PART I

Item 1. Business

BUSINESS OF ENTERGY

General

Entergy Corporation is a Delaware corporation which, through its direct and indirect subsidiaries, engages in the domestic and foreign electric utility business, other domestic and foreign energy-related enterprises, and telecommunications-based businesses. It has no significant assets other than the stock of its subsidiaries. Entergy Corporation is registered as a public utility holding company under PUHCA. As such, Entergy Corporation and its various direct and indirect subsidiaries (with the exception of its EWG, FUCO, and ETC subsidiaries) are subject to the broad regulatory provisions of PUHCA. PUHCA historically limited the operations of registered holding companies to a single, integrated public utility system and functionally related activities. However, more recently, PUHCA has been amended or interpreted to permit limited entry by registered public utility holding companies into domestic and foreign electric generation ventures, foreign utility ownership, telecommunications and information service businesses, and other domestic energy related businesses.

Domestic Operations and Investments

Entergy Corporation has five wholly-owned domestic retail electric utility subsidiaries: Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans. As of December 31, 1997, these utility companies provided retail electric service to approximately 2.5 million customers primarily in portions of the states of Arkansas, Louisiana, Mississippi, and Texas. In addition, Entergy Gulf States furnishes natural gas utility service in and around Baton Rouge, Louisiana, and Entergy New Orleans furnishes natural gas utility service in New Orleans, Louisiana. The business of the domestic utility companies is subject to seasonal fluctuations, with the peak sales period occurring during the third quarter of each year. During 1997, the domestic utility companies' combined retail electric sales as a percentage of total electric sales were: residential - 26.5%; commercial - 20.3%; and industrial - 41.8%. Retail electric revenues from these sectors as a percentage of total electric revenues were: residential - 35.1%; commercial - 24.4%; and industrial - 31.2%. Sales to governmental and municipal sectors and to nonaffiliated utilities accounted for the balance of energy sales. The major industrial customers of the domestic utility companies are in the chemical processing, petroleum refining, paper products, and food products industries. The retail rates and services of Entergy's domestic retail utility subsidiaries are regulated by state and/or local regulatory authorities.

Entergy Corporation owns all of the common stock of Entergy Power, a Delaware corporation and domestic power producer that owns 725 MW of fossil-fueled generating assets located in Arkansas. Entergy Power markets electric capacity and energy in the wholesale market. Entergy Corporation also owns 100% of the voting stock of System Energy, an Arkansas corporation that owns and leases an aggregate 90% undivided interest in Grand Gulf. System Energy sells the capacity and energy from its interest in Grand Gulf 1 at wholesale to its only customers, Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans (see "**CAPITAL REQUIREMENTS AND FUTURE FINANCING - Certain System Financial and Support Agreements - Unit Power Sales Agreement**," below). Both Entergy Power's and System Energy's wholesale power sales are subject to the jurisdiction of FERC.

Entergy Services, Inc., a Delaware corporation wholly-owned by Entergy Corporation, provides general executive, advisory, administrative, accounting, legal, engineering, and other services primarily to the domestic utility subsidiaries of Entergy Corporation, but also to Entergy Enterprises. Entergy Operations, a Delaware corporation, is also wholly-owned by Entergy Corporation and provides nuclear management, operations and maintenance services under contract for ANO, River Bend, Waterford 3, and Grand Gulf 1, subject to the owner oversight of Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, and System Energy, respectively. Entergy Services and Entergy Operations provide their services to the domestic utility companies, on an "at cost" basis, pursuant to service agreements approved by the SEC under PUHCA.

Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans own 35%, 33%, 19%, and 13%, respectively, of the common stock of System Fuels, a Louisiana corporation that implements and manages certain programs to procure, deliver, and store fuel supplies for those companies.

Entergy Gulf States has wholly-owned subsidiaries that (i) operate intrastate gas pipelines in Louisiana used primarily to transport fuel to two of Entergy Gulf States' generating stations; (ii) own the Lewis Creek Station, a gas-fired generating plant, which is leased to and operated by Entergy Gulf States; and (iii) own several miles of railroad track constructed in Louisiana primarily for the purpose of transporting coal for use as boiler fuel at Entergy Gulf States' Nelson Unit 6 generating facility.

Entergy Enterprises, a wholly-owned nonutility subsidiary of Entergy Corporation incorporated under Louisiana law, invests in and develops energy-related projects and businesses. Entergy Enterprises, directly or through subsidiaries, markets energy-related expertise, products, and services to third parties and provides a variety of services to certain nonutility companies owned by Entergy. Services provided to third-parties include (i) energy management; (ii) management, operations and maintenance services for fossil and nuclear generating plants; and (iii) energy efficient lighting, heating, and cooling systems.

EPMC, a Delaware corporation, is a wholly-owned subsidiary of Entergy Corporation that is in the business of marketing electricity, gas, other generating fuels, and financial instruments to third parties. It has received authority from the SEC to deal in a wide range of energy commodities and related financial products.

ETHC, a wholly-owned subsidiary of Entergy Corporation, engages in a variety of telecommunications and information based enterprises that are exempt from regulation under PUHCA. ETHC has acquired security monitoring firms operating primarily in North and South Carolina, Alabama, Florida, Georgia, Mississippi, Louisiana, and Texas. ETHC participates with Hyperion Telecommunications in a joint venture that operates three Competitive Local Exchange Carriers (CLECs) in Little Rock, Arkansas; Jackson, Mississippi; and Baton Rouge, Louisiana. These CLECs provide long distance carrier access and local exchange services. ETHC also currently operates 1,500 miles of fiber optic cable in Arkansas, Louisiana, Mississippi, and Texas that provide long haul telecommunications to wholesale telecommunication carriers. ETHC has made a limited investment in a personal communication services company which will be located in the southeastern United States.

Foreign Operations and Investments

Since 1993, Entergy Corporation has directly or indirectly acquired interests in a number of foreign utility businesses. Entergy Corporation owns indirectly all of the outstanding shares of Entergy London which was incorporated as a public limited company under the laws of England and Wales in October 1996. Entergy Corporation, through Entergy London, gained effective control of London Electricity in February 1997. London Electricity is Entergy London's sole asset. London Electricity is a regional electric company that is principally engaged in the distribution and supply of electricity to approximately 2 million customers in and around London, England. London Electricity's retail service area currently covers approximately 257 square miles in the central portion of metropolitan London and includes commercial, residential, and industrial customers. London Electricity also engages in other business activities, including ownership of an interest in a 1,000 MW gas-fired combined cycle generating station and several private electric distribution systems. Entergy Corporation's indirect wholly-owned Australian subsidiary, CitiPower, was acquired in 1996. CitiPower is principally engaged in the electric distribution business in Melbourne, Australia, where it serves approximately 242,000 customers. Entergy Corporation also indirectly owns a 5% interest in Edesur, S.A., which is the retail electric distribution company for about 1.9 million customers in the southern part of Buenos Aires, Argentina.

EPDC, a wholly-owned subsidiary of Entergy Corporation, owns an interest in the following foreign electric generation assets:

Investment	Percent Ownership	Status
Argentina - Costanera, 1,260 MW	6%	operational
Argentina - Costanera expansion, 220 MW	10%	operational
Chile - San Isidro, 370 MW	25%	under construction
Pakistan - Hub River, 1,292 MW	5%	operational
Peru - Edegel - 793 MW	21%	operational
United Kingdom - Saltend, 1,200 MW	100%	under construction
United Kingdom - Damhead Creek, 770 MW	100%	in development

In addition, Entergy Corporation, through another wholly-owned subsidiary, owns 92% of Nantong Entergy Heat & Power, which has a 24MW facility under construction.

As of December 31, 1997, Entergy Corporation had a net investment of $1.3 billion in equity capital in businesses other than the domestic utility businesses. Entergy Corporation continues to seek opportunities to expand its domestic and foreign businesses that are not regulated by domestic state and local utility regulatory authorities. Entergy Corporation's continued acquisition of and investments in certain foreign and domestic businesses is subject to regulation (including the effect of exemptive provisions) under PUHCA. Rule 53 under PUHCA limits the aggregate investment by a registered public utility holding company in EWGs and FUCOs without SEC approval to 50% of the holding company's consolidated retained earnings averaged over a running four quarter period. Entergy's aggregate investment in EWGs and FUCOs is such that no further EWG or FUCO investments can be made with funds provided from securities issued by Entergy unless SEC approval is obtained or Entergy's consolidated retained earnings increase.

International operations are subject to the risks inherent in conducting business abroad, including possible nationalization or expropriation, price and currency exchange controls, limitations on foreign participation in local energy-related enterprises, and other restrictions. Changes in the relative value of currencies occur from time to time, and may favorably or unfavorably affect the results of operations and statements of cash flows of Entergy's non-U.S. businesses. In addition, there are exchange control restrictions in certain countries relating to the repatriation of earnings.

Selected Data

Selected customer and sales data for 1997 are summarized in the following tables:

	Area Served	Customers as of December 31, 1997	
		Electric	Gas
		(In thousands)	
Entergy Arkansas	Portions of Arkansas and Tennessee	620	-
Entergy Gulf States	Portions of Texas and Louisiana	641	88
Entergy Louisiana	Portions of Louisiana	623	-
Entergy Mississippi	Portions of Mississippi	382	-
Entergy New Orleans	City of New Orleans, except Algiers, which is provided electric service by Entergy Louisiana	189	151
Total domestic customers		2,455	239
CitiPower	Melbourne, Australia and surrounding suburbs	242	-
London Electricity	Primarily the majority of metropolitan London, England	1,995	-
Total customers		4,692	239

1997 - Selected Electric Energy Sales Data

	Entergy Arkansas	Entergy Gulf States	Entergy Louisiana	Entergy Mississippi	Entergy New Orleans	System Energy	Total (a)
DOMESTIC				(GWH)			
Electric Department:							
Sales to retail customers	17,319	33,272	29,582	11,418	5,521	-	97,113
Sales for resale:							
- Affiliates	9,557	414	104	1,918	316	9,735	-
- Others	6,828	1,503	805	412	160	-	9,707
Total	33,704	35,189	30,491	13,748	5,997	9,735	106,820
Steam Department:							
- Sales to steam products customer	-	1,626	-	-	-	-	1,626
TOTAL	33,704	36,815	30,491	13,748	5,997	9,735	108,446
Average use per residential customer (KWH)	11,313	14,615	14,311	13,314	11,618	-	13,279

(a) Includes the effect of intercompany eliminations.

FOREIGN

In 1997, Entergy London had 19,546 GWH of sales to its distribution customers and 18,023 GWH of sales to its supply customers.

1997 - Selected Natural Gas Sales Data

Entergy New Orleans and Entergy Gulf States sold 16,754,253 and 6,944,026 MCF, respectively, of natural gas to retail customers in 1997. Revenues from natural gas operations for each of the three years in the period ended December 31, 1997, were not material for Entergy Gulf States. See **"INDUSTRY SEGMENTS"** below for a description of Entergy New Orleans' business segments.

See **"ENTERGY CORPORATION AND SUBSIDIARIES - SELECTED FINANCIAL DATA - FIVE-YEAR COMPARISON,"** and **"SELECTED FINANCIAL DATA - FIVE-YEAR COMPARISON OF ENTERGY ARKANSAS, ENTERGY GULF STATES, ENTERGY LOUISIANA, ENTERGY MISSISSIPPI, ENTERGY NEW ORLEANS, SYSTEM ENERGY, and ENTERGY LONDON"** which follow each company's financial statements in this report, for further information with respect to operating statistics.

Employees

As of January 31, 1998, Entergy had 17,288 employees as follows:

Full-time:	
Entergy Corporation	-
Entergy Arkansas	1,416
Entergy Gulf States	1,456
Entergy Louisiana	721
Entergy Mississippi	700
Entergy New Orleans	301
System Energy	-
Entergy London	3,759
Entergy Operations	3,662
Entergy Services	3,131
Other subsidiaries	1,962
Total Full-time	17,108
Part-time	180
Total Entergy	17,288

Competition

Refer to Note 2 herein for a detailed discussion of competitive challenges Entergy faces in the utility industry, including the filings of the domestic utility companies with their respective state and local regulatory authorities addressing transition to competition.

