and the aggregate number of shares of Flexible Preferred subject to Submitted Bids described in paragraphs (e) (ii) (A) and (e) (ii) (B) by (y) a fraction, the numerator of which shall be the number of Outstanding shares of Flexible Preferred held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the number of Outstanding shares of Flexible Preferred subject to all such Submitted Bids and Submitted Sell Orders.

(iii) If, as a result of the procedures described in paragraph (e)(i) or (e)(ii), any Existing Holder would be entitled or required to sell, or any Potential Holder would be entitled or required to purchase on any Auction Date, shares of Flexible Preferred other than in whole Units, the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, (x) round up or down the number of shares of Flexible Preferred to be sold or purchased by any Existing Holder or Potential Holder on such Auction Date so that the number of shares sold or purchased by each Existing Holder or Potential Holder on such Auction Date shall be in whole Units of Flexible Preferred and (y) allocate such whole Units for purchase among Potential Holders even if such allocation results in one or more of such Potential Holders purchasing no shares of Flexible Preferred.

(iv) If Sufficient Clearing Bids have not been made (other than because all of the Outstanding shares of Flexible Preferred are subject to Submitted Hold Orders) in an Auction relating to a Short-Term Dividend Period, a Multiple Quarterly Dividend Period or a Long-Term Dividend Period, all Submitted Bids and all Submitted Sell Orders shall be rejected, thus requiring each Existing Holder to continue to hold the shares of Flexible Preferred held by such Existing Holder immediately prior to such Auction and the next succeeding Dividend Period will be, in the case of an Auction relating to a Multiple Quarterly Dividend Period, a Quarterly Dividend Period, and, in the case of an Auction relating to a Short-Term Dividend Period or a Long-Term Dividend Period, a Seven-Day Dividend Period.

(v) If all of the Outstanding shares of Flexible Preferred are the subject of Submitted Hold Orders, all Submitted Bids shall be rejected.

(vi) Based on the results of each Auction, the Auction Agent shall determine the aggregate number of shares of Flexible Preferred to be purchased and the aggregate number of shares of Flexible Preferred to be sold by Potential Holders and Existing Holders on whose behalf each Broker-Dealer submitted Bids or Sell Orders, and, with respect to each Broker-Dealer, to the extent that such aggregate number of shares to be purchased and such aggregate number of shares to be sold differ, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer shall deliver, or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers such Broker-Dealer shall receive, as the case may be, shares of Flexible Preferred.

(f)Cancelled Auctions. Notwithstanding anything contained herein to the contrary, if an Auction with respect to a Quarterly Dividend Period or a Multiple Quarterly Dividend Period is cancelled because of an event or events not within the control of the Company and not directly involving the Company or its properties, an Auction will be held on the first Business Day following the date of such cancelled Auction that the Auction Agent determines an Auction can be held. The Applicable Rate for the Dividend Period commencing on the Quarterly Dividend Payment Date on or immediately prior to the rescheduled Auction will be the Applicable Rate resulting from such Auction. Unless Existing Holders who sell Units at the rescheduled Auction make arrangements with their Agent Member to assure that they will receive unpaid dividends that accrued prior to the rescheduled Auction, such Existing Holders will not be entitled to receive dividends on such Units on the Quarterly Dividend Payment Date following such Auction.

(g)Miscellaneous. An Existing Holder (A) may sell, transfer or otherwise dispose of shares of Flexible Preferred only in whole Units and only pursuant to a Bid or Sell Order in accordance with the procedures described above to or through a Broker-Dealer or to a Person that has delivered a signed copy of a Master Purchaser's Letter to the Auction Agent, provided that in the case of all transfers other than pursuant to Auctions such Existing Holder, its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer, and (B) shall have the beneficial ownership of the shares of Flexible Preferred held by it maintained in book-entry form by the Securities Depository in the account of its Agent Member, which in turn will maintain records of such Existing Holder's beneficial ownership. The Company and its Affiliates shall not submit any Order in any Auction except as set forth in the next sentence. Any Broker-Dealer that is an Affiliate of the Company may submit Orders in Auctions but only if such Orders are not for its own account, except that if such affiliated Broker-Dealer holds shares of Flexible Preferred for its own account, it must submit a Sell Order in the next Auction with respect to such shares of Flexible Preferred.

If Sufficient Clearing Bids have been made, or all outstanding shares of Flexible Preferred are subject to Submitted Hold Orders, with respect to an Auction held during a Seven-Day Dividend Period, the next succeeding Dividend Period will be a Short-Term Dividend Period, otherwise the next succeeding Dividend Period will be a Seven-Day Dividend Period.

(xiv) "Available Flexible Preferred" shall have the

meaning specified in paragraph (d)(i)(A) of the definition of Auction Procedures.

(xv) "Bid" shall have the meaning specified in paragraph (b)(i) of the definition of Auction Procedures.

(xvi) "Bidder" shall have the meaning specified in paragraph (b)(i) of the definition of Auction Procedures.

(xvii) "Bid Excess" shall have the meaning specified in paragraph (c)(iv)(B)(1) of the definition of Auction Procedures.

(xviii) "Broker-Dealer" shall mean any broker-dealer or other entity permitted by law to perform the functions required of a Broker-Dealer in connection with the Auction Procedures that has been selected by the Company to perform such functions and has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective.

(xix) "Broker-Dealer Agreement" shall mean an agreement between the Auction Agent and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the Auction Procedures.

(xx) "Business Day" shall mean a day on which the New York Stock Exchange is open for trading and which is not a day on which banking institutions in New York City are authorized or required by law or executive order to close.

(xxi) "Commercial Paper Dealers" shall mean Kidder, Peabody & Co. Incorporated and Smith Barney, Harris Upham & Co. Incorporated and their respective successors or affiliates.

(xxii) "Default Rate" shall have the meaning specified in the second paragraph of paragraph (a) following these definitions.

(xxiii) "Dividend Payment Date" shall mean each date that dividends on shares of Flexible Preferred are payable. Such dates shall be (a) the first days of January, April, July and October with respect to Quarterly Dividend Periods and Multiple Quarterly Dividend Periods, (b) each seventh Wednesday following the preceding Dividend Payment Date with respect to Short-Term Dividend Periods, (c) the Business Day next succeeding the last day of the Dividend Period, and if payable prior to that date, on a selected day of the second, third or fourth month (as specified in the related Notice of Adjustment of Dividend Period) after the commencement of the Dividend Period, and quarterly thereafter on the same day of each succeeding third month, with respect to Long-

Term Dividend Periods and (d) on the seventh day following the Business Day next succeeding the date of the Auction giving rise to the Seven-Day Dividend Period with respect to Seven-Day Dividend Periods.

