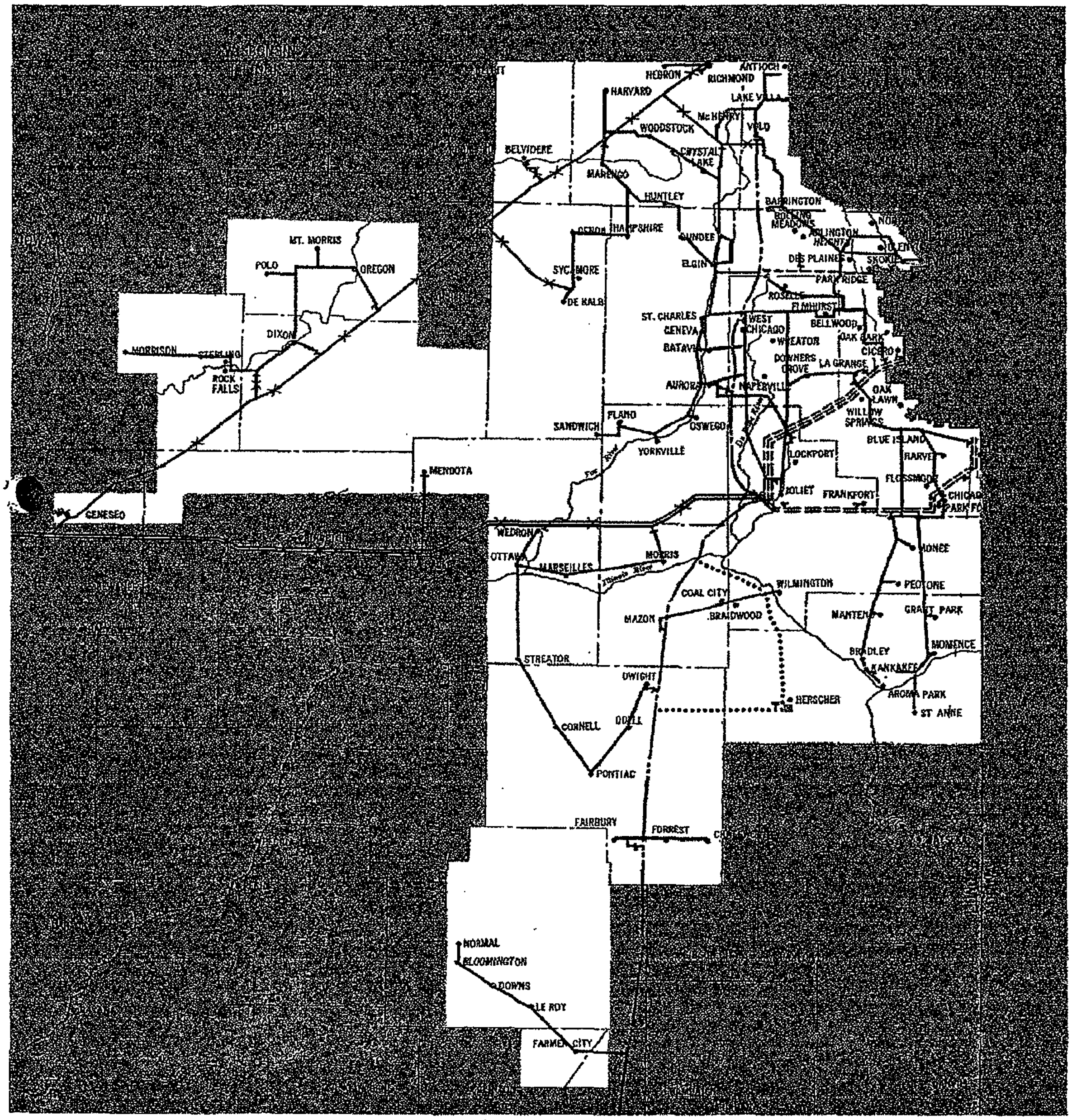

Northern Illinois Gas Company

General Service Territory • 1958

Territory 10,000 Sq. Miles
Population 2,200,000 (est.)
Communities Served 266

SCALE: 0 5 10 15 20 MILES

LEGEND
- Major Supply Points
- General Service Territory
- Herscher Underground Storage Field
- Northern Illinois Gas Company
- Natural Gas Pipeline Company of America
- Texas Illinois Natural Gas Pipeline Company
- Chicago District Pipeline Company
- Natural Gas Storage Company of Illinois