CAPITAL REQUIREMENTS AND FUTURE FINANCING

Construction expenditures for the domestic utility companies, System Energy, and Entergy London, including environmental expenditures (which are immaterial) and AFUDC, but excluding nuclear fuel, for the period 1998-2000 are estimated as follows:

	1998	1999	2000	Total
		(In Millions)		
Entergy Arkansas	$201	$156	$204	$561
Entergy Gulf States	150	145	147	442
Entergy Louisiana	107	90	86	283
Entergy Mississippi	70	48	49	167
Entergy New Orleans	21	16	15	52
System Energy	24	26	21	71
Entergy London	161	163	158	482

With the exception of Entergy Arkansas, no significant construction costs are expected in connection with the domestic utility companies' generating facilities. Projected construction expenditures for the replacement of ANO 2's steam generators are included in Entergy Arkansas' estimated figures above. See Note 9 for additional information. Actual construction costs may vary from these estimates for a number of reasons, including changes in load growth estimates, changes in environmental regulations, modifications to nuclear units to meet regulatory requirements, increasing costs of labor, equipment and materials, and cost of capital. In addition to construction

expenditure requirements. Entergy must meet scheduled long-term debt and preferred stock maturities and cash sinking fund requirements. See Notes 4, 5, 6, and 7 for further capital requirements and financing information.

London Electricity's capital expenditures are primarily related to its distribution business and include expenditures for load-related, non-load-related and non-operational capital assets. Load-related capital expenditures are largely required by new business growth. Customer contributions are normally received when capital expenditures are made to extend or upgrade service to customers (except to the extent that such capital expenditures are made to enhance London Electricity's distribution network generally). Non-load-related capital expenditures include asset replacement which is expected to continue until at least the next decade. Other non-load-related expenditures include system upgrade work that provides for load growth and has the additional benefit of improving network security and reliability. Non-operational capital expenditures are for assets such as fixtures and equipment. London Electricity is required to file five-year projections with the Regulator for capital expenditures related to its regulated distribution network and annual updates of such projections. The most recent projection was for the five-year period ended March 31, 2000, and was filed in July 1997. This filing reflected London Electricity's current projection of approximately $793 million (approximately BPS482 million) for the five-year period, and expenditures have thus far been substantially in accordance with the projection.

London Electricity is a member of the City of Greenwich Lewisham Rail Link plc which will require expenditures of approximately $10 million (approximately BPS6 million) in the next two years. London Electricity maintains the distribution networks at Heathrow, Gatwick, and Stansted airports for the British Airport Authority and expects to spend approximately $59 million (approximately BPS36 million) on these networks over the next six years.

In December 1997, SCC, a wholly-owned subsidiary of EPDC, entered into a BPS646 million (approximately $1.07 billion) nonrecourse credit facility with an international bank group for the construction of a 1,200 MW gas-fired power plant in Hull, England. The power plant will sell power into the UK power pool at prices established by the market. SCC entered into a lump-sum contract with a major international contractor to build the power plant. SCC has also entered into a series of contracts, including a long-term ground lease for the site; a long-term gas supply agreement with take-or-pay obligations, and a long-term steam and power supply agreement with the industrial host. The total cost of this project currently is estimated to be approximately $875 million and the project is expected to be operational by January 2000.

In September 1997, EPDC acquired KPL for $67 million. KPL owns land in Southeast England and certain rights to build a power station. The acquisition of KPL was financed by borrowings under a BPS50 million ($82 million) credit facility with an international bank. In December 1997, EPDC amended this credit facility and increased the amount of the revolver to BPS100 million ($165 million). In early October 1997, EPDC announced construction of a 770 MW combined cycle gas turbine merchant power plant to be known as Damhead Creek on the KPL site. Construction is scheduled to begin in late 1998, at an estimated cost of $625 million. The target date for commercial operation is the second quarter of 2000. Financing and other project requirements are currently in the final stages of development.

Entergy Corporation's primary capital requirements are to invest periodically in, or make loans to, its subsidiaries and to invest in new enterprises. See "**MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - LIQUIDITY AND CAPITAL RESOURCES,**" and "**BUSINESS OF ENTERGY**" for additional discussion of Entergy Corporation's current and future planned investments in its subsidiaries and financial sources for such investments. The principal sources of funds for Entergy Corporation are dividend distributions from its subsidiaries, funds available under its bank credit facilities, and funds received from its dividend reinvestment and stock purchase plan. Certain events, such as the River Bend issues discussed in Notes 2 and 9, could limit the amount of these distributions. Substantial write-offs or charges resulting from adverse rulings in this matter could adversely affect Entergy Gulf States' ability to pay dividends.

Certain System Financial and Support Agreements

Unit Power Sales Agreement (Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and System Energy)

The Unit Power Sales Agreement allocates capacity and energy from System Energy's 90% ownership and leasehold interests in Grand Gulf 1 (and the related costs) to Entergy Arkansas (36%), Entergy Louisiana (14%), Entergy Mississippi (33%), and Entergy New Orleans (17%). Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans make payments to System Energy for their respective entitlements of capacity and energy on a full cost-of-service basis regardless of the quantity of energy delivered, so long as Grand Gulf 1 remains in commercial operation. Payments under the Unit Power Sales Agreement are System Energy's only source of operating revenues. The financial condition of System Energy depends upon the continued commercial operation of Grand Gulf 1 and the receipt of payments from Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans. Payments made by Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans under the Unit Power Sales Agreement are generally recovered through rates. In the case of Entergy Arkansas and Entergy Louisiana, payments are also recovered through sales of electricity from their respective retained shares of Grand Gulf 1. See Note 2 for further information regarding retained shares.

Availability Agreement (Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and System Energy)

The Availability Agreement among System Energy and Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans was entered into in 1974 in connection with the financing by System Energy of Grand Gulf. The Availability Agreement provided that System Energy would join in the System Agreement on or before the date on which Grand Gulf 1 was placed in commercial operation and would make available to Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans all capacity and energy available from System Energy's share of Grand Gulf.

Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans also agreed severally to pay System Energy monthly for the right to receive capacity and energy available from Grand Gulf in amounts that (when added to any amounts received by System Energy under the Unit Power Sales Agreement, or otherwise) would at least equal System Energy's total operating expenses for Grand Gulf (including depreciation at a specified rate) and interest charges. Under the Availability Agreement, the sale of capacity and energy generated by Grand Gulf is governed by the Unit Power Sales Agreement. The September 1989 write-off of System Energy's investment in Grand Gulf 2, amounting to approximately $900 million, is being amortized for Availability Agreement purposes over 27 years rather than in the month the write-off was recognized on System Energy's books. The allocation percentages under the Availability Agreement are fixed as follows: Entergy Arkansas - 17.1%; Entergy Louisiana - 26.9%; Entergy Mississippi - 31.3%; and Entergy New Orleans - 24.7%.

The allocation percentages under the Availability Agreement remain in effect and would govern payments made under such agreement in the event of a shortfall of funds available to System Energy from other sources, including payments by Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans to System Energy under the Unit Power Sales Agreement.

System Energy has assigned its rights to payments and advances from Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans under the Availability Agreement as security for its first mortgage bonds and reimbursement obligations to certain banks providing the letters of credit in connection with the equity funding of the sale and leaseback transactions described in Note 10 under "**Sale and Leaseback Transactions - Grand Gulf 1 Lease Obligations**." In these assignments, Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans further agreed that, in the event they were prohibited by governmental action from making payments under the Availability Agreement (if, for example, FERC reduced or disallowed such payments as constituting excessive rates), they would then make subordinated advances to System Energy in the same amounts and at the same times as the prohibited payments. System Energy would not be allowed to repay these

subordinated advances so long as it remained in default under the related indebtedness or in other similar circumstances.

Each of the assignment agreements relating to the Availability Agreement provides that Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans shall make payments directly to System Energy. However, if there is an event of default, Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans must make those payments directly to the holders of indebtedness that are the beneficiaries of such assignment agreements. The payments must be made pro rata according to the amount of the respective obligations secured.

The obligations of Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans to make payments under the Availability Agreement are subject to the receipt and continued effectiveness of all necessary regulatory approvals. Sales of capacity and energy under the Availability Agreement would require that the Availability Agreement be submitted to FERC for approval with respect to the terms of such sale. No such filing with FERC has been made because sales of capacity and energy from Grand Gulf are being made pursuant to the Unit Power Sales Agreement. Other aspects of the Availability Agreement, including the obligations of Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans to make subordinated advances, are subject to the PUHCA jurisdiction of the SEC, whose approval has been obtained. If, for any reason, sales of capacity and energy are made in the future pursuant to the Availability Agreement, the jurisdictional portions of the Availability Agreement would be submitted to FERC for approval.

Since commercial operation of Grand Gulf 1 began, payments under the Unit Power Sales Agreement to System Energy have exceeded the amounts payable under the Availability Agreement, and no payments under the Availability Agreement have ever been required. In the event such payments were required, the ability of Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans to recover from their customers amounts paid under the Availability Agreement, or under the assignments thereof, would depend upon the outcome of rate proceedings before state and local regulatory authorities. In view of the controversies that arose over the allocation of capacity and energy from Grand Gulf 1 pursuant to the Unit Power Sales Agreement, opposition to full recovery would be likely and the outcome of such proceedings, should they occur, is not predictable.

The Availability Agreement may be terminated, amended, or modified by mutual agreement of the parties thereto, upon obtaining the consent, if required, of those holders of System Energy's indebtedness then outstanding who are the beneficiaries of the assignments of the Availability Agreement.

Capital Funds Agreement (Entergy Corporation and System Energy)

System Energy and Entergy Corporation have entered into the Capital Funds Agreement whereby Entergy Corporation has agreed to supply System Energy with sufficient capital to (i) maintain System Energy's equity capital at an amount equal to a minimum of 35% of its total capitalization (excluding short-term debt) and (ii) permit the continued commercial operation of Grand Gulf 1 and pay in full all indebtedness for borrowed money of System Energy when due.

Entergy Corporation has entered into various supplements to the Capital Funds Agreement, and System Energy has assigned its rights under such supplements as security for its first mortgage bonds and for reimbursement obligations to certain banks providing letters of credit in connection with the equity funding of the sale and leaseback transactions described in Note 10 under "**Sale and Leaseback Transactions - Grand Gulf 1 Lease Obligations**." Each such supplement provides that permitted indebtedness for borrowed money incurred by System Energy in connection with the financing of Grand Gulf may be secured by System Energy's rights under the Capital Funds Agreement on a pro rata basis (except for the Specific Payments, as defined below). In addition, in the supplements to the Capital Funds Agreement relating to the specific indebtedness being secured, Entergy Corporation has agreed to make cash capital contributions directly to System Energy sufficient to enable System Energy to make payments when due on such indebtedness (Specific Payments). However, if there is an event of default, Entergy Corporation must make those payments directly to the holders of indebtedness benefiting from the supplemental agreements. The

payments (other than the Specific Payments) must be made pro rata according to the amount of the respective obligations benefiting from the supplemental agreements.

The Capital Funds Agreement may be terminated, amended, or modified by mutual agreement of the parties thereto, upon obtaining the consent, if required, of those holders of System Energy's indebtedness then outstanding who have received the assignments of the Capital Funds Agreement.

RATE MATTERS AND REGULATION

Rate Matters

The domestic utility companies' retail rates are regulated by state and/or local regulatory authorities, as described below. FERC regulates their wholesale rates (including intrasystem sales pursuant to the System Agreement) and interstate transmission of electricity, as well as rates for System Energy's sales of capacity and energy from Grand Gulf 1 to Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans pursuant to the Unit Power Sales Agreement.