(xxiv) "Dividend Period" shall mean the initial Dividend Period (date of initial issuance to September 30, 1993), a Quarterly Dividend Period, a Multiple Quarterly Dividend Period, a Short-Term Dividend Period, a Long-Term Dividend Period or a Seven-Day Dividend Period.

If an Auction is not held on an Auction Date for any reason (other than because of the discontinuation of Auctions due to a failure to pay dividends or the redemption price when due or the prior call for redemption of all shares of Flexible Preferred then outstanding), whether or not a Notice of Adjustment of Dividend Period has been given with respect thereto, the related Dividend Period will be a Quarterly Dividend Period unless the existing Dividend Period is a Short-Term Period or a Long-Term Dividend Period, in either of such cases, the related Dividend Period will be a Seven-Day Dividend Period.

If the Company does not give a Notice of Adjustment of Dividend Period with respect to a next succeeding Dividend Period, or gives a Notice of Revocation with respect thereto, such next succeeding Dividend Period will be a Quarterly Dividend Period, unless the existing Dividend Period is a Short-Term Dividend Period or a Long-Term Dividend Period, in either of such cases, the next succeeding Dividend Period shall be a Short-Term Dividend Period. In addition, in the event the Company has given a Notice of Adjustment of Dividend Period with respect to a next succeeding Dividend Period, but Sufficient Clearing Bids are not made in the related Auction (other than because all shares of Flexible Preferred are the subject of Submitted Hold Orders), such next succeeding Dividend Period will, notwithstanding such Notice of Adjustment of Dividend Period, be a Quarterly Dividend Period, unless the existing Dividend Period is a Short-Term Dividend Period or a Long-Term Dividend Period, in either of such cases and in the case of the failure to receive Sufficient Clearing Bids (other than because all shares of Flexible Preferred are the subject of Submitted Hold Orders) relating to a Short-Term Dividend Period, the next succeeding Dividend Period shall be a Seven-Day Dividend Period and the Company may not

again give a Notice of Adjustment of Dividend Period that specifies a term which is a Multiple Quarterly Dividend Period or Long-Term Dividend Period (and any such notice shall be null and void) until Sufficient Clearing Bids have theretofore been made (or all shares were the subject of Submitted Hold Orders) in an Auction with respect to a Quarterly Dividend Period or a Short-Term Dividend Period, as the case may be.

Notwithstanding the foregoing, if the Dividend Payment Date with respect to any Dividend Period (other than a Seven-Day Dividend Period) is a day that would result in the number of days in such Dividend Period not being at least equal to the then current Minimum Holding Period, then such Dividend Period shall be extended to a date that results in the number of days included in such Dividend Period being at least equal to the Minimum Holding Period and dividends payable on the final Dividend Payment Date of such Dividend Period shall be payable, (i) in respect of a Quarterly Dividend Period or a Multiple Quarterly Dividend Period, on the first Quarterly Dividend Payment Date next succeeding such date, and (ii) in respect of a Short-Term Dividend Period or a Long-Term Dividend Period, on the first day following such date that is next succeeded by a Business Day.

In addition, notwithstanding the foregoing, in the event of a change in law altering the Minimum Holding Period, the Board of Directors may adjust the period of time between Dividend Payment Dates in connection with Short-Term Dividend Period so as to adjust uniformly the number of days (such number of days, without giving effect to the adjustments referred to above, being referred to herein as "Dividend Period Days") in between successive Dividend Payment Dates commencing after the date of such change in law to equal or exceed the then current Minimum Holding Period, provided that the number of Dividend Period Days shall not exceed by more than nine days the length of such then current Minimum Holding Period and shall be evenly divisible by seven, and the maximum number of Dividend Period Days, as adjusted pursuant to these provisions, shall in no event exceed 98 days. Upon any such change in the number of Dividend Period Days as a result of a change in law, the Company will give notice of such change to all Existing Holders of Flexible Preferred.

Although any particular Dividend Payment Date may not occur on the originally scheduled Dividend Payment Date because of the foregoing adjustments or because such originally scheduled Dividend Payment Date is not a Business Day, each succeeding Dividend Payment Date shall be, subject to such adjustments, the date determined as set forth in this definition of Dividend Payment Date as if each preceding Dividend Payment Date had occurred on the respective originally scheduled Dividend Payment Date.

(xxv) "Dividend Period Days" shall have the meaning specified in the penultimate paragraph under the definition of Dividend Period.

(xxvi) "Dividend Quarter" shall mean the period from the preceding Dividend Payment Date to the next Dividend Payment Date during a Multiple Quarterly Dividend Period or a Long-Term

Dividend Period in the case where such Dividend Payment Dates are on the same date of the month and the next Dividend Payment Date is in the third calendar month after the preceding Dividend Payment Date.

(xxvii) "Enabling Event" shall mean the designation by the Company of a Short-Term Dividend Period after such amendments to the Articles as are necessary to accommodate the payment of dividends on the Flexible Preferred on a basis other than quarterly have been duly adopted by the Company's shareholders and the Company has provided the Auction Agent and the Broker-Dealers with copies of such amendments to the Articles, together with an opinion of counsel, satisfactory to the Auction Agent and the Broker-Dealers, to the effect that such amendments have been duly adopted and filed with the Secretary of State of the State of Illinois and that the Company's designation of a Dividend Period other than a Quarterly Dividend Period or a Multiple Quarterly Dividend Period with respect to the Flexible Preferred will not conflict with or violate the Articles or the laws of Illinois.

(xxviii) "Existing Holder" shall mean a person who has signed a Master Purchaser's Letter and is listed as the beneficial owner of shares of Flexible Preferred in the records of the Auction Agent.

(xxix) "Flexible Preferred" shall mean the shares of Flexible Auction Rate Class A Preferred Stock, without par value, subject to an Auction on any Auction Date.

(xxx) "Hold Order" shall have the meaning specified in paragraph (b) (i) of the definition of Auction Procedures.