MANAGEMENT

The directors and officers of the Company are:

Name	Office
H. A. Barber *President, Barber-Greene Company, Aurora, Illinois*	Director
Marvin Chandler	President and Director
Calvin Fentress, Jr. *Chairman, Allstate Insurance Company, Skokie, Illinois*	Director
William S. Kerr *Vice-President and Business Manager, Northwestern University, Evanston, Illinois*	Director
Edgar E. Lungren	Executive Vice-President and Director
Perry L. McPheeters *President, Wheaton National Bank, Wheaton, Illinois*	Director
Carl J. Sharp *Chairman of the Executive Committee, Acme Steel Company, Riverdale, Illinois*	Director
Harold B. Smith *President, Illinois Tool Works, Chicago, Illinois*	Director
Douglas P. Wells *Vice-President, Clearing Industrial District, Inc., Chicago, Illinois*	Director
Edward D. Sheehan	Vice-President (Operations)
William J. Crowley	Vice-President and Comptroller
Henry A. Diekmann	Vice-President (Sales)
Howard E. Ford	Vice-President (Supply)
George W. Ryerson	Secretary
Luster L. Starrett	Treasurer
Stephen E. Taylor	Assistant Secretary
Charles W. Daniels	Assistant Treasurer
Thomas F. Brown	Assistant Comptroller
William F. Hayes	Assistant Comptroller

Mr. Chandler became President of the Company in November, 1954, and a director in June, 1955. Prior to that date he had been, since 1945, Vice-President, Secretary and a director of Reis & Chandler, Inc., New York, financial consultants and investment advisors, specializing in public utilities.

Mr. Diekmann became a Vice-President of the Company in June, 1956. For 22 years prior thereto he had been engaged in sales work with The Brooklyn Union Gas Company, for the last four of such years as Manager of New Business.

All of the other officers have been with the Company since 1954, and for more than five years prior thereto were continuously associated with Commonwealth Edison Company or its former subsidiary, Public Service Company of Northern Illinois.

During 1957, the only persons among the directors and the three highest-paid officers of the Company whose aggregate remuneration, paid directly or indirectly by the Company, exceeded $30,000 were Mr.

Chandler whose compensation as President was $50,571 and Mr. Lungren whose compensation as Executive Vice-President was $37,000. The aggregate remuneration paid during 1957 directly or indirectly by the Company to all directors and principal officers, as a group, was $193,242.

No portion of the Company's contributions to the trust fund under its Service Annuity System, or of the assets thereof, is paid or set aside for the account or benefit of any individual employe or officer. Upon retirement, Messrs. Chandler and Lungren are expected to be entitled to $21,891 and $11,381 per year, respectively, (less Federal Social Security benefits), calculated upon the basis of retirement of each at age 65 with no change in salaries in the interim.

The Company has an Employe Stock Purchase Plan which was established September 7, 1954. All regular employes of legal age, including officers but not directors who are not officers, are entitled to participate. Participants may accumulate up to 10% of their regular pay and on designated dates twice each year (in April and October) use such accumulated savings to purchase, at their option, common stock of the Company. The purchase price is 90% of the closing market price on such designated dates, but not less than $10 per share. Under the Plan during 1957, Messrs. Chandler and Lungren purchased 137 and 228 shares, respectively, and the Company's eligible directors and principal officers, as a group, purchased an aggregate of 741 shares. Deductions under the Plan at the annual rates of $3,000, $3,600, and an aggregate of $12,840 are currently being made from the pay of Messrs. Chandler and Lungren and the Company's eligible directors and principal officers as a group, respectively. As of December 31, 1957, an aggregate of 44,419 shares of the Company's common stock had been purchased by participants under the Plan for $739,609 (aggregate market price $821,518), an average price of $16.65 per share (average market price $18.49 per share).