Wholesale Rate Matters

System Energy

As described above under **"CAPITAL REQUIREMENTS AND FUTURE FINANCING - Certain System Financial and Support Agreements,"** System Energy recovers costs related to its interest in Grand Gulf 1 through rates charged to Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans for capacity and energy under the Unit Power Sales Agreement.

On December 12, 1995, System Energy implemented a $65.5 million rate increase, subject to refund. Refer to Note 2 for a discussion of the rate increase request filed by System Energy with FERC.

System Agreement (Energy Corporation, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and System Energy)

The domestic utility companies engage in the coordinated planning, construction, and operation of generation and transmission facilities pursuant to the terms of the System Agreement as described under **"PROPERTY - Generating Stations,"** below.

In connection with the Merger, FERC approved certain rate schedule changes to integrate Entergy Gulf States into the System Agreement. Certain commitments were also adopted to assure that the ratepayers of Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans will not be allocated higher costs. Such commitments included: (i) a tracking mechanism to protect these companies from certain unexpected increases in fuel costs; (ii) the exclusion of Entergy Gulf States from the distribution of profits from power sales contracts entered into prior to the Merger; (iii) a methodology to estimate the cost of capital in future FERC proceedings; and (iv) a stipulation that these companies be insulated from certain direct effects on capacity equalization payments if Entergy Gulf States were to acquire Cajun's 30% share in River Bend, which it acquired on December 23, 1997. See "**Regulation - Other Regulation and Litigation**" for information on appeals of FERC Merger orders and related pending rate schedule changes and "**Cajun-River Bend Litigation**" in Note 9 herein for a discussion of the transfer of Cajun's 30% share in River Bend to Entergy Gulf States.

In approving the Merger, FERC also initiated a new proceeding to consider whether the System Agreement permits certain out-of-service generating units to be included in reserve equalization calculations under Service Schedule MSS-1 of that agreement. The LPSC and the MPSC submitted testimony in this proceeding seeking retroactive refunds for Entergy Louisiana and Entergy Mississippi (estimated at $22.6 million and $13.2 million,

respectively). The FERC staff subsequently submitted testimony concluding that Entergy's treatment was reasonable. However, because it concluded that Entergy's treatment violated the tariff, the FERC staff maintained that refunds of approximately $7.2 million should be ordered. On March 3, 1995, a FERC ALJ issued an opinion holding that the practice of including the out-of-service units in the reserve equalization calculations during the period 1987 through 1993 was not permitted by Service Schedule MSS-1 and, therefore, constituted a violation of the System Agreement. However, the ALJ found that the violation was in good faith and had benefited the customers of Entergy as a whole. Accordingly, the ALJ recommended that no retroactive refunds should be ordered. The ALJ also held that the System Agreement should be amended to allow out-of-service units to be included in reserve equalization as proposed in an offer of settlement filed by Entergy on February 16, 1994. On August 5, 1997, the FERC issued an Opinion and Order affirming the initial decision of the ALJ. On September 3, 1997, the LPSC and the MPSC filed a request for rehearing of FERC's August 5, 1997 decision. On February 3, 1998, FERC denied the request for rehearing.

On March 14, 1995, the LPSC filed a complaint with FERC alleging that the System Agreement results in unjust and unreasonable rates and requested FERC to modify the System Agreement to exclude curtailable load from the cost allocation determination and to permit Entergy's domestic utility companies that engage in real-time pricing at the retail level to be assessed only the marginal cost for energy sold among the domestic utility companies. In May 1995, the LPSC amended its original complaint to request an additional System Agreement modification to allocate costs on the basis of a four-month coincident peak methodology. On August 5, 1996, FERC dismissed the LPSC's complaint and amended complaint, finding the LPSC's claim that the System Agreement is unjust and unreasonable to be without merit. The FERC confirmed this finding in a September 12, 1997 order denying the LPSC's request for rehearing. The LPSC has appealed FERC's dismissal of its complaint to the D. C. Circuit.

Open Access Transmission (Entergy Corporation, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans)

On August 2, 1991, Entergy Services, as agent for Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and Entergy Power, submitted to FERC (i) proposed tariffs that, subject to certain conditions, would provide to electric utilities "open access" to Entergy's integrated transmission system, and (ii) rate schedules providing for sales of wholesale power at market-based rates. FERC approved the filing in August 1992, and various parties filed appeals with the D.C. Circuit. The case was remanded to FERC in July 1994 for further proceedings. On October 31, 1994, Entergy Services, as agent for Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans, filed revised transmission tariffs. On January 6, 1995, FERC made the transmission tariffs effective, subject to refund, and ordered an investigation of Entergy Power's market pricing authority, thereby making Entergy Power's market price rate schedules subject to refund. An order in the market price rate investigation is expected in 1998, but Entergy expects that no refunds will be required.

On March 29, 1995, FERC issued a supplemental notice of proposed rulemaking (Mega-NOPR) which would require public utilities to provide non-discriminatory open access transmission service to wholesale customers and which would also provide guidance on the recovery of wholesale and retail stranded costs. Under the proposal, public utilities would be required to file transmission tariffs for both point-to-point and network service. Model transmission tariffs were included in the proposal. In September 1995 and January 1996, Entergy Services filed offers of partial settlement accepting certain provisions of the transmission tariffs contained in the Mega-NOPR and resolving certain rate issues. Hearings relating to Entergy Services' open access tariffs concluded on February 22, 1996, and an initial decision was issued by the ALJ on May 21, 1996. The initial decision and offers of partial settlement are now pending before FERC awaiting a final decision.

In August 1995, EPMC filed an application for permission to make market-based sales. On December 13, 1995, Entergy Services filed revised transmission tariffs in a separate proceeding proposing terms and conditions for open access transmission service that are substantially identical to the terms and conditions contained in the Mega-NOPR transmission tariffs with rates to be the same as those determined in the pending proceeding. On February 14, 1996, FERC accepted for filing the revised transmission tariffs subject to the outcome of the pending proceeding and

conditionally accepted EPMC's application for market-based sales. Subsequently, FERC accepted EPMC's application without condition.

In April 1996 FERC issued its final rule (Order No. 888) on open access, nondiscriminatory transmission, and stranded costs, and a companion final rule (Order No. 889) relating to codes of conduct and the mechanism by which the open access transactions were to be made. In July 1996, in response to this FERC order, Entergy Services filed, on behalf of the domestic utility companies, its open access pro forma tariff. This tariff, which supersedes the tariffs previously filed, is currently pending before FERC with respect to the rates for transmission service. The rates set forth in the July 1996 tariff are subject to the outcome of FERC action on the May 21, 1996 initial decision and the offers of partial settlement. On January 29, 1997, FERC accepted the non-rate terms and conditions of the July 1996 tariff, subject to limited modifications.

In a March 1997 order (Order No. 888-A), FERC directed public utilities to file revised tariffs to reflect changes resulting from rehearing of Order No. 888. On July 14, 1997, Entergy Services filed with the FERC its wholesale transmission access compliance tariff incorporating the requirements of FERC Order No. 888-A. The filing supersedes the July 1996 tariff and the rates remain subject to the outcome of FERC action on the May 21, 1996 initial decision and the offers of partial settlement.

Retail Rate Matters

General (Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans)

Certain costs related to Grand Gulf 1, Waterford 3, and River Bend were phased into retail rates over a period of years in order to avoid the "rate shock" associated with increasing rates to reflect all such costs at once. The deferral period in which costs are incurred but not currently recovered has expired for all of these programs, and Entergy Arkansas, Entergy Gulf States, Entergy Mississippi, and Entergy New Orleans are now recovering those costs that were previously deferred. Entergy Louisiana has fully recovered the deferred Waterford 3 costs. Entergy Gulf States has pending several rate proceedings and some rate relief has been received. Rate proceedings and appeals relating to these issues are discussed in "Entergy Gulf States" below.

The retail regulatory philosophy is shifting in some jurisdictions from traditional cost-of-service regulation to incentive-rate regulation. Management believes incentive and performance-based rate plans encourage efficiencies and productivity while permitting utilities and their customers to share in the resulting benefits. As a means of minimizing the need for retail rate increases, Entergy is committed to containing costs to the greatest degree practicable. Entergy Mississippi and Entergy Louisiana have implemented incentive rate plans. Recognizing that many industrial customers have energy alternatives, Entergy continues to work with these customers to address their needs. In certain cases, competitive prices are negotiated using variable-rate designs.

The domestic utility companies have initiated proceedings with state and local regulators regarding an orderly transition to a more competitive market for electricity. See "**MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - SIGNIFICANT FACTORS AND KNOWN TRENDS,**" for a discussion of the transition to competition filings made by Entergy Mississippi, Entergy Gulf States, Entergy Louisiana, Entergy New Orleans and Entergy Arkansas with their state and local regulators.

Entergy Arkansas

Rate Freeze

In connection with the settlement of various issues related to the Merger, Entergy Arkansas agreed that it would not, except in response to certain circumstances that are largely out of its control, request any general retail rate increase to take effect before November 3, 1998. See Note 2 for a discussion of the rate freeze as well as other aspects of the settlement agreement between Entergy Arkansas and the APSC.

Recovery of Grand Gulf 1 Costs

Under the settlement agreement entered into with the APSC in 1985 and amended in 1988, Entergy Arkansas agreed to forego recovery of a portion of its Grand Gulf 1-related costs, recover a portion of such costs currently, and defer a portion of such costs for future recovery. In the future, Entergy Arkansas will recover 78% of its allocated share of Grand Gulf 1 costs, but will not recover the remaining 22%. Deferrals ceased in 1990, and Entergy Arkansas is recovering a portion of the previously deferred costs each year through 1998. As of December 31, 1997, the balance of deferred costs was $75 million. Entergy Arkansas is permitted to recover on a current basis the incremental costs of financing the unrecovered deferrals.

Entergy Arkansas has the right to sell capacity and energy from its retained share of Grand Gulf 1 to third parties and to sell such energy to its retail customers at a price equal to Entergy Arkansas' avoided energy cost. Proceeds of sales to third parties of Entergy Arkansas' retained share of Grand Gulf 1 capacity and energy accrue to the benefit of Entergy Corporation, as Entergy Arkansas' sole stockholder.

Fuel Adjustment Clause

In its October 1996 rate filing, Entergy Arkansas proposed an alternative fuel adjustment clause, the Energy Cost Recovery Rider Energy Cost Rate (ECR Rider), which was approved by the APSC. Entergy Arkansas' ECR Rider utilizes projected energy costs (i.e., fuel and purchased power costs) for the coming calendar year to develop an Energy Cost Rate. The Energy Cost Rate is revised annually and includes a true-up adjustment reflecting the over-recovery or under-recovery of the energy cost for the prior year. Under the ECR Rider, the nuclear refueling reserve fund provision, which was no longer necessary due to the annual revision, was eliminated. In addition, the nuclear incentive provision associated with ANO was eliminated.

Entergy Gulf States

Rate Cap and Other Merger-Related Rate Agreements

In 1993, the LPSC and the PUCT approved separate regulatory proposals, which included the implementation of a five-year Rate Cap on Entergy Gulf States' retail electric base rates in the respective states, and provisions for fuel and nonfuel savings created by the Merger to accrue to the benefit of ratepayers. See Note 2 for a discussion of the Rate Cap as well as other aspects of the settlement agreement between Entergy Gulf States and the LPSC and the PUCT.

Recovery of River Bend Costs

Entergy Gulf States deferred approximately $369 million of River Bend operating and purchased power costs, depreciation, and accrued carrying charges, pursuant to a 1986 PUCT accounting order. Approximately $182 million of these costs are being amortized over a 20-year period, and the remaining $187 million was written off in the first quarter of 1996 in accordance with SFAS 121. Also, in accordance with a phase-in plan approved by the LPSC, Entergy Gulf States deferred $294 million of its River Bend costs related to the period February 1988 through February 1991. See "**River Bend Cost Deferrals**" in Note 2 herein for a discussion of the unamortized balances of these deferrals as of December 31, 1997.