(xxxi) "Long-Term Dividend Period" shall mean a period greater than 49 days and either not exceeding 25 years or without end, which (unless it is without end) contains a number of days evenly divisible by 7. Each Long-Term Dividend Period shall commence on a Dividend Payment Date and end, unless it is a Perpetual Dividend Period, on the day next preceding a Dividend Payment Date.

(xxxii) "Master Purchaser's Letter" shall mean a letter addressed to the Company, the Auction Agent, a Broker-Dealer and others in which a Person agrees, among other things, to offer to purchase, purchase, offer to sell and/or sell shares of Flexible Preferred pursuant to the Auction Procedures.

(xxxiii) "Maximum Applicable Rate" on any date shall mean the lesser of 25% per annum and (a) in the case of a Quarterly Dividend Period, a per annum rate equal to the product of the 90-day "AA" Composite Commercial Paper Rate in effect on such date

multiplied by the Rate Multiple in effect on such date, (b) in the case of a Short-Term Dividend Period, a per annum rate equal to the product of the 60-day "AA" Composite Commercial Paper Rate in effect on such date multiplied by the Rate Multiple in effect on such date or (c) in the case of a Multiple Quarterly Dividend Period or a Long-Term Dividend Period, a per annum rate equal to the product of the Reference Rate in effect on such date multiplied by the Rate Multiple in effect on such date.

(xxxiv) "Minimum Holding Period" shall mean the minimum holding period under the federal tax laws of the United States required for corporate taxpayers to be entitled to claim a deduction with respect to dividends on preferred stock received by them.

(xxxv) "Moody's" shall mean Moody's Investors Service, Inc. or its successor.

(xxxvi) "Multiple Quarterly Dividend Period" shall mean a period greater than 3 months and either not exceeding 25 years or without end, which (unless it is without end) contains a number of months evenly divisible by 3. Each Multiple Quarterly Dividend Period shall commence on a Quarterly Dividend Payment Date and end, unless it is a Perpetual Dividend Period, on the day next preceding a Quarterly Dividend Payment Date.

(xxxvii) "No Call Period" shall have the meaning specified in the definition of Notice of Adjustment of Dividend Period.

(xxxviii) "Notice of Adjustment of Dividend Period" shall mean a written notice by the Company to the Auction Agent and the Securities Depository (which may be revoked by a Notice of Revocation) given not less than 10 nor more than 20 days prior to an Auction Date specifying the term of the next succeeding Dividend Period will be a Multiple Quarterly Dividend Period, a Long-Term Dividend Period or the initial Short-Term Dividend Period. For any Auction occurring after the initial Auction, the Company may not give a Notice of Adjustment of Dividend Period (and any such notice shall be null and void) unless Sufficient Clearing Bids were made (or all shares of the Flexible Preferred were subject to Hold Orders) in the last occurring Auction, and full cumulative dividends on shares of the Flexible Preferred, whether or not earned or declared payable prior to such Auction Date have been paid in full. Each Notice of Adjustment of Dividend Period shall state (i) the term thereof if not a Perpetual Dividend Period, (ii) the length of the period, beginning on the first day of a Multiple Quarterly Dividend Period or Long-Term Dividend Period, as the case may be, during which the shares will not be redeemable at the option of the Company (a "No-Call Period"), subject to any Special Redemption

or Sinking Fund Redemption stated to be applicable during such No-Call Period as described in clause (vi) or (vii) below; (iii) the premium per share, if any, that the Company will pay as part of the redemption price if shares of Flexible Preferred are redeemed by the Company otherwise than pursuant to a Special Redemption or a Sinking Fund Redemption (the "Redemption Premium"), provided that no such Redemption Premium will be stated in a Notice of Adjustment of Dividend Period unless duly authorized by the Board of Directors and provided, further, that any Redemption Premium may be specified by the Company to decline over time to not less than 0% in the applicable Notice of Adjustment of Dividend Period; (iv) the terms, if any, on which the Applicable Rate for a Multiple Quarterly Dividend Period or Long-Term Dividend Period, as the case may be, will be adjusted upon the occurrence of specified events relating to the U.S. federal income tax consequences of the receipt of dividends on the Flexible Preferred, which terms shall be specified in the applicable Notice of Adjustment of Dividend Period; (v) the applicable Broker-Dealer fee for such Auction; (vi) whether or not the Flexible Preferred will be subject to a Special Redemption at the option of the Company during a Multiple Quarterly Dividend Period or Long-Term Dividend Period, as the case may be, and, if so, the applicable Triggering Rate, or the formula or other basis for determining the applicable Triggering Rate for such Special Redemption; and (vii) whether or not the Flexible Preferred will be subject to Sinking Fund Redemption during a Multiple Quarterly Dividend Period or Long-Term Dividend Period, as the case may be, and the period or periods within which, and the terms and conditions upon which, the Flexible Preferred will be redeemed, in whole or in part, pursuant to a Sinking Fund Redemption obligation, provided that no Sinking Fund Redemption obligation will be stated in a Notice of Adjustment of Dividend Period unless duly authorized by the Board of Directors.

If in a Notice of Adjustment of Dividend Period the Company has specified that the next succeeding Dividend Period will be an initial Short-Term Dividend Period, such initial Short-Term Dividend Period will end on a Tuesday specified in such Notice of Adjustment of Dividend Period which will be no earlier than the 46th day and no later than the eighth Tuesday following the last day of the preceding Dividend Period (subject to adjustment for a change in the Minimum Holding Period). Once the Company has exercised its option to specify an initial Short-Term Dividend Period, each succeeding Dividend Period shall be either a Short-Term Dividend Period, a Long-Term Dividend Period or a Seven-Day Dividend Period.

If in a Notice of Adjustment of Dividend Period the Company has specified a Perpetual Dividend Period and Sufficient Clearing Bids are made in the Auction relating to such designation (or all shares of Flexible Preferred are the subject

of Submitted Hold Orders); (i) such Perpetual Dividend Period will be the last Dividend Period, (ii) such Auction will be the final Auction with respect to the Flexible Preferred, (iii) the services of the Auction Agent (except in its capacities as dividend disbursement agent, redemption agent, registrar and transfer agent) and of the Broker-Dealers will end; (iv) transferability of the shares of Flexible Preferred will not be restricted to persons who have executed Master Purchaser's Letters; (v) Master Purchaser's Letters will no longer be required with respect to shares of Flexible Preferred; (vi) there will be no adjustment to the dividend rate following the commencement of such Perpetual Dividend Period for payment failures or otherwise; and (vii) if so stated in the Notice of Adjustment of Dividend Period, shares of Flexible Preferred will no longer be required to be transferred in Units during such Perpetual Dividend Period.