As of December 31, 1957, the directors and principal officers of the Company, as a group, beneficially owned, or had direct or contingent beneficial interests in, 6,239 shares of the Company's common stock.

DESCRIPTION OF STOCK

The authorized stock of the Company is divided into two classes, preferred stock of the par value of $100 per share and common stock of the par value of $5 per share. Certain of the rights of the holders of the preferred stock, as a class, and of the common stock, as set forth in the Articles of Incorporation, as amended, and certain of the terms of the 5% Preferred Stock, as set forth in the resolution of the Board of Directors establishing the series in which such stock is to be issued, are summarized below.

Issuance in Series. The Board of Directors is authorized by the Company's Articles of Incorporation to provide for the issue from time to time of the preferred stock in series, and as to each series to fix the designation, dividend rate, redemption prices, voluntary and involuntary liquidation prices, sinking fund provisions, if any, and conversion provisions, if any, applicable to the shares of such series.

Dividends. Dividends on the shares of each series of the preferred stock at any time established, at the rate fixed therefor by the Board of Directors, are payable, out of legally available funds and subject to declaration by the Board, quarterly (unless otherwise provided by the Board) on the first day of February, May, August and November in each year. Dividends are cumulative with respect to each share from date of issue.

No funds may be paid into or set aside for any sinking fund created for any series of the preferred stock or for any stock of any parity or junior class, unless all dividends on the preferred stock for all past quarterly dividend periods shall have been paid or shall have been declared and funds set aside for such payment.

No dividend may be paid or other distribution made on the common stock or on stock of any other class junior to the preferred stock, other than a dividend or distribution solely of shares of the common stock or of such other junior stock, and no common stock or such other junior stock may be purchased or otherwise acquired by the Company for a consideration, unless (1) all dividends on the preferred stock for all past quarterly dividend periods shall have been paid or shall have been declared and funds set aside for such payment, and (2) all funds then and theretofore required to be paid into or set aside for any sinking fund or funds created for one or more series of the preferred stock shall have been so paid or set aside.

Subject to the foregoing limitations, holders of the common stock are entitled to dividends, out of legally available funds, when and as declared by the Board of Directors.

Redemption. Subject to the limitations hereinafter stated under "Limitations on Redemption and Purchase" and except as may be otherwise provided by the Board of Directors in respect of the shares of a particular series, shares of any one or more series of the preferred stock may be called for redemption and redeemed, on not less than 30 days' notice by mail, in whole at any time or in part from time to time at the option of the Company or in part from time to time pursuant to any sinking fund or funds created for one or more series of the preferred stock, in each case by the payment therefor in cash of the then applicable redemption price or prices of the shares to be redeemed. Provision is made whereby, subject to certain conditions, all rights of the holders of shares called for redemption (except the right to receive the redemption moneys and the right to exercise any then effective privilege of conversion) will terminate before the redemption date, upon the deposit with a bank or trust company of the funds necessary for redemption.

The optional and sinking fund redemption prices applicable to the 5% Preferred Stock are stated under "5% Preferred Stock" on page 2 of this Prospectus.

Sinking Fund. On or before May 1 of each year beginning with the year 1961, so long as any shares of the 5% Preferred Stock are outstanding, the Company will be required to set aside as a sinking fund, out of legally available funds (in priority to dividends on common stock and after payment or provision for payment of dividends on preferred stock), but only to the extent of "available net income" of the Company for the preceding year, an amount sufficient to redeem, at the sinking fund redemption price, 2,000 shares of the 5% Preferred Stock. The sinking fund requirement will be fully cumulative if and to the extent not satisfied in any year. The amount to be set aside on or before each May 1 is to be applied on that date to the redemption of shares at the sinking fund redemption price. Available net income for any year is defined as net income determined in accordance with generally accepted accounting principles, but after deducting an amount equal to the aggregate of dividends payable during the year on outstanding shares of preferred stock.

In lieu of all or any part of the amount otherwise required to be set aside for the sinking fund in any year, the Company may apply any shares of the 5% Preferred Stock, not previously so applied, which it shall have purchased or shall have redeemed otherwise than through the sinking fund, such shares to be taken for the purposes of such application at the sinking fund redemption price thereof.