Texas Jurisdiction - River Bend

In 1988 the PUCT granted Entergy Gulf States a permanent increase in annual revenues of $59.9 million resulting from the inclusion in rate base of approximately $1.6 billion of company-wide River Bend plant investment and approximately $182 million of related Texas retail jurisdiction deferred River Bend costs (Allowed Deferrals). At the same time, the PUCT disallowed as imprudent $63.5 million of company-wide River Bend plant costs and placed in abeyance, with no finding as to prudence, approximately $1.4 billion of company-wide River Bend plant investment and approximately $157 million of Texas retail jurisdiction deferred River Bend operating and carrying

costs (Abeyed Deferrals). As a result of the application of the company's long-lived asset impairment policy, Entergy Gulf States wrote off Abeyed Deferrals of $169 million, net of tax, effective January 1, 1996.

The PUCT's order has been the subject of several appellate proceedings, culminating in an appeal to the Texas Supreme Court (Supreme Court). On January 31, 1997, the Supreme Court issued an opinion reversing the PUCT's order and remanding the case to the PUCT for further proceedings.

On January 14, 1998, the commissioners of the PUCT voted by a 2 to 1 majority to disallow recovery of $1.4 billion of company-wide abeyed plant costs. The Texas share of these costs, which is not currently in rates, is approximately $624 million, based on 1988 costs and the jurisdictional allocation included in current rates. The PUCT is expected to enter an order pursuant to its vote, but has not yet done so. As of December 31, 1997, the River Bend plant costs disallowed for retail ratemaking purposes in Texas and the River Bend plant costs held in abeyance totaled (net of taxes and depreciation) approximately $12 million and $252 million, respectively. See Note 2 for information related to additional rulings by the PUCT and other retail rate proceedings as well as the proposed agreement in principle between the parties to the Entergy Gulf States rate proceedings in Texas.

NISCO Unrecovered Costs

In 1986, the PUCT ordered that the purchased power costs from NISCO in excess of Entergy Gulf States' avoided costs be disallowed. The PUCT disallowance resulted in approximately $12 million to $15 million of unrecovered purchased power costs on an annual basis, which Entergy Gulf States continued to expense as the costs were incurred. In April 1991, the Texas Supreme Court, on the appeal of such order, ordered the PUCT to allow Entergy Gulf States to recover purchased power payments in excess of its avoided cost in future proceedings if Entergy Gulf States established to the PUCT's satisfaction that the payments were reasonable and necessary expenses.

In January 1992, Entergy Gulf States applied to the PUCT for a new fixed fuel factor and requested a final reconciliation of fuel and purchased power costs incurred between December 1, 1986 and September 30, 1991. Entergy Gulf States proposed to recover net under-recoveries and interest (including under-recoveries related to NISCO) over a twelve-month period. In June 1993, the PUCT concluded that the purchased power payments made to NISCO in excess of Entergy Gulf States' avoided cost were not reasonably incurred. In October 1993, Entergy Gulf States appealed the PUCT's order to the Travis County District Court where the matter is still pending. As of December 31, 1997, Entergy Gulf States had expensed $182 million of unrecovered purchased power costs and deferred revenue pending the appeal to the District Court. No assurance can be given as to the timing or outcome of the appeal.

Retail Rate Proceedings

In addition to the January 14, 1998 ruling discussed above in "Texas Jurisdiction - River Bend," the PUCT upheld an ALJ's ruling disallowing recovery of approximately $40 million of Entergy Services' affiliate costs allocated to Entergy Gulf States in Texas. Entergy Services is responsible for managing Entergy Gulf States' fossil generating plants and transmission and distribution systems, as well as providing human resources, accounting, and other necessary services to Entergy Gulf States and Entergy Corporation's other electric utility subsidiaries. In another matter, the PUCT also issued an order establishing service quality standards and rate of return adjustments for Entergy Gulf States and its Texas retail service territory. A portion of the adjustments will be retroactive and a portion will be prospective. The PUCT will evaluate Entergy Gulf States' future performance based on several criteria including feeder reliability, billing error rates, customer call center performance, service installation performance, line extension performance and street light replacements.

In March 1998, the parties to the Entergy Gulf States rate proceedings in Texas reached an agreement in principle, subject to approval by the PUCT and certain cities served by Entergy Gulf States, which would resolve all of the pending rate issues. The proposed agreement in principle would include a base rate reduction of $40 million on an annual basis, with a refund retroactive to June 1, 1996; additionally it would provide for a recovery of $25

million of deferred fuel costs; the base rates would remain at the same level for the next four years after the reduction; a total service quality credit of $9 million retroactive to June 1996; and the recovery of a portion of the abeyed portion of River Bend such that at the end of the four year rate freeze there will remain $125 million of net plant related to that abeyed portion. Entergy Gulf States has established reserves for the probable effects of this agreement in principle based on management's estimates of the terms thereof. These reserves of approximately $381 million (or $227 million net of taxes) were recorded in the fourth quarter of 1997. The results of operations of Entergy Gulf States for the year ended December 31, 1997, reflect corresponding charges to operating revenues and other income (deductions) of $70 million and $311 million, respectively. The parties are working to finalize a definitive agreement. Entergy Gulf States has agreed to implement the refunds and rate reductions, subject to final approval of the agreement in principle. Final approval of the agreement in principle would resolve all pending regulatory issues. Refer to Note 2 for a discussion of other Entergy Gulf States retail rate proceedings that were resolved during the past year and/or are currently pending.

Fuel Recovery

Entergy Gulf States' Texas rate schedules include a fixed fuel factor to recover fuel and purchased power costs not recovered in base rates. The fixed factor may be revised every six months in accordance with a schedule set by the PUCT. To the extent actual costs vary from the fixed factor, refunds or surcharges are required or permitted. Fuel costs are also subject to reconciliation proceedings every three years. Entergy Gulf States' Louisiana electric rate schedules include a fuel adjustment clause designed to recover the cost of fuel and purchased power costs, adjusted by a surcharge (or credit) for deferred fuel expense arising from the monthly reconciliation of actual fuel cost incurred with fuel revenues billed to customers. See Note 2 for a discussion of the LPSC fuel cost reviews.

Entergy Gulf States' Louisiana gas rates include a purchased gas adjustment to recover the cost of purchased gas.

Steam Customer Contract

In August 1996, Entergy Gulf States entered into agreements with its only steam customer whereby a generating facility was leased to such customer beginning in August 1997, the expiration date of the previous contract. As a result of these arrangements, Entergy Gulf States' annual revenues are expected to decrease by approximately $33 million, and its net income is expected to be reduced by approximately $15 million annually. See "**MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - SIGNIFICANT FACTORS AND KNOWN TRENDS,**" for a further discussion.

Entergy Louisiana

Recovery of Grand Gulf 1 Costs

In a series of LPSC orders, court decisions, and agreements from late 1985 to mid-1988, Entergy Louisiana was granted rate relief with respect to costs associated with Waterford 3 and Entergy Louisiana's share of capacity and energy from Grand Gulf 1, subject to certain terms and conditions. With respect to Waterford 3, Entergy Louisiana was granted an increase aggregating $170.9 million over the period 1985-1988, and Entergy Louisiana agreed to permanently absorb, and not recover from retail ratepayers, $284 million of its investment in the unit and to defer $266 million of its costs related to the years 1985-1988 to be recovered from April 1988 through June 1997.

With respect to Grand Gulf 1, Entergy Louisiana agreed to retain, and not recover from retail ratepayers, approximately 2.52% of the costs of Grand Gulf 1's capacity and energy. Non-fuel operation and maintenance costs for Grand Gulf 1 are recovered through Entergy Louisiana's base rates. Additionally, Entergy Louisiana is allowed to recover, through the fuel adjustment clause, 4.6 cents per KWH for the energy related to its retained portion of these costs. Alternatively, Entergy Louisiana may sell such energy to nonaffiliated parties at prices above the fuel adjustment clause recovery amount, subject to the LPSC's approval.

Performance-Based Formula Rate Plan

In June 1995, in conjunction with the LPSC's rate review, a performance-based formula rate plan previously proposed by Entergy Louisiana was approved with certain modifications. See Note 2 for a discussion of Entergy Louisiana's performance-based formula rate plan.

Fuel Adjustment Clause

Entergy Louisiana's rate schedules include a fuel adjustment clause to recover the cost of fuel and purchased power. The fuel adjustment also includes a surcharge (or credit) for deferred fuel expense arising from the monthly reconciliation of actual fuel cost incurred with fuel revenues billed to customers.

Entergy Mississippi

Retail Rate Proceedings

Refer to Note 2 for a discussion of Entergy Mississippi's retail rate proceedings that were resolved during the past year and/or are currently pending.

Rate Freeze

In connection with the settlement of various issues related to the Merger, Entergy Mississippi agreed that it will not, except in response to certain circumstances that are largely beyond its control, request any general retail rate increase to take effect before November 3, 1998. See Note 2 for a discussion of the rate freeze and other aspects of the settlement agreement between Entergy Mississippi and the MPSC.

Recovery of Grand Gulf 1 Costs

In September 1985, the MPSC granted Entergy Mississippi an annual base rate increase of approximately $326.5 million in connection with its allocated share of Grand Gulf 1 costs. The MPSC also provided for the deferral of a portion of such costs that were incurred each year through 1992, and recovery of these deferrals over a period of six years ending in 1998. As of December 31, 1997, the uncollected balance of Entergy Mississippi's deferred costs was approximately $127 million. Entergy Mississippi is permitted to recover the carrying charges on all deferred amounts on a current basis.

Formula Rate Plan

Under a formulary incentive-rate plan (Formula Rate Plan) effective March 25, 1994, Entergy Mississippi's earned rate of return is calculated automatically every 12 months and compared to and adjusted against a benchmark rate of return (calculated under a separate formula within the Formula Rate Plan). The Formula Rate Plan allows for periodic small adjustments in rates based on a comparison of actual earned returns to benchmark returns and upon certain performance factors. Refer to Note 2 for a discussion of the formula rate plan filing for the 1996 test year. The formula rate plan filing for the 1997 test year will be filed in March 1998.

Fuel Adjustment Clause

In March 1997, Entergy Mississippi proposed an alternative fuel cost recovery mechanism, the ECR Rider, which became effective May 1997. Entergy Mississippi's ECR Rider utilizes projected energy costs (i.e., fuel and purchased energy costs) for the coming calendar year to develop an Energy Cost Rate. The Energy Cost Rate is revised annually and includes a true-up adjustment reflecting the over-recovery or under-recovery of the energy cost for the prior year.

Earnings Analysis Filings

Refer to Note 2 for a discussion of the Entergy New Orleans earnings analysis filings that have been resolved during the past year and/or are currently outstanding.

Recovery of Grand Gulf 1 Costs

Under Entergy New Orleans' various rate settlements with the Council in 1986, 1988, and 1991, Entergy New Orleans agreed to absorb and not recover from ratepayers a total of $96.2 million of its Grand Gulf 1 costs. Entergy New Orleans was permitted to implement annual rate increases in decreasing amounts each year through 1995, and to defer certain costs and related carrying charges for recovery on a schedule extending from 1991 through 2001. As of December 31, 1997, the uncollected balance of Entergy New Orleans' deferred costs was $99 million.

Fuel Adjustment Clause

Entergy New Orleans' electric rate schedules include a fuel adjustment clause designed to recover the cost of fuel in the second prior month, adjusted by a surcharge (or credit) for deferred fuel expense arising from the monthly reconciliation of actual fuel incurred with fuel cost revenues billed to customers. The adjustment also includes the difference between nonfuel Grand Gulf 1 costs paid by Entergy New Orleans and the estimate of such costs provided in Entergy New Orleans' Grand Gulf 1 rate settlements. Entergy New Orleans' gas rate schedules include an adjustment to reflect gas costs in excess of those collected in base rates, adjusted by a surcharge (or credit) similar to that included in the electric fuel adjustment clause.