(xxxix) "Notice of Revocation" shall mean a telephonic notice given by the Company to the Auction Agent, the Broker-Dealers and the Security Depository at or prior to 10 AM on the related Auction Date, and promptly confirmed in writing, that the Company has revoked the Notice of Adjustment of Dividend Period previously given by it with respect to such Auction Date.

(xl) "Order" shall have the meaning specified in paragraph (b) (i) in the definition of Auction Procedures.

(xli) "Outstanding" shall mean, as of any date, shares of Flexible Preferred theretofore issued by the Company except, without duplication, (A) any shares of Flexible Preferred theretofore cancelled or delivered to the Auction Agent for cancellation, or redeemed by the Company or as to which a notice of redemption shall have been given by the Company, (B) any shares of Flexible Preferred as to which the Company or any Affiliate thereof (other than an Affiliate which is a Broker-Dealer) shall be an Existing Holder and (C) any shares of Flexible Preferred represented by any certificate in lieu of which a new certificate has been executed and delivered by the Company.

(xlii) "Perpetual Dividend Period" shall mean a Multiple Quarterly Dividend Period or a Long-Term Dividend Period without end.

(xliii) "Person" shall mean and include an individual, a partnership, a corporation, a trust, an unincorporated association, a joint venture or other entity or a government or any agency or political subdivision thereof.

(xliv) "Post-Enabling Event" shall mean the failure of an Auction related to a Short-Term Dividend Period or a Long-Term

Dividend Period because Sufficient Clearing Bids do not exist (other than because all of the outstanding shares of Flexible Preferred are the subject of Submitted Hold Orders) or an Auction is not held on an Auction Date for any reason (other than because of a discontinuation of Auctions that results in the Applicable Rate becoming the Default Rate).

(xlv) "Potential Holder" shall mean any Person, including any Existing Holder, (A) who shall have executed a Master Purchaser's Letter and (B) who may be interested in acquiring shares of Flexible Preferred (or, in the case of an Existing Holder, additional shares of Flexible Preferred).

(xlvi) "Quarterly Dividend Payment Date" shall mean the first days of January, April, July and October.

(xlvii) "Quarterly Dividend Period" shall mean a period of 3 months. Each Quarterly Dividend Period shall commence on a Quarterly Dividend Payment Date and end on the day next preceding the next succeeding Quarterly Dividend Payment Date.

(xlviii) "Rate Multiple" shall mean the percentage, determined as set forth below, based on the prevailing rating of the Flexible Preferred in effect at the close of business on the Business Day preceding the applicable Auction Date (each Rate Multiple appearing in the below table opposite a prevailing rating being referred to as the "Original Rate Multiple" for such prevailing rating):

| Prevailing Ratings | Rate Multiple |
|--------------------|---------------|
| AA/aa or Above | 125% |
| A/a | 150% |
| BBB/baa | 200% |
| Below BBB/baa | 250% |

Notwithstanding the foregoing, with respect to any Auction Date, (i) the Company may, by telephonic and written notice to the Auction Agent by 10 AM New York City time, on such Auction Date, increase the Rate Multiple to be in effect on such Auction Date, such increased Rate Multiple to remain in effect thereafter unless and until the Company gives notice, as provided in clauses (i) and (ii) of this paragraph, to the Auction Agent and, if required, the Broker-Dealers of a subsequent change to such Rate Multiple, and (ii) the Company may, by telephonic and written notice to the Auction Agent and the Broker-Dealers delivered not less than 10 days prior to any Auction Date,

decrease the Rate Multiple to be in effect on such Auction Date (but in no event to a Rate Multiple for any prevailing rating which is less than the Original Rate Multiple for such prevailing rating), such decreased Rate Multiple to remain in effect thereafter unless and until the Company gives notice, as provided in clauses (i) and (ii) of this paragraph, to the Auction Agent and if required, the Broker-Dealers of a subsequent change to such Rate Multiple; provided that in each case there has been delivered to the Company and the Auction Agent an opinion of counsel to the Company to the effect that the use of such higher or lower, as the case may be, Rate Multiple will not adversely affect the tax treatment of the Flexible Preferred.

For purposes of this definition, the "prevailing rating" of Flexible Preferred shall be (i) AA/aa or Above, if the Flexible Preferred has a rating of AA- or better by S&P and aa3 or better by Moody's or the equivalent of both of such ratings by such agencies or a substitute rating agency or agencies selected as provided below, (ii) if not AA/aa or Above, then A/a, if the Flexible Preferred has a rating of A- or better by S&P and a3 or better by Moody's or the equivalent of both of such ratings by such agencies or a substitute rating agency or agencies selected as provided below, (iii) if not AA/aa or Above or A/a, then BBB/baa, if the Flexible Preferred has a rating of BBB- or better by S&P and baa3 or better by Moody's or the equivalent of both of such ratings by such agencies or a substitute rating agency or agencies selected as provided below, and (iv) if not AA/aa or Above, A/a or BBB/baa, then Below BBB/baa. Accordingly, for purposes of the foregoing, the "prevailing rating" of the Flexible Preferred will be based upon the lower of the two ratings provided by S&P and Moody's or a substitute rating agency or agencies. The Company shall take all reasonable action necessary to enable S&P and Moody's to provide a rating for the Flexible Preferred. If either or both of S&P or Moody's shall not make such a rating available, the Company shall select a nationally recognized statistical rating organization (as that term is used in the rules and regulations of the Commission under the Securities Exchange Act of 1934, as amended) or two nationally recognized statistical rating organizations to act as substitute rating agency or substitute rating agencies, as the case may be.

(xlix) "Reference Rate" shall mean for Multiple Quarterly Dividend Periods and Long-Term Dividend Periods having a term (i) fewer than 270 days, the Applicable "AA" Composite Commercial Paper Rate, (ii) 270 days or more and less than one year, the higher of the 270-day Applicable "AA" Composite Commercial Paper Rate and the one-year Applicable Treasury Rate and (iii) one year or more, the Applicable Treasury Rate.