Limitations on Redemption and Purchase. If and so long as the Company shall be in default in the payment of any quarterly dividend on shares of any series of the preferred stock, or shall be in default in the payment of funds into or the setting aside of funds for any sinking fund created for any series of the preferred stock, the Company may not (other than by the use of unapplied funds, if any, paid into or set aside for a sinking fund or funds prior to such default) (1) redeem any shares of the preferred stock unless all shares thereof are redeemed, or (2) purchase or otherwise acquire for a consideration any shares of the preferred stock, except pursuant to offers of sale made by holders of the preferred stock in response to an invitation for tenders given simultaneously by the Company by mail to the holders of record of all shares of the preferred stock then outstanding.

Status of Preferred Stock Redeemed or Purchased. All shares of the preferred stock redeemed, purchased or otherwise reacquired by the Company shall have the status of authorized and unissued shares of preferred stock or shall be retired and cancelled as may, in each case, be determined by the Board of Directors. In respect of the 5% Preferred Stock, the Board has determined that no shares redeemed, purchased or otherwise reacquired may be reissued as shares of the same series, but that such shares shall have the status of authorized and unissued shares of preferred stock, subject to later issuance as shares of one or more other series.

Liquidation Preferences. In the event of dissolution, liquidation or winding up of the Company, voluntary or involuntary, holders of the preferred stock of each series at any time established will be entitled to receive out of the assets of the Company such amount per share as shall have been fixed by the Board of Directors as the voluntary liquidation price or the involuntary liquidation price, as the case may be, for the shares of such series.

The per share voluntary and involuntary liquidation prices of the 5% Preferred Stock are stated under "5% Preferred Stock" on page 2 of this Prospectus.

After, but not before, payment in full shall have been made to holders of the preferred stock, or funds or other assets set aside for such payment, holders of the common stock will be entitled to ratable distribution of the remaining assets of the Company.

Voting Rights. Holders of the preferred stock and common stock at any time outstanding are entitled to one vote for each share held on each matter submitted to a vote at a meeting of stockholders, with the right to cumulate votes in all elections for directors.

Restrictions on Certain Corporate Action. So long as any shares of the preferred stock shall be outstanding, the Company may not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of the preferred stock outstanding:

(1) create or authorize any stock of any prior or parity class; or

(2) amend the Articles of Incorporation of the Company so as adversely to affect any of the preferences or other rights of the holders of the preferred stock; provided, however, that if any such amendment would adversely affect any of the preferences or other rights of the holders of one or more, but less than all, of the series of the preferred stock then outstanding, the affirmative vote or consent of, and only of, the holders of at least two-thirds of the shares of each series so adversely affected will be required.

Any amendment of the resolution of the Board of Directors establishing a series of preferred stock which would adversely affect the rights of the holders of the shares of such series may be made only with the affirmative vote or consent of the holders of at least two-thirds of the outstanding shares of such series.

So long as any shares of the preferred stock shall be outstanding, the Company may not, without the affirmative vote or consent of the holders of a majority of the shares of the preferred stock outstanding:

(1) issue any shares of the preferred stock, which may hereafter be authorized, in addition to the 300,000 shares now authorized, or any shares of stock of any prior or parity class which may hereafter be authorized (other than for the purpose of effecting the retirement, by redemption, exchange or otherwise, of outstanding shares ranking at least on a parity with, and representing an aggregate amount of stated capital at least equal to the aggregate amount of the stated capital to be represented by, the shares proposed to be issued), if the aggregate amount of the stated capital represented by all preferred stock and all prior and parity stock to be outstanding after the proposed issue, after giving effect to the retirement of any preferred stock or any prior or parity stock to be retired in connection with such issue, would exceed 75% of the aggregate amount of the stated capital represented by the common stock then outstanding and by stock of any other class, then outstanding, junior to the preferred stock, plus the amount of the retained earnings of the Company and its consolidated subsidiaries, if any, as of the end of the preceding fiscal year (the term "stated capital," as above used, includes any related paid-in surplus); or

(2) consolidate with or merge into any other corporation, under applicable statutory procedure, or make any sale or transfer of the property and business of the Company as or substantially as an entirety, except that such restriction does not apply to any such consolidation with or merger into or any such sale or transfer to (a) any corporation which owns, directly or indirectly through one or more other corporations, 50% or more of the voting securities of the Company, (b) any corporation 50% or more of the voting securities of which are owned by the Company, or (c) any corporation, when such consolidation, merger, sale or transfer shall be required by any commission or other governmental agency having jurisdiction. The term "sale or transfer" as above used includes a lease or exchange but not a mortgage or pledge.