Regulation

Federal Regulation (Entergy Corporation, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and System Energy)

PUHCA

Entergy Corporation and its various direct and indirect subsidiaries (with the exception of its EWG, FUCO, and ETHC subsidiaries) are subject to the broad regulatory provisions of PUHCA. Except with respect to investments in certain domestic power projects, foreign utility company projects, and telecommunication projects, PUHCA limits the operations of a registered holding company system to a single, integrated public utility system, plus certain additional systems and businesses, regulates certain transactions among affiliates within a holding company system, and regulates the acquisition and sale of securities and assets by registered holding companies and their subsidiaries.

Entergy Corporation and other electric utility holding companies have supported legislation in the United States Congress to repeal PUHCA and transfer certain aspects of the oversight of public utility holding companies from the SEC to FERC. Entergy believes that PUHCA inhibits its ability to compete in the evolving electric energy marketplace and largely duplicates the oversight activities already performed by FERC and state and local regulators. In June 1995, the SEC adopted a report proposing options for the repeal or significant modification of PUHCA. In 1997, the SEC issued Rule 58 under PUHCA, which allows registered public utility holding companies to enter a range of energy related businesses.

Federal Power Act

The domestic utility companies, System Energy, Entergy Power, and EPMC are subject to the Federal Power Act as administered by FERC and the DOE. The Federal Power Act provides for regulatory jurisdiction over the licensing of certain hydroelectric projects, the transmission and wholesale sale of electric energy in interstate

commerce, and certain other activities, including accounting policies and practices. Such regulation includes jurisdiction over the rates charged by System Energy for capacity and energy provided to Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans from Grand Gulf 1.

Entergy Arkansas holds a FERC license for two hydroelectric projects (70 MW), which was renewed on July 2, 1980 and expires in February 2003.

Regulation of the Nuclear Power Industry (Entergy Corporation, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, and System Energy)

Regulation of Nuclear Power

Under the Atomic Energy Act of 1954 and the Energy Reorganization Act of 1974, the operation of nuclear plants is heavily regulated by the NRC, which has broad power to impose licensing and safety-related requirements. In the event of non-compliance, the NRC has the authority to impose fines or shut down a unit, or both, depending upon its assessment of the severity of the situation, until compliance is achieved. Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, and System Energy, as owners of all or portions of ANO, River Bend, Waterford 3, and Grand Gulf 1, respectively, and Entergy Operations, as the licensee and operator of these units, are subject to the jurisdiction of the NRC. Revised safety requirements promulgated by the NRC have, in the past, necessitated substantial capital expenditures at these nuclear plants, and additional such expenditures could be required in the future. See "**MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - SIGNIFICANT FACTORS AND KNOWN TRENDS,**" for a discussion of Waterford 3's Systematic Assessment of License Performance (SALP) report issued by the NRC on January 6,1997.

The nuclear power industry faces uncertainties with respect to the cost and long-term availability of sites for disposal of spent nuclear fuel and other radioactive waste, nuclear plant operations, the technological and financial aspects of decommissioning plants at the end of their licensed lives, and requirements relating to nuclear insurance. These matters are briefly discussed below.

Regulation of Spent Fuel and Other High-Level Radioactive Waste

Under the Nuclear Waste Policy Act of 1982, the DOE is required, for a specified fee, to construct storage facilities for, and to dispose of, all spent nuclear fuel and other high-level radioactive waste generated by domestic nuclear power reactors. However, the DOE has not yet identified a permanent storage repository and, as a result, future expenditures may be required to increase spent fuel storage capacity at nuclear plant sites. For further information concerning spent fuel disposal contracts with the DOE, schedules for initial shipments of spent nuclear fuel, current on-site storage capacity, and costs of providing additional on-site storage, see Note 9.

Regulation of Low-Level Radioactive Waste

The availability and cost of disposal facilities for low-level radioactive waste resulting from normal nuclear plant operations are subject to a number of uncertainties. Under the Low-Level Radioactive Waste Policy Act of 1980, as amended, each state is responsible for disposal of waste originating in that state, and states may participate in regional compacts to fulfill their responsibilities jointly. The States of Arkansas and Louisiana participate in the Central Interstate Low Level Radioactive Waste Compact (Central States Compact), and the State of Mississippi participates in the Southeast Low Level Radioactive Waste Compact (Southeast Compact). Two disposal sites are currently operating in the United States, but only one site, the Barnwell Disposal Facility (Barnwell) located in South Carolina and operated by the Southeast Compact, is open to out-of-region generators. The availability of Barnwell provides only temporary relief for low-level radioactive waste storage and does not alleviate the need to develop new disposal capacity.

Both the Central States Compact and the Southeast Compact are working to establish additional disposal sites. Entergy, along with other waste generators, funds the development costs for new disposal facilities. To date,

Entergy's expenditures for the development of new disposal facilities total approximately $50 million. During the fourth quarter of 1997, Entergy Arkansas, Entergy Louisiana, and Entergy Gulf States expensed $17.4 million, $12.3 million, and $13.8 million, respectively, related to previously deferred radioactive waste facility costs incurred in connection with the Central States Compact. Future levels of expenditures are difficult to predict. The current schedule for the site development in both the Central States Compact and the Southeast Compact projects that the new facilities will not be operational before 2001. Due to the political nature of siting low-level radioactive waste disposal facilities, future delays can be anticipated. Until long-term disposal facilities are established, Entergy will seek continued access to existing facilities. If such access is unavailable, Entergy will store low-level waste at its nuclear plant sites.

Regulation of Nuclear Plant Decommissioning

Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, and System Energy are recovering from ratepayers portions of the estimated decommissioning costs for ANO, River Bend, Waterford 3, and Grand Gulf 1, respectively. These amounts are deposited in trust funds that, together with the related earnings, can only be used for future decommissioning costs. Estimated decommissioning costs are periodically reviewed and updated to reflect inflation and changes in regulatory requirements and technology, and applications are periodically made to appropriate regulatory authorities to reflect in rates any future changes in projected decommissioning costs. For additional information with respect to decommissioning costs for ANO, River Bend, Waterford 3, and Grand Gulf 1, see Note 9.

The EPAct requires all electric utilities (including Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, and System Energy) that purchased uranium enrichment services from the DOE to contribute up to a total of $150 million annually over approximately 15 years (adjusted for inflation, up to a total of $2.25 billion) for decontamination and decommissioning of enrichment facilities. In accordance with the EPAct, contributions to decontamination and decommissioning funds are recovered through rates in the same manner as other fuel costs. See Note 9 for the estimated annual contributions by Entergy for decontamination and decommissioning fees.

Nuclear Insurance

The Price-Anderson Act limits public liability for a single nuclear incident to approximately $8.92 billion. Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, and System Energy have protection with respect to this liability through a combination of private insurance and an industry assessment program, as well as insurance for property damage, costs of replacement power, and other risks relating to nuclear generating units. For a discussion of insurance applicable to the nuclear programs of Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, and System Energy, see Note 9.

Nuclear Operations

General (Entergy Corporation, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, and System Energy)

Entergy Operations operates ANO, River Bend, Waterford 3, and Grand Gulf 1, subject to the owner oversight of Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, and System Energy, respectively. Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, System Energy, and the Grand Gulf 1 co-owner, have retained their ownership interests in their respective nuclear generating units. Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, and System Energy have also retained their associated capacity and energy entitlements, and pay directly or reimburse Entergy Operations at cost for its operation of the units.

ANO Matters (Entergy Corporation and Entergy Arkansas)

See "ANO Matters" in Note 9 herein for a discussion of the replacement of steam generators at ANO 2.

River Bend (Entergy Corporation and Entergy Gulf States)

In connection with the Merger, Entergy Gulf States filed two applications with the NRC in January 1993 to amend the River Bend operating license. The applications sought the NRC's consent to the Merger and to a change in the licensed operator of the facility from Entergy Gulf States to Entergy Operations. The NRC Staff issued the two license amendments for River Bend, which were effective immediately upon consummation of the Merger. On February 14, 1994, Cajun filed with the D.C. Circuit petitions for review of the two license amendments for River Bend. In March 1995, the D.C. Circuit ordered that the NRC order and license amendments be set aside, and remanded the case to the NRC for further consideration. Subsequently, the NRC affirmed its original findings and reissued the two license amendments. Cajun and the Arkansas Cities and Cooperatives filed petitions for review of those NRC orders with the D. C. Circuit. On May 8, 1997, the D.C. Circuit granted Cajun's motion to dismiss its appeal. Arkansas Cities and Cooperatives' appeal has been briefed and remains pending. The two license amendments are currently in full force and effect.

State Regulation (Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans)

General

Entergy Arkansas is subject to regulation by the APSC, which includes the authority to set rates, determine reasonable and adequate service, require proper accounting, control leasing, control the acquisition or sale of any public utility plant or property constituting an operating unit or system, set rates of depreciation, issue certificates of convenience and necessity and certificates of environmental compatibility and public need, and regulate the issuance and sale of certain securities.

Entergy Gulf States is subject to the jurisdiction of the municipal authorities of incorporated cities in Texas as to retail rates and service within their boundaries, with appellate jurisdiction over such matters residing in the PUCT. Entergy Gulf States is also subject to regulation by the PUCT as to retail rates and service in rural areas, certification of new generating plants, and extensions of service into new areas. Entergy Gulf States is subject to regulation by the LPSC as to electric and gas service, rates and charges, certification of generating facilities and power or capacity purchase contracts, depreciation, accounting, and other matters.

Entergy Louisiana is subject to regulation by the LPSC as to electric service, rates and charges, certification of generating facilities and power or capacity purchase contracts, depreciation, accounting, and other matters. Entergy Louisiana is also subject to the jurisdiction of the Council with respect to such matters within Algiers.

Entergy Mississippi is subject to regulation as to service, service areas, facilities, and retail rates by the MPSC. Entergy Mississippi is also subject to regulation by the APSC as to the certificate of environmental compatibility and public need for the Independence Station.

Entergy New Orleans is subject to regulation by the Council as to electric and gas service, rates and charges, standards of service, depreciation, accounting, issuance of certain securities, and other matters.

Franchises

Entergy Arkansas holds exclusive franchises to provide electric service in approximately 300 incorporated cities and towns in Arkansas. These franchises are unlimited in duration and continue until such a time when the municipalities purchase the utility property. In Arkansas, franchises are considered to be contracts and, therefore, are terminable upon breach of the contract.

Entergy Gulf States holds non-exclusive franchises, permits, or certificates of convenience and necessity to provide electric and gas service in approximately 55 incorporated municipalities in Louisiana and approximately 63 incorporated municipalities in Texas. Entergy Gulf States typically is granted 50-year franchises in Texas and 60-

year franchises in Louisiana. Entergy Gulf States' current electric franchises will expire during 2007 - 2036 in Texas and during 2015 - 2046 in Louisiana. The natural gas franchise in the City of Baton Rouge will expire in 2015. In addition, Entergy Gulf States has received from the PUCT a certificate of convenience and necessity to provide electric service to areas within 21 counties in eastern Texas.

Entergy Louisiana holds non-exclusive franchises to provide electric service in approximately 116 incorporated municipalities. Most of these franchises have 25-year terms, although six municipalities have granted Entergy Louisiana 60-year franchises. Entergy Louisiana also supplies electric service in approximately 353 unincorporated communities, all of which are located in parishes in which Entergy Louisiana holds non-exclusive franchises.

Entergy Mississippi has received from the MPSC certificates of public convenience and necessity to provide electric service to areas within 45 counties, including a number of municipalities, in western Mississippi. Under Mississippi statutory law, such certificates are exclusive. Entergy Mississippi may continue to serve in such municipalities upon payment of a statutory franchise fee, regardless of whether an original municipal franchise is still in existence.

Entergy New Orleans provides electric and gas service in the City of New Orleans pursuant to city ordinances, which state, among other things, that the City has a continuing option to purchase Entergy New Orleans' electric and gas utility properties.