(1) "S&P" shall mean Standard & Poor's Corporation or

its successor.

(li) "Securities Depository" shall mean The Depository Trust Company and its successors and assigns or any other securities depository selected by the Company which agrees to follow the procedures required to be followed by such securities depository in connection with shares of Flexible Preferred.

(lii) "Sell Excess" shall have the meaning specified in paragraph (c)(iv)(C)(1) of the definition of Auction Procedures.

(liii) "Sell Order" shall have the meaning specified in paragraph (b)(i) of the definition of Auction Procedure.

(liv) "Seven-Day Dividend Period" shall mean a period of 7 days. Each Seven-Day Dividend Period shall commence on a Dividend Payment Date and end on the day next preceding a Dividend Payment Date.

(lv) "Short-Term Dividend Period" shall mean a period of 49 days or, in the event the Minimum Holding Period shall exceed 49 days, a period designated by the Company which is not greater than the lesser of (a) the length of the Minimum Holding Period plus 9 days and (b) 98 days, which contains a number of days evenly divisible by 7. Each Short-Term Dividend Period shall commence on a Dividend Payment Date and end on the day next preceding a Dividend Payment Date.

(lvi) "Sinking Fund Redemption" shall have the meaning specified in paragraph (e) following these definitions.

(lvii) "Special Redemption" shall have the meaning specified in paragraph (b) following these definitions.

(lviii) "Submission Deadline" shall mean 1 PM, New York City time, on any Auction Date or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time.

(lix) "Submitted Bid" shall have the meaning specified in paragraph (d)(i) of the definition of Auction Procedures.

(lx) "Submitted Hold Order" shall have the meaning specified in paragraph (d)(i) of the definition of Auction Procedures.

(lxi) "Submitted Order" shall have the meaning specified in paragraph (d)(i) of the definition of Auction Procedures.

(lxii) "Submitted Sell Order" shall have the meaning specified in paragraph (d)(i) of the definition of Auction Procedures.

(lxiii) "Substitute Commercial Paper Dealer" shall mean any commercial paper dealer (other than the Commercial Paper Dealers), the principal office of which is located in New York City, that is a nationally recognized leading dealer in the domestic commercial paper market, provided that no such dealer may be an affiliate of the Company.

(lxiv) "Sufficient Clearing Bids" shall have the meaning specified in paragraph (d)(i)(B) of the definition of Auction Procedures.

(lxv) "Triggering Rate" shall have the meaning specified in paragraph (b) following these definitions.

(lxvi) "Unit" shall mean a unit of Flexible Preferred consisting of 1,000 shares of Flexible Preferred.

(lxvii) "Winning Bid Rate" shall have the meaning specified in paragraph (d)(i)(C) of the definition of Auction Procedures.

[End of Definitions]

(a) The rate of dividend shall be 2.45% per annum until September 30, 1993. Thereafter the rate of dividend for each subsequent Dividend Period (which shall be a Quarterly Dividend Period prior to the Enabling Event and a Short-Term Dividend Period after the Enabling Event, unless a Notice of Adjustment of Dividend Period has been given which has not been revoked by a Notice of Revocation or a Post-Enabling Event has occurred, in which case, the Dividend Period shall be as specified in such Notice of Adjustment of Dividend Period or a Seven-Day Dividend Period if a Post-Enabling Event has occurred), except as provided in the next succeeding paragraph, shall be the rate that the Auction Agent advises the Company is the Applicable Rate for such Dividend Period resulting from the implementation of the Auction Procedures. Except during a Perpetual

Dividend Period, in the event of the failure by the Company to pay to the Auction Agent by 12 Noon, New York City time, (i) on the Business Day next preceding any Dividend Payment Date, the full amount of any dividend (whether or not earned or declared) to be paid on such Dividend Payment Date on any share or (ii) on the Business Day next preceding any redemption date, the full redemption price to be paid on such redemption date for any share after a notice of redemption has been (or should have been) given, and any such failure shall not have been cured within three Business Days thereafter by payment to the Auction Agent, by 12 Noon, New York City time, on such third Business Day, of the full amount of all such dividends or the full amount of the aggregate redemption price for the shares that have been (or should have been) called for redemption, plus accrued and unpaid dividends from the date of redemption to the date of such cure, as the case may be, then until such time as the full amount due shall have been paid to the Auction Agent, (a) Auctions will be discontinued and (b) the Applicable Rate for each Dividend Period, or, in the case of a Multiple Quarterly Dividend Period or a Long-Term Dividend Period, each Dividend Quarter, commencing on or after any such Dividend Payment Date (or redemption date, as the case may be) shall be equal to the Default Rate for such Dividend Period or Dividend Quarter. The foregoing shall continue until, at least one Business Day prior to a Dividend Payment Date, the full amount of any dividends (whether or not earned or declared) payable on each Dividend Payment Date prior to such Dividend Payment Date, and the full amount of any redemption price then or theretofore due shall have been paid to the Auction Agent, and thereupon, (a) Auctions shall resume on the terms stated herein and (b) with respect to a

Multiple Quarterly Dividend Period or a Long-Term Dividend Period, dividend payments shall resume at the Applicable Rate established by the Auction with respect to such Multiple Quarterly Dividend Period or Long-Term Dividend Period, as the case may be. With respect to any such failure, the "Default Rate" will be the higher of 250% of the 90-day "AA" Composite Commercial Paper Rate determined as of the date of such failure (unless such failure occurs during a Short-Term Dividend Period or a Long-Term Dividend Period, in either of such cases 250% of the 60-day "AA" Composite Commercial Paper Rate determined as of the date of such failure) and (i) if the Company has failed timely to pay dividends in respect of a Quarterly Dividend Period, Multiple Quarterly Dividend Period, Short-Term Dividend Period, Long-Term Dividend Period, or Seven-Day Dividend Period, the dividend rate in effect for the Quarterly Dividend Period, Multiple Quarterly Dividend Period, Short-Term Dividend Period, Long-Term Dividend Period or Seven-Day Dividend Period, as the case may be, in respect of which such failure occurred or (ii) if the Company has failed timely to pay the redemption price of shares called for redemption, the dividend rate in effect for the Dividend Period in which the applicable redemption was to have occurred; but in no event higher than 25% per annum.