Preemptive Rights. Holders of neither the preferred stock nor the common stock have any preemptive rights.

Nonassessability. The 5% Preferred Stock will, when issued, be fully paid and nonassessable.

The Transfer Agents and Registrars for the Preferred Stock are:

Transfer Agents	Registrars
The Northern Trust Company 50 South LaSalle Street Chicago 90, Illinois	The First National Bank of Chicago 38 South Dearborn Street Chicago 90, Illinois
Bankers Trust Company 16 Wall Street New York 15, N.Y.	Irving Trust Company One Wall Street New York 15, N.Y.

UNDERWRITING

The Underwriters named below have severally agreed, subject to the terms and conditions of the Underwriting Agreement, to purchase from the Company the following respective numbers of shares of the Preferred Stock:

Underwriter	Address	Number of Shares to be Purchased
The First Boston Corporation	15 Broad Street, New York 5, N. Y.	11,000
Glore, Forgan & Co.	135 South La Salle Street, Chicago 3, Ill.	11,000
A. G. Becker & Co. Incorporated	120 South La Salle Street, Chicago 3, Ill.	3,000
Blyth & Co., Inc.	14 Wall Street, New York 5, N. Y.	3,000
Goldman, Sachs & Co.	20 Broad Street, New York 5, N. Y.	3,000
Hornblower & Weeks	40 Wall Street, New York 5, N. Y.	3,000
Lehman Brothers	One William Street, New York 4, N. Y.	3,000
Merrill Lynch, Pierce, Fenner & Beane	70 Pine Street, New York 5, N. Y.	3,000
Smith, Barney & Co.	20 Broad Street, New York 5, N. Y.	3,000
Stone & Webster Securities Corporation	90 Broad Street, New York 4, N. Y.	3,000
White, Weld & Co.	20 Broad Street, New York 5, N. Y.	3,000
Dean Witter & Co.	45 Montgomery Street, San Francisco 6, Calif.	3,000
Bacon, Whipple & Co.	135 South La Salle Street, Chicago 3, Ill.	2,000
Bear, Stearns & Co.	One Wall Street, New York 5, N. Y.	2,000
William Blair & Company	135 South La Salle Street, Chicago 3, Ill.	2,000
The Illinois Company Incorporated	231 South La Salle Street, Chicago 4, Ill.	2,000
Salomon Bros. & Hutzler	60 Wall Street, New York 5, N. Y.	2,000
Bache & Co.	36 Wall Street, New York 5, N. Y.	1,500
Blunt Ellis & Simmons	208 South La Salle Street, Chicago 4, Ill.	1,500
Julien Collins & Company	105 South La Salle Street, Chicago 3, Ill.	1,500
Dominick & Dominick	14 Wall Street, New York 5, N. Y.	1,500
Equitable Securities Corporation	Two Wall Street, New York 5, N. Y.	1,500
Farwell, Chapman & Co.	208 South La Salle Street, Chicago 4, Ill.	1,500
Hallgarten & Co.	44 Wall Street, New York 5, N. Y.	1,500
Hemphill, Noyes & Co.	15 Broad Street, New York 5, N. Y.	1,500
Lee Higginson Corporation	20 Broad Street, New York 5, N. Y.	1,500
McCormick & Co.	231 South La Salle Street, Chicago 4, Ill.	1,500