The business of System Energy is limited to wholesale power sales and has no distribution franchises.

Regulation under the Electricity Act (Entergy London)

The Regulator

The principal legislation governing the structure and regulation of the electricity industry in Great Britain is the Electricity Act. The Electricity Act established the industry structure to enable privatization of the UK electric system. The Electricity Act also created the office of the Regulator, who is appointed by the Secretary of State for Trade and Industry. The present Regulator, Professor Stephen Littlechild, was appointed for a five year term ending on August 31, 1999.

The Regulator's functions include, among other things, granting licenses to generate, transmit, distribute or supply electricity; proposing modifications to licenses and making license modification references to the MMC; enforcing compliance with license conditions; advising the Secretary of State for Trade and Industry relating to the approval of each non-fossil fuel source; calculating the Fossil Fuel Levy rate and collecting the levy; resolving certain disputes between electricity licensees and customers; and setting standards of performance for electricity licensees.

The Regulator exercises concurrently with the Director General of Fair Trading certain functions relating to monopoly situations under the Fair Trading Act 1973 and certain functions relating to activities that have, or are intended or likely to have, the effect of restricting, distorting or preventing competition in the generation, transmission or supply of electricity under the Competition Act 1980.

The Electricity Act requires the Regulator and the Secretary of State to exercise their functions to ensure that all reasonable demands for electricity are satisfied; to assure that license holders are able to finance their licensed activities; and to promote competition in the generation and supply of electricity. Subject to these duties, the Secretary of State and the Regulator are required to exercise their functions in a manner calculated to protect the interests of consumers of electricity in respect of price, continuity of supply, and the quality of electricity supply services; to promote efficiency and economy on the part of licensed electricity suppliers and the efficient use of electricity supplied to consumers; to promote research and development by persons authorized to generate, transmit or supply electricity; to protect the public from the dangers arising from the generation, transmission or supply of electricity, and to act for the protection of the health and safety of workers in the electricity industry. The Secretary

of State and the Regulator also have a duty to consider the environmental activities connected with the generation, transmission, distribution or supply of electricity. The Secretary of State and the Regulator have a duty to consider, in particular, the interests of consumers in rural areas in respect of prices and other terms of supply. With regard to the quality of electricity supply services, they also have a duty to consider in particular the interests of those who are disabled or of pensionable age.

PES License

London Electricity has a PES license for its franchise area and is required to supply electricity upon request to any premises in that area, except in specified circumstances. Like all PES license holders, it may not discriminate between its own supply business and other users of its distribution system. The PES license also prohibits cross-subsidization among the various regulated businesses. PES license holders, including London Electricity, are subject to separate price controls on the amounts they may charge for the supply of electricity to Franchise Supply Customers. A PES license also requires a licensee, including London Electricity, to procure electricity at the best price reasonably obtainable from all available sources, including London Electricity.

In England and Wales, each PES license limits the extent of the generation capacity in which the relevant REC may hold an interest without the prior consent of the Regulator ("own-generation limits"). In the case of London Electricity, the own-generation limit is fixed at 700 MW. After taking into account London Electricity's current ownership interest in a generation facility, the amount of additional generation investment which could be made by London Electricity is 565 MW. Investments by affiliates of Entergy in generating assets in the UK would be counted towards this own-generation limit under London Electricity's PES license. London Electricity has applied for and has been granted by the Regulator an exception from the own-generation limit, subject to certain conditions, for EPDC investments in the SCC and KPL projects. The most significant of these conditions, to which London Electricity has agreed, is that generating capacity from these projects will not be acquired by London Electricity for purposes of its supply business.

Second Tier Supply Licenses

Other than a PES license holder in its franchise area and subject to certain other exceptions, a supplier of electricity to premises in Great Britain must possess a second tier supply license. Subject to certain restrictions, second tier licensees may compete for the supply of electricity with one another and with the PES license holder in the relevant area. There are currently 34 second tier supply license holders for England and Wales.

Modifications to Licenses

Following the acquisition of London Electricity by Entergy London, London Electricity's PES License was modified during October 1997 to provide that, with a few minor exceptions, the only business activities which London Electricity is permitted to undertake directly are its first tier and second tier supply businesses and its distribution business. These modifications by the Regulator are intended to place financial protections around the licensed activities of London Electricity as a safeguard against financial pressures which might affect its ability to continue to finance its statutory and licensed functions, including necessary investment in its distribution businesses. Among other things, the modifications restrict the businesses in which London Electricity can participate, other than the licensed businesses, and regulates dealings between London Electricity and other companies (particularly affiliated companies). The modifications also require London Electricity to secure that it has sufficient management and financial resources to conduct its licensed businesses, give the Regulator an annual certificate of the adequacy of its financial resources, and maintain an investment grade rating for its debt as defined by Moody's and Standard & Poor's.

Term and Revocation of Licenses

London Electricity's PES license will continue in effect until at least 2025 unless revoked. Under ordinary circumstances, the license may not be revoked except on 25 years' prior notice, which notice may not be given until

2000. Otherwise, the Secretary of State may revoke a PES license by not less than 30 days' notice in writing to the licensee in certain specified circumstances, including, among other things, the failure to comply with a final order of the Regulator or the insolvency of the licensee.

Other Regulatory Matters (Entergy London)

On June 30, 1997, the UK government announced a review of the regulatory framework governing the utilities, including electricity supply and distribution. This review is currently being undertaken.

In October 1997, the UK government asked the Regulator to review electricity trading arrangements. This review is focusing on the wholesale electricity market in England and Wales and covers existing trading arrangements within the Electricity Pool, trading arrangements outside the Electricity Pool, and price setting mechanisms.

Environmental Regulation

General

In the areas of air quality, water quality, control of toxic substances and hazardous and solid wastes, and other environmental matters, the facilities and operations of Entergy are subject to regulation by various governmental authorities. Entergy believes that its affected subsidiaries are in substantial compliance with environmental regulations currently applicable to their respective facilities and operations. Because environmental regulations are subject to change, future compliance costs cannot be precisely estimated. However, management currently estimates that future capital expenditures for environmental compliance purposes, including those discussed under "Clean Air Legislation," below, will not be material for Entergy as a whole, or for any of its reporting subsidiaries.

Clean Air Legislation

The Clean Air Act Amendments of 1990 (the Act) established the following three programs that affect Entergy's fossil-fueled generation now or may affect it in the future: (i) an acid rain program for control of sulfur dioxide (SO_2) and nitrogen oxides (NOx); (ii) an ozone nonattainment area program for control of NOx and volatile organic compounds; and (iii) an operating permits program for administration and enforcement of these and other Act programs.

Under the acid rain program, no additional control equipment is expected to be required by Entergy to control SO_2. The Act provides "allowances" to most of the affected Entergy generating units for emissions based upon past emission levels and operating characteristics. Each allowance is an entitlement to emit one ton of SO_2 per year. Under the Act, utilities are or will be required to possess allowances for SO_2 emissions from affected generating units. All Entergy fossil-fueled generating units are classified as "Phase II" units under the Act and are subject to SO_2 allowance requirements beginning in the year 2000. Based on operating history, the domestic utility companies have been allocated more allowances than are currently necessary for normal operations. Management believes that it will be able to operate the domestic utility companies' generating units efficiently without installing scrubbers or purchasing allowances from outside sources, and that one or more of the domestic utility companies may have excess allowances.

Control equipment may eventually be required for certain of the domestic utility companies' generating units to achieve NOx reductions due to the ozone nonattainment status of the areas served by Entergy Gulf States in and around Beaumont and Houston, Texas. Texas environmental authorities are studying the causes of ozone pollution and have deferred NOx controls on power plants until at least 1999. If Texas decides to regulate NOx, the aggregate cost of such control equipment for the affected Entergy Gulf States plants is estimated to be $1.5 million through the year 2000. It is expected that Texas, in conjunction with the EPA, will publish future control strategies during 1998 and 1999. Depending on the strategies developed by Texas, additional costs may be incurred between 2000 and 2007, but these costs cannot be reasonably estimated until the strategies have been published.

Other Environmental Matters

The provisions of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (CERCLA), authorize the EPA and, indirectly, the states, to require generators and certain transporters of certain hazardous substances released from or at a site, and the owners or operators of any such site, to cleanup the site or reimburse such clean-up costs. CERCLA has been interpreted to impose joint and several liability on responsible parties. Entergy's domestic utility companies have sent waste materials to various disposal sites over the years. Also, certain operating procedures and maintenance practices employed by Entergy's domestic utility companies, which historically were not subject to regulation, now are regulated by environmental laws. Some of these sites have been the subject of governmental action under CERCLA, as a result of which the domestic utility companies have become involved with site clean-up activities. They have participated to various degrees in accordance with their respective potential liabilities in such site clean-ups and have developed experience with clean-up costs. The domestic utility companies have established reserves for such environmental clean-up/restoration activities. In the aggregate, the cost of such remediation is not considered material to Entergy or to any of its reporting subsidiaries.

Entergy Arkansas

Entergy Arkansas has received notices from time to time from the EPA, the Arkansas Department of Pollution Control & Ecology (ADPC&E), and others alleging that Entergy Arkansas, along with others, may be a PRP for clean-up costs associated with various sites in Arkansas. Most of these sites are neither owned nor operated by any Entergy company. Contaminants at the sites include polychlorinated biphenyls (PCBs), lead, and other hazardous substances.

At the EPA's request, Entergy Arkansas voluntarily performed stabilization activities at the Benton Salvage site in Saline County, Arkansas. While the EPA has not named PRPs for this site, Entergy Arkansas has attempted to negotiate a settlement with the EPA. Entergy Arkansas and the EPA were unable to reach an agreement satisfactory to both parties. EPA initiated its own clean-up of the site in October 1996. Entergy Arkansas does not believe that its potential liability, if any, with respect to this site will be material.

In May 1995, Entergy Arkansas was named as a defendant in a suit brought by Reynolds Metals Company (Reynolds) in the U.S. District Court for the Eastern District of Arkansas, seeking to recover a share of the costs associated with the clean-up of hazardous substances at Reynolds former Patterson plant site. Reynolds alleged that it spent $11.2 million to clean up the site, and that the site was contaminated with PCBs for which Entergy Arkansas bore some responsibility. In July 1997, the Court granted Entergy Arkansas' Motion for Summary Judgment and dismissed Reynolds lawsuit.

Entergy Arkansas entered into a Consent Administrative Order, dated February 21, 1991, with the ADPC&E that named Entergy Arkansas as a PRP for the initial stabilization associated with contamination at the Utilities Services, Inc. state Superfund site located near Rison, Arkansas. This site was found to have soil contaminated by PCBs and pentachlorophenol (a wood preservative). Containers and drums that contained PCBs and other hazardous substances were found at the site. Entergy Arkansas' share of total remediation costs is estimated not to exceed $5.0 million. Entergy Arkansas is attempting to identify and notify other PRPs with respect to this site. Entergy Arkansas has received assurances that the ADPC&E will use its enforcement authority to allocate remediation expenses among Entergy Arkansas and any other PRPs that can be identified. Approximately 20 PRPs have been identified to date. Entergy Arkansas has performed the activities necessary to stabilize the site, at a cost of approximately $400,000.

Entergy Gulf States

Entergy Gulf States has been designated by the EPA as a PRP for the clean-up of certain hazardous waste disposal sites. Entergy Gulf States is currently negotiating with the EPA and state authorities regarding the clean-up of these sites. Several class action and other suits have been filed in state and federal courts seeking relief from

Entergy Gulf States and others for damages caused by the disposal of hazardous waste and for asbestos-related disease allegedly resulting from exposure on Entergy Gulf States premises (see "**Other Regulation and Litigation**" below). As of December 31, 1997, a remaining recorded liability of $23.8 million existed relating to the clean-up of seven sites at which Entergy Gulf States has been designated as a PRP.