Notwithstanding the occurrence of any payment failure described in the preceding paragraph, the dividend rate with respect to a Perpetual Dividend Period will not change.

The amount of dividends per share of the Flexible Preferred payable for each Quarterly Dividend Period and for each Dividend Quarter during any Multiple Quarterly Dividend Period or Long-Term Dividend Period shall be computed by multiplying the Applicable Rate for

such Quarterly Dividend Period, Multiple Quarterly Dividend Period or Long-Term Dividend Period, as applicable, by \$100 per share (\$100,000 per Unit) and dividing the amount so obtained by 4. The amount of dividends per share of the Flexible Preferred payable for the initial Dividend Period and each Short-Term Dividend Period, Seven-Day Dividend Period and each Dividend Period during a Long-Term Dividend Period (other than a Dividend Quarter) shall be computed by multiplying the Applicable Rate for each such Dividend Period by a fraction, the numerator of which shall be the number of days in the Dividend Period that such share was outstanding and the denominator of which shall be 360 and

multiplying the amount so obtained by \$100 per share (\$100,000 per Unit).

Each dividend, other than with respect to a Perpetual Dividend Period (for which the Board of Directors may establish a different record date) shall be payable to the holder or holders of record of the Flexible Preferred as of the close of business on the Business Day immediately preceding the applicable Dividend Payment Date. Dividends in arrears for any past Dividend Period (and for any past Dividend Quarter during a Multiple Quarterly Dividend Period or a Long-Term Dividend Period) may be declared and paid at any time, on a regular Dividend Payment Date or otherwise, to the holder or holders of record of the Flexible Preferred as of the applicable record date fixed by the Board of Directors, which shall not be more than 15 days prior to the date fixed for the payment of such dividends. Any dividend payment made on shares of Flexible Preferred shall first be credited against the dividends accrued with respect to the earliest Dividend Period (or, if applicable, the

earliest Dividend Quarter) for which dividends have not been paid.

- (b) At the option of the Company, shares of Flexible Preferred may be redeemed out of funds legally available therefor, in whole or in part, in whole Units only,
- (i) with respect to a Quarterly Dividend Period, a Short-Term Dividend Period or a Seven-Day Dividend Period, on any Dividend Payment Date and
 - (ii) with respect to a Multiple Quarterly Dividend Period or a Long-Term Dividend Period, on any Dividend Payment Date on or after the expiration of any applicable No-Call Period specified by the Company in the related Notice of Adjustment of Dividend Period, in each case at a redemption price equal to the sum of (a) \$100,000 per Unit (\$100 per share), (b) accrued and unpaid dividends on the shares subject to redemption to the date fixed for redemption and (c) with respect to Multiple Quarterly Dividend Periods or Long-Term Dividend Periods, the Redemption Premium, if any, in effect on the date of redemption.

Notwithstanding any applicable No-Call Period, in the event that in any Notice of Adjustment of Dividend Period specifying a Multiple Quarterly Dividend Period or a Long-Term Dividend Period, the Company elects that a Special Redemption provision will be applicable, then, if Sufficient Clearing Bids are made in an Auction relating to such Multiple Quarterly Dividend Period or Long-Term Dividend Period, as the case may be, but the Applicable Rate for such Multiple Quarterly Dividend Period or Long-Term Dividend Period, as the case may be, equals or exceeds any rate (the "Triggering Rate") specified in, or determinable from a formula or description contained in, such Notice of Adjustment of Dividend Period on the date of determination of such Applicable Rate, the Company may, as

its option, redeem (a "Special Redemption") the Flexible Preferred in whole but not in part, at a redemption price equal to \$100,000 per Unit (\$100 per share) plus accrued and unpaid dividends to the date fixed for redemption, on any date during the 10-day period commencing on the day which is 46 days (or in the event of a change in law lengthening the Minimum Holding Period, the first day after the expiration of such Minimum Holding Period) following the first day of such Multiple Quarterly Dividend Period or Long-Term Dividend Period, as the case may be. Notice of exercise of such option must be given within two Business Days after the date of the Auction establishing such Applicable Rate by written or telephonic notice to the Auction Agent and the Securities Depository.

If the Company shall duly give notice of redemption, and the Company shall have deposited a sum sufficient to redeem the shares of Flexible Preferred as to which notice of redemption has been given in trust with the Auction Agent, with irrevocable instructions and authority to pay the redemption price to the holders thereof, or if no such deposit is made, then upon such date fixed for redemption (unless the Company shall default in making payment of the redemption price), all rights of holders with respect to the shares so called for redemption shall cease and terminate, except the right of the holders of such shares to receive the redemption price thereof, but without interest, and such shares shall no longer be deemed to be outstanding for any purpose. The Company shall be entitled to receive, from time to time, the interest, if any, earned on such money deposited with the Auction Agent, and the holders of any shares so redeemed shall have no claim to any such interest. Any funds so deposited which are unclaimed at the end of six

years from such redemption date shall, at the request of the Company, be repaid to the Company, after which the Auction Agent shall be relieved of all responsibility to the holders of the shares of Flexible Preferred so called for redemption and such holders shall look only to the Company for payment thereof.

So long as shares of Flexible Preferred are held for record by the nominee of the Securities Depository, the redemption price for such shares will (unless the Company shall default in making payment of the redemption price) be paid to the Securities Depository on the redemption date.

If shares of Flexible Preferred are called for redemption by the Company, unless the Company shall default in making payment of the redemption price, the dividend rate for such shares until the commencement of the next Dividend Period and for each subsequent Period until the redemption date shall be the Applicable Rate in effect on the date the notice of redemption is given.