Underwriter	Address	Number of Shares to be Purchased
F. S. Moseley & Co.	14 Wall Street, New York 5, N. Y.	1,500
Paine, Webber, Jackson & Curtis	25 Broad Street, New York 4, N. Y.	1,500
Reynolds & Co., Inc.	120 Broadway, New York 5, N. Y.	1,500
L. F. Rothschild & Co.	120 Broadway, New York 5, N. Y.	1,500
Shearson, Hammill & Co.	14 Wall Street, New York 5, N. Y.	1,500
Spencer Trask & Co.	25 Broad Street, New York 4, N. Y.	1,500
G. H. Walker & Co.	One Wall Street, New York 5, N. Y.	1,500
John W. Clarke & Co.	135 South La Salle Street, Chicago 3, Ill.	1,000
Cruttenden, Podesta & Co.	209 South La Salle Street, Chicago 4, Ill.	1,000
R. S. Dickson & Company, Incorporated	30 Broad Street, New York 4, N. Y.	1,000
Francis I. duPont & Co.	One Wall Street, New York 5, N. Y.	1,000
Fulton Reid & Co., Inc.	1186 Union Commerce Bldg., Cleveland 14, Ohio	1,000
Goodbody & Co.	115 Broadway, New York 6, N. Y.	1,000
The Milwaukee Company	207 East Michigan Street, Milwaukee 2, Wisc.	1,000
Mullaney, Wells & Company	135 South La Salle Street, Chicago 3, Ill.	1,000
Rodman & Renshaw	209 South La Salle Street, Chicago 4, Ill.	1,000
F. S. Yantis & Co., Incorporated	135 South La Salle Street, Chicago 3, Ill.	1,000
First of Michigan Corporation	Buhl Bldg., Detroit 26, Mich.	500
Hickey & Co., Inc.	135 South La Salle Street, Chicago 3, Ill.	500
Carl McGlone & Co., Inc.	105 South La Salle Street, Chicago 3, Ill.	500
Raffensperger, Hughes & Co., Inc.	20 North Meridian Street, Indianapolis 4, Ind.	500
Reinholdt & Gardner	400 Locust Street, St. Louis 2, Mo.	500
	Total	100,000

The Underwriting Agreement provides that the several obligations of the Underwriters are subject to certain conditions precedent. However, the Underwriters will be required to take and pay for all shares of the Preferred Stock if any are taken.

The Company has been advised by The First Boston Corporation and Glore, Forgan & Co., as Representatives of the Underwriters, that the Underwriters propose to offer the Preferred Stock to the public at the offering price set forth on the cover page of this Prospectus and to certain dealers at such price less a concession of $1.25 per share; that the Underwriters and such dealers may allow a discount of 25¢ per share on sales to other dealers; and that after the initial public offering, the public offering price and concessions and discounts to dealers may be changed by the Representatives.

LEGAL OPINIONS

Legal matters in connection with the issuance and sale by the Company of the Preferred Stock will be passed upon for the Company by Messrs. Isham, Lincoln & Beale, 72 West Adams Street, Chicago 3, Illinois, counsel for the Company, and for the Underwriters by Messrs. Wilson & McIlvaine, 120 West Adams Street, Chicago 3, Illinois. Messrs. Wilson & McIlvaine have in the past acted as counsel for the Company in special matters.

AUDITORS' CERTIFICATE

We have examined the balance sheet of NORTHERN ILLINOIS GAS COMPANY (an Illinois corporation) as of December 31, 1957, and the related statements of income, retained earnings and paid-in surplus for the three years then ended and the summary of earnings included in this Prospectus and in the Summary Prospectus for the five years then ended, which summary includes operating revenues and expenses before Federal income taxes applicable to the gas and heating properties transferred, as of February 1, 1954, to Northern Illinois Gas Company by Commonwealth Edison Company. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and related statements of income, retained earnings and paid-in surplus present fairly the financial position of the Company as of December 31, 1957, and the results of its operations for the three years then ended; and the summary of earnings, referred to above, presents fairly the net operating income before Federal income taxes for the year 1953 and the results of operations for the years 1954 to 1957, inclusive; and all were prepared in conformity with generally accepted accounting principles applied on a consistent basis during the periods under review.

ARTHUR ANDERSEN & CO.