In 1971, Entergy Gulf States purchased property near its Sabine generating station, known as the Bailey site, for possible expansion of cooling water facilities. Entergy Gulf States sold the property in 1984. In October 1984, an abandoned waste site on the property was included on the NPL by the EPA. Entergy Gulf States negotiated with the EPA and is a member of a task force with other PRPs for the voluntary clean-up of the waste site. A consent decree has been signed by all PRPs for the voluntary clean-up of the Bailey site. On-site remediation was completed during 1997. Total remediation costs are currently expected to be approximately $33 million; however, federal and state agencies are still examining potential liabilities associated with natural resource damage. Entergy Gulf States is expected to be responsible for 2.26% of the estimated clean-up cost, but Entergy Gulf States does not expect that its remaining responsibility with respect to this site will be material after allowance for its existing provision for clean-up in the amount of $300,000.

Entergy Gulf States is currently involved in a multi-phased remedial investigation of an abandoned MGP site, known as the Lake Charles Service Center, located in Lake Charles, Louisiana, which is thought to have operated as an MGP from approximately 1916 to 1931. Coal tar, a by-product of the distillation process employed at MGPs, was apparently routed to a portion of the property for disposal. The same area has also been used as a landfill. Under an order, which is currently stayed, issued by the LDEQ, Entergy Gulf States was required to investigate and, if necessary, take remedial action at the site. Preliminary estimates of remediation costs are approximately $20 million. On February 13, 1995, the EPA published a proposed rule adding the Lake Charles Service Center to the NPL. Another PRP has been identified that may have had a role in the ownership and operation of the MGP. Negotiations with that company for joint participation and possible remedial action are ongoing. Entergy Gulf States has signed an Administrative Order on Consent negotiated with the EPA. Entergy Gulf States does not presently expect that its ultimate responsibility for this site will materially exceed its existing clean-up provision of $20 million.

Entergy Gulf States is currently involved in an initial investigation of an MGP site, known as the Old Jennings Ice Plant, located in Jennings, Louisiana. The MGP site is believed to have operated from approximately 1909 to 1926, and is now occupied by an electrical substation and used for storage of transmission and distribution equipment. In July 1996, a petroleum-like substance was discovered on the surface soil, and notification was made to the LDEQ. The LDEQ was aware of this site based upon a survey performed by an environmental consultant for the EPA. Entergy Gulf States obtained the services of an environmental consultant to collect core samples and to perform a search of historical records to determine what activities occurred at Jennings. Results of the core sampling, which found limited amounts of contamination on-site, were submitted to the LDEQ. Entergy Gulf States is awaiting the LDEQ's comment on the submission, and does not expect that its ultimate financial responsibility with respect to this site will be material. The amount of its existing provision for clean-up is $500,000.

Entergy Gulf States, along with Entergy Louisiana, has been named as a PRP for an abandoned waste oil recycling plant site in Livingston Parish, Louisiana, known as Combustion, Inc., which is included on the NPL. Entergy Gulf States has settled its alleged involvement in the Combustion Inc. site in a court approved settlement involving a payment of $161,000. Entergy Gulf States has also agreed to pay a portion of any future clean-up costs related to residual ground water, but does not expect that any such costs will be incurred.

Entergy Gulf States, along with Entergy Arkansas and Entergy Louisiana, has been notified of its potential liability with respect to the Benton Salvage site located in Saline County, Arkansas. Although Entergy Gulf States and Entergy Louisiana have had minor involvement in the Benton Salvage site, no remediation is expected to be required of these companies. See "**Entergy Arkansas**" above for a discussion of the Benton Salvage site.

Entergy Louisiana, Entergy New Orleans, and System Energy

Entergy Louisiana, Entergy New Orleans, and System Energy have received notices from the EPA and/or the states of Louisiana and Mississippi that one or more of them may be a PRP for the following disposal sites that are neither owned nor operated by any Entergy subsidiary:

- Entergy Louisiana, along with Entergy Arkansas and Entergy Gulf States, was notified in 1990 of its potential liability relating to the Benton Salvage site located in Saline County, Arkansas. Although Entergy Gulf States and Entergy Louisiana have been involved in the Benton Salvage site, their contributions are considered minor. Therefore, no remediation action is required by these companies. See "Entergy Arkansas" above for a discussion of the Benton Salvage site.

- The MCEQ issued an order on October 13, 1997 ordering Entergy Louisiana to implement a remedial action work plan that had been prepared by a PRP committee for Disposal Systems, Inc. sites at Fifth Street (Clay Point) and Lee Street in Biloxi, Mississippi, and at Woolmarket, Mississippi. Entergy Louisiana filed a petition with the MCEQ denying that it had sent any wastes to the Lee Street or Woolmarket sites and alleging that wastes that had been transported by its contractor to Clay Point are not pollutants within the meaning of the Mississippi statutes or regulations, that any wastes at that site had been cleaned up under a consent decree between the EPA and the PRPs, approved by the U. S. District Court for the Southern District of Mississippi, Southern Division, and had been stored at a warehouse on the site, and, further, that the State of Mississippi has no jurisdiction in view of the consent decree of the federal court. The petition further requested a hearing before the MCEQ. No hearing date has been set. A PRP committee is attempting to draft a settlement proposal for all of the PRPs on sharing clean-up costs. The MCEQ issued a similar order on the same date to Entergy Louisiana's contractors, Ebasco Services, Inc., which Entergy Louisiana has agreed to defend and indemnify. The MCEQ issued a similar order on the same date to Bechtel Power, the contractor for System Energy on the Grand Gulf plant. System Energy was not named as a defendant in the order. Bechtel has filed a petition asking for a hearing. Entergy Louisiana's remediation costs at the site are not expected to be material.

- From 1992 to 1994, Entergy Louisiana performed site assessments and remedial activities at three retired power plants, known as the Homer, Jonesboro, and Thibodaux municipal sites, previously owned and operated by Louisiana municipalities. Entergy Louisiana purchased power plants at these sites as part of the acquisition of municipal electric systems. The site assessments indicated some subsurface contamination from fuel oil. Remediation of the Homer and Jonesboro sites has been completed at an aggregate cost of approximately $180,000, and remediation of the Thibodaux site is expected to continue through 2000. The cost incurred through December 31, 1997 for the Thibodaux site is $305,000, and future costs are not expected to exceed the existing provision of $530,000.

Entergy Louisiana and Entergy New Orleans have been named by the EPA as PRPs for associated clean-up costs for certain Louisiana disposal sites. Such sites include Combustion Inc., an abandoned waste oil recycling plant site located in Livingston Parish (involving at least 70 PRPs, including Entergy Gulf States, but not Entergy New Orleans), and the Dutchtown site (also included on the NPL and involving 57 PRPs). Entergy Louisiana has settled its alleged involvement in the Combustion Inc. site in a court approved settlement for a payment of $225,000. Entergy Louisiana has also agreed to pay a portion of any future clean-up costs related to residual ground water, but does not expect that any such costs will be incurred. With respect to the Dutchtown site, Entergy New Orleans believes it has no liability because the material it sent to this site was not a hazardous substance.

During 1993, the LDEQ issued new rules for solid waste regulation, including regulation of waste water impoundments. Entergy Louisiana has determined that certain of its power plant waste water impoundments were affected by these regulations and has chosen to upgrade or close them. As a result, a remaining recorded liability in the amount of $6.7 million existed at December 31, 1997 for waste water upgrades and closures. Completion of this work is awaiting the LDEQ's approval. Cumulative expenditures relating to the upgrades and closures of waste water impoundments are $7.1 million as of December 31, 1997.

UK Environmental Regulation (Entergy London)

London Electricity's businesses are subject to numerous regulatory requirements with respect to the protection of the environment. The Electricity Act obligates the UK Secretary of State for Trade and Industry (the "Secretary of State") to consider the effect of electricity generation, transmission, and supply activities upon the environment in approving applications for the construction of generating facilities and the location of overhead power lines. The Electricity Act requires London Electricity to have regard to the desirability of preserving natural beauty and the conservation of natural and man-made features of particular interest when it formulates proposals for development of certain of its activities. London Electricity mitigates the effects of its proposals on natural and man-made features and is required to carry out an environmental assessment before laying cables, constructing overhead lines, or carrying out any other development in connection with its licensed activities. London Electricity also has produced an Environmental Policy Statement that sets forth its plans for compliance with its environmental obligations under the Electricity Act.

The Environmental Protection Act 1990 addresses waste management issues and imposes certain obligations and duties on companies that handle and dispose of waste. Some of London Electricity's distribution activities produce waste, but London Electricity believes that it is in compliance with the applicable standards.

Possible adverse health effects of EMFs from various sources, including transmission and distribution lines, have been the subject of a number of studies and increasing public discussion. The scientific research currently is inconclusive as to whether EMFs cause adverse health effects. The only UK standards for exposure to power frequency EMFs are those promulgated by the National Radiological Protection Board and relate to the levels above which non-reversible physiological effects may be observed. London Electricity fully complies with these standards. However, the possibility exists that passage of legislation and change of regulatory standards could require measures to mitigate EMFs, with resulting increases in capital and operating costs. In addition, the potential exists for public liability with respect to lawsuits brought by plaintiffs alleging damages caused by EMFs.

London Electricity has approximately 677 miles of oil-filled underground cables that operate at 33kV and 132kV. These cables generally supply substantial amounts of electricity to large substations in urban areas and to large customers. The majority of these cables are between 30 and 50 years old. London Electricity operates these cables in accordance with the "Environment Agency and Electricity Companies (in England and Wales) Operating Code on the Management of Fluid-Filled Cables," monitoring and repairing both gradual and substantial leaks, which arise through age deterioration and third party damage. London Electricity has a program to minimize oil leakage and reduce the possibility of pollution to watercourses and ground water. This program includes a plan for gradual replacement of these cables with more modern solid cables. London Electricity believes that the existing monitoring systems and planned replacement program are sufficient to avoid major environmental incidents or unnecessary replacement expenditures. London Electricity could incur significant expenditures if it were required to replace all or substantially all of its fluid-filled cables, other than in the ordinary course of business, pursuant to new or existing legislation.

Other Regulation and Litigation

Merger (Entergy Corporation and Entergy Gulf States)

In July and August 1992, applications were filed with FERC, the LPSC, the PUCT, and the SEC under PUHCA, seeking authorization of various aspects of the Merger. In January 1993, Entergy Gulf States filed two applications with the NRC seeking approval of the change in ownership of Entergy Gulf States and an amendment to the operating license for River Bend to reflect its operation by Entergy Operations. All regulatory approvals were obtained in 1993 and the Merger was consummated on December 31, 1993.

FERC's orders approving the Merger were appealed to the D.C. Circuit by Entergy Services, the City of New Orleans, the Arkansas Electric Energy Consumers (AEEC), the APSC, Cajun, the MPSC, the American Forest

and Paper Association, the State of Mississippi, the City of Benton and other cities, and Occidental Chemical Corporation (Occidental). Entergy Services sought review of FERC's deletion of a 40% cap on the amount of fuel savings Entergy Gulf States may be required to transfer to other Entergy domestic utility companies under a tracking mechanism designed to protect the other companies from certain unexpected increases in fuel costs. The other parties sought to overturn FERC's decisions on various grounds, including issues as to whether FERC appropriately conditioned the Merger to protect various interested parties from alleged harm and FERC's reliance on Entergy's transmission tariff to mitigate any potential anticompetitive impacts of the Merger. On November 18, 1994, the D.C. Circuit denied motions filed by Cajun, Occidental, and AEEC for a remand to FERC and a partial summary grant of the petitions for review. At the same time, the D.C. Circuit ordered that the cases be held in abeyance pending FERC's issuance of (i) a final order on remand in the proceedings on Entergy's transmission tariff (see discussion of tariff case in "**RATE MATTERS AND REGULATION - Rate Matters - Wholesale Rate Matters - Open Access Transmission**" above), and (ii) a final order on competition issues in the proceedings on the Merger.