- (c) The amount payable in event of involuntary liquidation shall be \$100 per share (\$100,000 per Unit), plus accrued dividends.
- (d) The amount payable in event of voluntary liquidation shall be \$100 per share (\$100,000 per Unit), plus accrued dividends.
- (e) In the event that in any Notice of Adjustment of Dividend Period specifying a Multiple Quarterly or a Long-Term Dividend Period, the Company elects that Sinking Fund Redemption provisions will be applicable to the Flexible Preferred, then, during such Multiple Quarterly Dividend Period or Long-Term Dividend Period, as the case may be, the Company will redeem (a "Sinking Fund Redemption"), out of

funds legally available therefor, on each Dividend Payment Date specified in such Notice of Adjustment of Dividend Period, the number or percentage of shares of Flexible Preferred (in whole Units only, unless a Perpetual Dividend Period) set forth in such Notice of Adjustment of Dividend Period, at a redemption price equal to the sum of (a) \$100,000 per Unit (\$100 per share) and (b) accrued and unpaid dividends on the shares subject to redemption of the date fixed for redemption. If so provided in the Notice of Adjustment of Dividend Period, the Company may, at its option, on such Dividend Payment Date, redeem (also a "Sinking Fund Redemption") such additional number or percentage of shares (in whole Units only, unless a Perpetual Dividend Period) as may be specified in such Notice of Adjustment of Dividend Period at such redemption price. The right to make such additional sinking fund redemption in each period will, unless otherwise specified in such Notice of Adjustment of Dividend Period, be noncumulative. If so specified in the Notice of Adjustment of Dividend Period, any mandatory Sinking Fund Redemption requirement will be subject to decrease, at the election of the Company, by the application thereto (at \$100,000 per Unit or \$100 per share) of any Flexible Preferred theretofore purchased, redeemed or otherwise acquired (other than through the mandatory Sinking Fund Redemption requirement) which have not previously been applied in reduction of any mandatory Sinking Fund Redemption requirement.

PREFERENCE STOCK

Provision for Division Into and Issue in Series of Preference
Stock and
Grant of Authority to Board of Directors

The shares of the Preference Stock may be divided into

and issued in series. Each series shall be designated so as to distinguish the shares thereof from the shares of all other series and classes and all shares of the Preference Stock irrespective of series shall be identical except as to the following relative rights and preferences in respect of any or all of which there may be variations between different series and authority is hereby expressly vested in the Board of Directors to the extent that series are not established by the Articles of Incorporation and the variations and the relative rights and preferences as between series fixed and determined therein, to establish series and to fix and determine the following relative rights and preferences of the shares thereof in accordance with the provisions of the Business Corporation Act of Illinois applicable thereto:

- (a) The rate of dividend;
- (b) The price at and the terms and conditions on which shares may be redeemed;
- (c) The amount payable upon shares in event of involuntary liquidation;
- (d) The amount payable upon shares in event of voluntary liquidation;
- (e) Sinking fund provisions for the redemption or purchase of shares (the term "sinking fund" as used herein, including any analogous fund, however designated);
- (f) The terms and conditions on which shares may be converted, if the shares of any series are issued with the privilege of conversion.

The Board of Directors is hereby authorized to issue and sell all the authorized and unissued shares of Preference Stock as shares of any series which shall have been duly established, and in the event that the Company shall acquire, by purchase or redemption or otherwise, any issued shares of its Preference Stock of any series, the Board of Directors may resell or convert and sell, in their discretion, any shares so acquired as shares of the same or of any other series of Preference Stock which shall have been duly established.

Shares of any series of Preference Stock, without par value, may be issued for such consideration, not less than the aggregate preferential amount payable upon such shares in the event of involuntary liquidation, as may be fixed by the Board of

Directors prior to the time of such issuance and, except as otherwise determined by the Board of Directors in accordance with the provisions of the Business Corporation Act of Illinois applicable thereto, the entire amount of such consideration shall be stated capital.

General Provisions

The following provisions shall apply to all shares of the Preference Stock irrespective of series:

(A)The shares of Preference Stock shall be subordinate to the Preferred Stock and the Class A Preferred Stock but in preference to the Common Stock as to the payment of dividends. The holders of the Preference Stock of each series shall be entitled to receive dividends payable quarterly on the first day of January, April, July and October of each year, when and as declared by the Board of Directors, at such rates as shall be determined for the respective series, from the date upon which such shares shall have been originally issued, before any dividends shall be declared or paid upon or set apart for the Common Stock or any other stock of the Company not having preference over the Preference Stock as to payment of dividends. Such dividends shall be cumulative so that if for any dividend period or periods dividends shall not have been paid or declared and set apart for payment upon all outstanding Preference Stock at the rates determined for the respective series, the deficiency shall be fully paid, or declared and set apart for payment, before any dividends shall be declared or paid upon the Common Stock or any other stock of the Company not having preference over the Preference Stock as to payment of dividends. Dividends shall not be declared and set apart for payment, or paid, on the Preference Stock of any one series, for any dividend period, unless dividends have been or are contemporaneously declared and set apart for payment or paid on the Preference Stock of all series for all dividend periods terminating on the same or an earlier date.

(B)When full cumulative dividends as aforesaid upon the Preference Stock of all series then outstanding for all past dividend periods and for the current dividend periods shall have been paid or declared and set apart for payment, the Board of Directors may declare dividends on the Common Stock or any other stock over which the Preference Stock has a preference as to payment of dividends, and no holders of any series of Preference Stock as such shall be entitled to share therein.

(C)The shares of Preference Stock shall be subordinate to the Preferred Stock and the Class A Preferred Stock but in preference to the Common Stock upon any dissolution, liquidation

or winding up of the Company, whether voluntary or involuntary. Upon any such dissolution, liquidation or winding up of the Company, whether voluntary or involuntary, the holders of Preference Stock of each series, without any preference of the shares of any series of Preference Stock over the shares of any other series of Preference Stock, shall be entitled to receive out of the assets of the Company, whether capital, surplus or other, before any distribution of the assets to be distributed shall be made to the holders of Common Stock or of any other stock not having preference as to assets over the Preference Stock, the amount determined to be payable on the shares of such series in the event of voluntary or involuntary liquidation, as the case may be. In case the assets shall not be sufficient to pay in full the amounts determined to be payable on all the shares of Preference Stock in the event of voluntary or involuntary liquidation, as the case may be, then the assets available for such payment shall be distributed ratably among the holders of the Preference Stock of all series in accordance with the amounts determined to be payable on the shares of each series, in the event of voluntary or involuntary liquidation, as the case may be, in proportion to the full preferential amounts to which they are respectively entitled. After payment to the holders of the Preference Stock of the full preferential amounts hereinbefore provided for, the holders of the Preference Stock as such shall have no right or claim to any of the remaining assets of the Company, either upon any distribution of such assets or upon dissolution, liquidation or winding up, and the remaining assets to be distributed, if any, upon a distribution of such assets or upon dissolution, liquidation or winding up, may be distributed, subject to the laws of the State of Illinois and the Articles of Incorporation, among the holders of the Common Stock or of any other stock over which the Preference Stock has preference as to assets. Without limiting the right of the Company to distribute its assets or to dissolve, liquidate or wind up in connection with any sale, merger, or consolidation, the sale of all the property of the Company to, or the merger or consolidation of the Company into or with any other corporation shall not be deemed to be a distribution of assets or a dissolution, liquidation or winding up for the purposes of this paragraph.