Chicago, Illinois
January 30, 1958

NORTHERN ILLINOIS GAS COMPANY

BALANCE SHEET—DECEMBER 31, 1957

ASSETS

UTILITY PLANT, at original cost or less:	
Gas	$213,375,494
Heating	852,355
	$214,227,849
Less—Provision for accrued depreciation	49,140,645
Utility plant less depreciation	$165,087,204
INVESTMENT IN WHOLLY-OWNED SUBSIDIARY, at underlying book value	$ 965,967
CURRENT ASSETS:	
Cash	$ 3,507,713
U. S. Government obligations, at cost	1,800,657
Receivables, less reserve of $144,000	4,664,090
Natural gas in underground storage, at last-in, first-out cost	1,733,283
Materials and supplies (including $383,072 of merchandise appliances), at average cost	3,806,952
Prepaid insurance, taxes and other expenses	179,[illegible]
	$ 15,692,[illegible]
DEFERRED CHARGES	$ 517,034
	$182,262,634

LIABILITIES

FIRST MORTGAGE BONDS:	
3½% series due 1979	$ 57,792,000
3¾% series due 1981	14,694,000
	$ 72,486,000
PREFERRED STOCK, cumulative, par value $100, authorized 300,000 shares	$ —
COMMON EQUITY:	
Common stock, par value $5, authorized 12,500,000 shares (155,581 shares reserved for issuance under Employe Stock Purchase Plan), outstanding 7,145,488 shares	35,727,440
Paid-in surplus	40,499,509
Retained earnings	10,319,866
Total common equity	$ 86,546,815
Total capitalization	$159,032,815
CURRENT LIABILITIES:	
Notes payable to banks	$ 3,500,000
Accounts payable	4,792,502
Accrued interest	143,006
Accrued taxes	10,060,141
Dividends declared	1,572,007
Other	1,897,078
	$ 21,964,734
RESERVE FOR DEFERRED FEDERAL INCOME TAXES	$ 1,265,[illegible]
Construction commitments, $1,200,000	
	$182,262,634

The accompanying notes are an integral part of this statement.

NORTHERN ILLINOIS GAS COMPANY

STATEMENTS OF INCOME

	Year Ended December 31		
	1955	1956	1957
OPERATING REVENUES:			
Gas	$69,223,816	$79,862,880	$84,409,981
Heating	295,822	316,535	272,076
	$69,519,638	$80,179,415	$84,682,057
OPERATING EXPENSES AND TAXES:			
Gas purchased	$28,982,918	$32,307,133	$33,172,207
Other operation	12,778,586	15,506,155	16,596,790
Maintenance	2,255,269	2,694,941	2,886,235
Depreciation	3,791,929	4,237,334	4,706,520
Taxes, other than federal income	4,073,695	4,522,221	4,882,983
Federal income taxes	7,491,274	9,060,000	9,890,000
Deferred federal income taxes	225,726	408,000	564,000
	$59,599,397	$68,735,784	$72,698,735
NET OPERATING INCOME	$ 9,920,241	$11,443,631	$11,983,322
OTHER INCOME, reflects reduction in 1957 of $64,032 (net of taxes) in underlying book value of subsidiary	121,115	269,390	337,356
GROSS INCOME	$10,041,356	$11,713,021	$12,320,678
INTEREST ON DEBT	2,100,000	2,410,984	2,617,145
NET INCOME	$ 7,941,356	$ 9,302,037	$ 9,703,533

STATEMENTS OF RETAINED EARNINGS

	Year Ended December 31		
	1955	1956	1957
BALANCE AT BEGINNING OF PERIOD	$ 543,919	$ 3,112,496	$ 6,896,211
NET INCOME	7,941,356	9,302,037	9,703,533
	$ 8,485,275	$12,414,533	$16,599,744
DEDUCT DIVIDENDS (cash)—			
Preferred stock, 5%	$ 500,000	$ 500,000	$ —
Common stock:			
20¢ per share quarterly	4,872,779	3,670,275	—
22¢ per share quarterly	—	1,348,047	6,279,878
Total deductions	$ 5,372,779	$ 5,518,322	$ 6,279,878
BALANCE AT END OF PERIOD	$ 3,112,496	$ 6,896,211	$10,319,866

The accompanying notes are an integral part of these statements.

