

## PRESIDENT'S LETTER

Dear Fellow Shareholders:

This is my first opportunity to address you in an annual report since becoming the Company's president in August 1989. As you are well aware, these are exciting and challenging times for the utility industry. I believe you will agree, as you read through this report, the Company is positioning itself strategically for the decade of the 1990s.

Purely from an earnings standpoint, 1989 was a disappointing year as earnings per share declined to \$1.91 from \$2.35 in 1988. Earnings were reduced by 60 cents a share to recognize the revenue and interest we proposed to refund to our retail electric customers.

We took this action in an attempt to conclude a lengthy proceeding which resulted from an Illinois Commerce Commission

order issued in 1987. The order required the Company to "show cause" why its rates should not be reduced to reflect lower federal income tax rates. The extended regulatory proceeding produced uncertainty which overshadowed our financial results and masked our operational strengths.

Our proposal was to refund \$40.3 million, plus interest, to customers and to reduce electric rates by \$11 million annually. This proposal was consistent with results of the analysis of the issue by the commission's own staff.

As of this writing, the commission has not acted to approve our proposal, but we hope this uncertainty will be equitably resolved as soon as possible. The details concerning this proceeding are discussed on pages 14 and 15.

### OTHER DEVELOPMENTS

Although the show cause proceeding remains unresolved, there are a number of positive developments for your Company which I would like to discuss.

■ The annualized common stock dividend rate was increased to \$1.10 from \$1.76, effective with the June 1989 dividend. This was the eleventh consecutive year in which the dividend rate was increased.

■ For the third consecutive year we experienced an increase in electric sales to our industrial customers. This is particularly heartening because in addition to greater revenues, the increased electricity requirement typically means these customers are experiencing success in their own lines of business. This results in increased employment, purchase of additional supplies, and other factors which have a beneficial ripple effect throughout our communities.

■ We realized a significant increase in the amount of income produced by our temporary investments, primarily due to the rate of return we achieved on these funds.

■ We filed a request with the Illinois Commerce Commission in January 1990 for an increase of \$11.6 million in natural gas revenues to improve earnings.

CIPS is committed to making the natural gas business a vital and important contributor to future corporate profits. Over the past several years, this segment of our business has not earned a fair return for shareholders.

Because the commission has up to 11 months to decide this matter, a rate increase is not expected to have significant impact on 1990 earnings.

### HOLDING COMPANY PROPOSAL

The utility business is undergoing dramatic change. Competition is much greater today because of changes in state and federal regulations. As a result, utility customers are gaining greater control over how they will be served and who will serve them. Independent power producers, co-generation producers, alternate suppliers of natural gas, gas

brokers and others are competing for a utility's business, without the constraints of traditional utility regulation.

We must position ourselves strategically with the flexibility to meet competition head-on. We plan to do this by establishing a new corporate structure with CIPSCO Incorporated as a holding company and CIPS as a subsidiary.

This structure will permit us to act upon potential business opportunities in a timely way, which is not always possible within a regulated utility.

It is expected that our electric and gas utility business will continue to be the predominant source of CIPSCO's earning power for the foreseeable future. Also, CIPSCO plans to invest in longer-term financial instruments and unregulated, energy-related projects as opportunities are identified. Due to constraints in Illinois law concerning public utilities, a regulated utility such as CIPS might not be able to compete effectively for these investment opportunities.

Although a few utility holding companies have had disappointing results in their diversification efforts, there are many, many instances where utilities have successfully enhanced shareholder value through investments outside their traditional utility business. Our formula for successful diversification keys on limiting investments to those which relate to management's knowledge and experience. We believe that our proposed investment strategies meet these criteria and will be in the best interests of the shareholders.

### SHAREHOLDER APPROVAL REQUIRED

For the restructuring to take place, shareholder approval is required. In the near future you will receive proxy materials soliciting a favorable vote on the proposal which will create CIPSCO Incorporated as a holding company. The present holders of CIPS common stock would become holders of CIPSCO common stock.

I ask you to study the proxy materials carefully and urge you to vote in favor of this proposal.

### LOOKING FORWARD

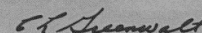
Because of the record of achievement and stability posted by the Company throughout the 1980s, we look to the 1990s with a sense of confidence and optimism.

As we entered the previous decade, we were in final stages of constructing our last generating unit expected to be required in this century. When this construction program concluded in late 1982, our position as a reliable and low-cost energy provider was solidified.

We have worked hard to contain our costs and this experience will be important as we manage our future. Today we are on the verge of a major corporate restructuring which should position us favorably in the competitive energy marketplace of the new decade.

The dedication of our employees and the loyal support of our shareholders have permitted us to arrive successfully at the opening of the 1990s. With such resources and commitments, we are prepared to pursue and benefit from opportunities the future may present.

Sincerely,



Clifford L. Greenwalt  
President and Chief Executive Officer