(D) At the option of the Board of Directors of the Company, the Company may redeem any series of Preference Stock determined to be redeemable, or any part of any series, at any time at the redemption price determined for such series; provided, however, that not less than thirty nor more than sixty days previous to the date fixed for redemption a notice of the time and place thereof shall be given to the holders of record of the Preference Stock so to be redeemed, by mail or publication, in such manner as may be prescribed by the Bylaws of the Company or by resolution of the Board of Directors; and, provided

further, that in every case of redemption of less than all of the outstanding shares of any one series of Preference Stock, the shares of such series to be redeemed shall be chosen by lot in such manner as may be prescribed by resolution of the Board of Directors. At any time after notice of redemption has been given in the manner prescribed by the Bylaws of the Company or by resolution of the Board of Directors to the holders of stock so to be redeemed, the Company may deposit or may cause its nominee to deposit, the aggregate redemption price with some bank or trust company named in such notice, payable on the date fixed for redemption as aforesaid and in the amounts aforesaid to the respective orders of the holders of the shares so to be redeemed, on endorsement to the Company or its nominee or otherwise, as may be required, and upon surrender of the certificates for such shares. Upon the deposit of said money as aforesaid, or if no such deposit is made, upon said redemption date (unless the Company defaults in making payment of the redemption price as set forth in such notice), such holders shall cease to be shareholders with respect to said shares and from and after the making of said deposit, or if no such deposit is made, after the redemption date (the Company not having defaulted in making payment of the redemption price as set forth in such notice), the said holders shall have no interest in or claim against the Company or its nominee with respect to said shares, but shall be entitled only to receive said moneys on the date fixed for redemption as aforesaid from said bank or trust company, or if no such deposit is made, from the Company, without interest thereon, upon endorsement (if required) and surrender of the certificates as aforesaid.

If such deposit shall be made by a nominee of the Company as aforesaid, such nominee shall upon such deposit become the owner of the shares with respect to which such deposit was made and certificates of stock may be issued to such nominee in evidence of such ownership.

In case the holder of any such Preference Stock shall not, within six years after said deposit, claim the amount deposited as above stated for the redemption thereof, the Depositary shall upon demand pay over to the Company such amounts so deposited and the Depositary shall thereupon be relieved from all responsibility to the holder thereof.

Nothing herein contained shall limit any legal right of the Company to purchase any shares of the Preference Stock.

(E) At all meetings of the shareholders of the Company, the holders of the Preference Stock shall be entitled to one vote for each share of such Preference Stock held by them respectively.

(F) So long as any shares of the Preference Stock are outstanding, no amendment to the Articles of Incorporation shall be adopted without the affirmative vote of the holders of at least 66-2/3% of the shares of Preference Stock outstanding at the time of the adoption of such amendment, which would either (a) create any class of shares preferred as to dividends or assets over the Preference Stock, or (b) change the designations, preferences, qualifications, limitations, restrictions or other special or relative rights of the then outstanding Preference Stocks, provided however, that nothing in this paragraph contained shall authorize the adoption of any amendment of the Articles of Incorporation by the vote of the holders of a less number of shares of Preference Stock, or of any other class of stock, or of all classes of stock, than is required for the adoption of such amendment by the laws of the State of Illinois at that time applicable thereto.

COMMON STOCK

There shall be a class of stock of the Company designated Common Stock and each share of Common Stock shall be equal to every other share of said stock in every respect.

At all meetings of the shareholders of the Company the holders of the Common stock shall be entitled to one vote for each share of such Common Stock held by them respectively.

Limitation of Preemptive Rights of Holders of Preferred, Class A Preferred, Preference and Common Stock

No holder of the shares of the capital stock of any class of the Company shall have any preemptive or preferential right of subscription for or to purchase any shares of any class of the capital stock of the Company, whether now or hereafter authorized, or any bonds, debentures or other obligations or rights or options convertible into or exchangeable for or entitling the holder or owner to subscribe for or purchase any shares of the capital stock of the Company, other than such right or rights, if any, and at such price as the Board of Directors in its discretion, from time to time may determine, and the Board of Directors may issue such shares of stock, bonds, debentures, obligations, rights or options without offering the same in whole or in part to the shareholders of the Company. Should the Board of Directors as to any portion of the shares of the Company, whether now or hereafter authorized, or any such bonds, debentures, obligations, rights or options, offer the same to the shareholders, such offer shall not constitute a waiver or release of the right of the Board of Directors subsequently to dispose of

other portions thereof without so offering the same to the shareholders.

ARTICLE 4. (Deleted)

ARTICLE 5. (Deleted)

ARTICLE 6. The location of the principal office is the City of Peoria, County of Peoria, and State of Illinois.

ARTICLE 7. The duration of the corporation shall be perpetual.

ARTICLE 8. The number of the members of the Board of Directors shall be fixed by the Bylaws of the corporation and shall not be less than three. Except to the extent otherwise provided by law, vacancies in the Board of Directors arising between meetings of shareholders, by reason of an increase in the number of directors or otherwise, may be filled by a majority of directors then in office and any director so selected shall serve until the next annual meeting of shareholders. A majority of the outstanding shares represented in person or by proxy shall constitute a quorum at a meeting of shareholders; provided however, that at any such meeting a lower percentage (but not less than one-third) of the outstanding shares shall constitute a quorum, if, prior to such meeting, such lower percentage has been determined as sufficient for such purpose by the vote in person or by proxy of a majority of the outstanding shares at any annual meeting of shareholders or at any special meeting thereof called for that purpose and such determination has not been modified or revoked by a subsequent determination of shareholders similarly voted.

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE STATEMENT OF INCOME, STATEMENT OF CASH FLOWS AND BALANCE SHEET AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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<NAME> CILCORP INC.

<MULTIPLIER> 1,000

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<CIK> 0000018651

<NAME> CENTRAL ILLINOIS LIGHT COMPANY

<MULTIPLIER> 1,000

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