NORTHERN ILLINOIS GAS COMPANY

STATEMENTS OF PAID-IN SURPLUS

	Year Ended December 31		
	1955	1956	1957
Balance at Beginning of Period	$32,962,420	$35,124,602	$35,305,339
Add:			
Par value of common stock surrendered for cancellation by Commonwealth Edison Company	1,269,575	—	—
Premium on common stock issued	892,607	180,737	5,194,170
Balance at End of Period	$35,124,602	$35,305,339	$40,499,509

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

Employe Stock Purchase Plan. Information relative to the Employe Stock Purchase Plan is set forth under "Management."

Pension Plan. The Company has a non-contributory pension plan for all regular employes and officers. There are no vested rights under the plan except as and to the extent that a pension has been actually granted. The net assets of the pension fund, based on current market value, exceeded the estimated actuarial liability at December 31, 1957. The estimated annual cost approximates $1,200,000.

Depreciation. The Company provides for depreciation on the basis of amortizing the cost of its properties, including properties normally considered as non-depreciable, over the estimated composite service life of such properties. The Company made overall provisions for depreciation for the years 1955, 1956 and 1957 at the annual rates of 2.5% of the average book value of total gas properties and 2.75% of the average book value of total heating properties.

The Company charges to maintenance expense the cost of labor, material and other expenses incurred in replacing minor items of property, inspecting and testing repaired equipment, rearranging equipment, testing for, locating and clearing operating difficulties, and similar activities which are directed toward maintaining the operating efficiency of its properties.

When property which represents a retirement unit is replaced, removed or abandoned, the cost of such property is credited to the appropriate utility plant accounts and such cost, together with the cost of removal less salvage, is charged to the provision for accrued depreciation.

Installment Sales. The profits (or losses) on installment sales during the years 1955, 1956 and 1957 are included in the statements of income.

NORTHERN ILLINOIS GAS COMPANY

NOTES TO FINANCIAL STATEMENTS (Continued)

Supplementary Information. The following tabulation sets forth, for the years 1955, 1956 and 1957, the provisions for significant taxes, other than federal income taxes, charged to utility operations:

	Year Ended December 31		
	1955	1956	1957
Real estate, personal property and State capital stock	$1,816,447	$1,899,662	$2,100,090
State tax on sales of gas	2,038,106	2,375,386	2,508,319
Other	219,142	247,173	274,574
	$4,073,695	$4,522,221	$4,882,983

The provisions for depreciation and taxes charged to clearing accounts and the rentals paid during the years 1955, 1956 and 1957 were not significant. No management or service contract fees and no royalties were paid during the years 1955, 1956 and 1957.

First Mortgage Bonds. The annual sinking fund requirements for the 3½% series are $1,200,000 beginning in the three-month period ending January 31, 1958, and for the 3¾% series are $300,000 beginning in the three-month period ending January 31, 1959. In order to satisfy these sinking fund requirements $2,208,000 principal amount of the 3½% series, and $306,000 principal amount of the 3¾% series have been reacquired and cancelled.

Deferred Federal Income Taxes. The amounts of federal income taxes deferred as a result of the use of the declining balance method of depreciation for federal income tax purposes are being currently charged to income and credited to the Reserve for Deferred Federal Income Taxes. When income taxes later become payable as a result of having used such method of depreciation, the reserve will be charged with the amount of such deferred federal income taxes.

Memphis Decision. The Company believes the *Memphis* decision will have no material effect upon these financial statements. See comments under "Business," subcaption "Cost of Natural Gas."

Subsidiary Company. The Company believes that its financial position and results of operations of its gas distributing business are clearly shown without consolidating its subsidiary, NI-Gas Supply, Inc. For further information regarding operations of the subsidiary see comments under "Business," subcaption "Source of Gas Supply."

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No dealer, salesman or other person has been authorized, in connection with the offering contained in this Prospectus, to give any information or to make any representations not contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by the Company or by any of the Underwriters. This Prospectus does not constitute an offering in any State in which such offering may not lawfully be made. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof.

NORTHERN ILLINOIS GAS COMPANY

100,000 Shares

5% Preferred Stock

(Cumulative—Par Value $100 Per Share)

PROSPECTUS

Dated: February 19, 1958

R. R. DONNELLEY & SONS COMPANY, CHICAGO