On December 30, 1993, Entergy Services submitted to FERC tariff revisions to comply with FERC's order dated December 15, 1993, approving the Merger. On February 4, 1994, the APSC and AEEC filed with FERC a joint protest, alleging that Entergy should be required to insulate the ratepayers of Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans from all litigation liabilities related to Entergy Gulf States' River Bend nuclear facility. In a May 17, 1994, order on rehearing, FERC addressed Entergy's commitment to insulate the customers of Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans against liability resulting from certain litigation involving River Bend. In response to FERC's clarification of Entergy's commitment, Entergy Services filed a new compliance filing on June 16, 1994. The APSC and AEEC subsequently filed protests questioning the adequacy of Entergy's June 16, 1994, compliance filing. FERC has not yet acted on the compliance filings.

Employment Litigation (Entergy Corporation, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, and Entergy New Orleans)

Entergy Corporation, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, and Entergy New Orleans are defendants in numerous lawsuits that have been filed by former employees asserting that they were wrongfully terminated and/or discriminated against due to age, race, and/or sex. Entergy Corporation, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, and Entergy New Orleans are vigorously defending these suits and deny any liability to the plaintiffs. However, no assurance can be given as to the outcome of these cases, and an adverse outcome in one or more cases could have a material adverse financial effect on any of the Entergy defendants. See "Employment Litigation" in Note 9 for information regarding these lawsuits.

Asbestos and Hazardous Waste Suits

(Entergy Gulf States and Entergy Louisiana)

A number of plaintiffs who allegedly suffered damage or injury, or are survivors of persons who died, allegedly as a result of exposure to "hazardous toxic waste" that emanated from a site in Livingston Parish, Louisiana, sued Entergy Gulf States and approximately 70 other defendants, including Entergy Louisiana, in 17 suits filed in the Livingston Parish District Court. The plaintiffs alleged that the defendants generated, transported, or participated in the storage of such wastes at the facility, which was previously operated as a waste oil recycling facility. These suits, and three federal suits in three states other than Louisiana involving issues arising from the same facility, were consolidated in the U.S. District Court for the Middle District of Louisiana. Entergy Gulf States and Entergy Louisiana have settled all claims against them in the suits and the settlements were approved by court order on February 7, 1996 and June 4, 1997, respectively. Entergy Gulf States' and Entergy Louisiana's shares of the settlements of these cases is not material to their financial position or results of operations.

(Entergy Gulf States)

A total of 25 suits have been filed on behalf of approximately 1,200 plaintiffs in state and federal courts in Jefferson and Orange Counties, Texas. These suits seek relief from Entergy Gulf States as well as numerous other defendants for damages caused to the plaintiffs or others by the alleged exposure to hazardous waste and asbestos on the defendants' premises. The plaintiffs in some of these suits are also suing Entergy Gulf States and all other defendants on a conspiracy claim. There are ten asbestos-related lawsuits filed in the District Court of Calcasieu Parish in Lake Charles, Louisiana, on behalf of approximately fifteen plaintiffs naming numerous defendants including Entergy Gulf States. The suits allege that each plaintiff contracted an asbestos-related disease from exposure to asbestos insulation products on the premises of the defendants. A total of eighteen lawsuits have been filed in Louisiana on behalf of 24 plaintiffs in state courts in East Baton Rouge, Iberville, and Ascension Parishes. These suits seek relief from Entergy Gulf States and numerous other defendants for damages caused to the plaintiffs or others by alleged exposure to hazardous waste and asbestos on the defendants' premises. It is not known yet how many of the plaintiffs in any of the foregoing cases worked on Entergy Gulf States' premises. Settlements with approximately 800 of the Jefferson County plaintiffs and with approximately 100 of the Calcasieu Parish plaintiffs are in the process of being consummated. Entergy Gulf States' share of the settlements of these cases is not material to its financial position or results of operations.

Cajun - River Bend Litigation (Entergy Corporation and Entergy Gulf States)

See "Cajun - River Bend Litigation" in Note 9 herein for a discussion of this litigation.

Cajun - Transmission Service (Entergy Corporation and Entergy Gulf States)

See "Cajun - River Bend Litigation" in Note 9 herein for a discussion of this litigation.

Cajun - Coal Contracts (Entergy Corporation and Entergy Gulf States)

See "Cajun-Coal Contracts" in Note 9 herein for a discussion of this litigation.

Service Area Dispute (Entergy Corporation and Entergy Mississippi)

In October 1994, twelve Mississippi cities filed a complaint in state court against Entergy Mississippi and eight electric power associations seeking a judgment declaring unconstitutional certain Mississippi statutes relating to the acquisition by a municipality of facilities and certificate rights of a utility serving in the municipality. The suit requests that the court declare unconstitutional certain 1987 amendments to the Mississippi Public Utilities Act that require that the MPSC cancel a utility's certificate to serve in the municipality before a municipality may acquire a utility's facilities located in the municipality. The suit also requests that the court find that Mississippi municipalities can serve any consumer in the boundaries of the municipality and within one mile thereof. Entergy Mississippi and the other defendants filed motions to dismiss, which were granted in October 1995. The plaintiffs appealed the dismissal to the Mississippi Supreme Court. In September 1997, the Mississippi Supreme Court affirmed the decision of the lower court finding in favor of Entergy Mississippi and dismissing the municipalities' complaint. A petition for rehearing filed by the municipalities was denied by the Mississippi Supreme Court in November 1997.

Taxes Paid Under Protest (Entergy Corporation and Entergy Louisiana)

Since the mid-1980's, Entergy Louisiana and the tax authorities of St. Charles Parish, Louisiana (Parish), where Waterford 3 is located, have disputed use taxes on nuclear fuel paid under protest by Entergy Louisiana, and lease tax issues pertaining to fuel financing arrangements. In May 1997, the Parish and Entergy Louisiana settled all pending use and lease tax litigation. This settlement includes the return to Entergy Louisiana of tax payments made under protest and the dismissal of nuclear fuel related suits against Entergy Louisiana and/or the fuel lessors.

Since 1990, Entergy Louisiana and the state tax authority have disputed state use tax paid under protest on nuclear fuel ($8.8 million at December 31, 1997) by Entergy Louisiana. The fuel was purchased for Waterford 3. Entergy Louisiana has filed lawsuits to recover these taxes, and certain of these suits involve additional legal issues related to an exemption for boiler fuel. The suits regarding these disputes have been consolidated for trial, but a trial date has not been set.

Catalyst Technologies, Inc. (Entergy Corporation)

In June 1993, Catalyst Technologies, Inc. (CTI) filed a petition in the Civil District Court for the Parish of Orleans, Louisiana (CDC), against Electec, Inc., now named Entergy Enterprises, Inc. (EEI), which is a wholly-owned non-utility subsidiary of Entergy Corporation. The petition alleged, among other things, breach of contract, and breach of the obligation of good-faith and fair dealing. On August 8, 1997, a jury in the CDC returned a verdict against EEI in the amount of $346 million plus interest of approximately $118 million. On November 15, 1997, the trial judge entered a judgment notwithstanding the verdict in the CTI lawsuit. Finding as a matter of law that the jury's verdict was incorrect, the judge ruled that no contract ever existed between CTI and Entergy Enterprises, and that the verdict was contrary to the law and the evidence. CTI has appealed this ruling to the Louisiana Court of Appeal for the Fourth Circuit. No date for the filing of appellate briefs or oral argument has been set.

On September 30, 1997, CTI filed another lawsuit against Entergy Corporation, Entergy Services, Entergy Enterprises and certain individuals who are, or at one time were, directors of those corporations. The suit claims, among other things, that CTI suffered damages as a result of actions on the part of Entergy that allegedly caused the individual defendants to breach their fiduciary duties owed to Entergy Enterprises and, indirectly, to CTI as Entergy Enterprises' judgment creditor. After the decision of the trial judge in the original CTI suit, CTI voluntarily moved to dismiss this proceeding, and it was dismissed without prejudice on January 16, 1998.

Union Pacific Railroad (Entergy Corporation and Entergy Arkansas)

In October 1997, Entergy Arkansas and Entergy Services filed a civil suit against Union Pacific Railroad Company (Union Pacific) in the United States District Court for the Middle District of Louisiana. This suit, which seeks damages and the termination of coal shipping contracts with Union Pacific, maintains that Union Pacific has failed to meet its contractual obligations to ship coal to Entergy Arkansas' two large coal-fired plants and that such failure has impaired Entergy Arkansas' ability to generate and sell electricity from these plants.

EARNINGS RATIOS OF DOMESTIC UTILITY COMPANIES, SYSTEM ENERGY, AND ENTERGY LONDON

The domestic utility companies', System Energy's, and Entergy London's ratios of earnings to fixed charges and ratios of earnings to combined fixed charges and preferred dividends pursuant to Item 503 of SEC Regulation S-K are as follows:

	Ratios of Earnings to Fixed Charges Years Ended December 31,				
	1993	1994	1995	1996	1997
Entergy Arkansas	3.11(b)	2.32	2.56	2.93	2.54
Entergy Gulf States	1.54	(c)-	1.86	1.47	1.42
Entergy Louisiana	3.06	2.91	3.18	3.16	2.74
Entergy Mississippi	3.79(b)	2.12	2.92	3.40	2.98
Entergy New Orleans	4.68(b)	1.91	3.93	3.51	2.70
System Energy	1.87	1.23	2.07	2.21	2.31
Entergy London	N/A	N/A	N/A	N/A	(d)-

	Ratios of Earnings to Combined Fixed Charges and Preferred Dividends Years Ended December 31,				
	1993	1994	1995	1996	1997
Entergy Arkansas	2.54(b)	1.97	2.12	2.44	2.24
Entergy Gulf States(a)	1.21	(c)-	1.54	1.19	1.23
Entergy Louisiana	2.39	2.43	2.60	2.64	2.36
Entergy Mississippi	3.08(b)	1.81	2.51	2.95	2.69
Entergy New Orleans	4.12(b)	1.73	3.56	3.22	2.44

(a) "Preferred Dividends" in the case of Entergy Gulf States also include dividends on preference stock.

(b) Earnings for the year ended December 31, 1993, include approximately $81 million, $52 million, and $18 million for Entergy Arkansas, Entergy Mississippi, and Entergy New Orleans, respectively, related to the change in accounting principle to provide for the accrual of estimated unbilled revenues.

(c) Earnings for the year ended December 31, 1994, for Entergy Gulf States were not adequate to cover fixed charges and combined fixed charges and preferred dividends by $144.8 million and $197.1 million, respectively.

(d) As a result of the windfall profits tax of $234 million, earnings for the twelve months ended December 31, 1997, for Entergy London were insufficient to cover fixed charges by $204 million.

INDUSTRY SEGMENTS

Entergy New Orleans

Narrative Description of Entergy New Orleans Industry Segments

Electric Service

Entergy New Orleans supplied retail electric service to approximately 189,000 customers as of December 31, 1997. During 1997, 39% of electric operating revenues was derived from residential sales, 38% from commercial sales, 7% from industrial sales, and 16% from sales to governmental and municipal customers.

Natural Gas Service

Entergy New Orleans supplied retail natural gas service to approximately 151,000 customers as of December 31, 1997. During 1997, 55% of gas operating revenues was derived from residential sales, 19% from commercial sales, 11% from industrial sales, and 15% from sales to governmental and municipal customers. (See **"FUEL SUPPLY - Natural Gas Purchased for Resale."**)

Selected Financial Information Relating to Industry Segments

For selected financial information relating to Entergy New Orleans' industry segments, see Entergy New Orleans' financial statements and Note 15.

Entergy Gulf States

For the year ended December 31, 1997, 96% of Entergy Gulf States' operating revenues was derived from the electric utility business. Of the remaining operating revenues, 2% was derived from the steam business and 2% from the natural gas business.

Entergy London

Entergy London's distribution and supply businesses both served approximately 2.0 million customers as of December 31, 1997. During 1997, operating revenues derived from the distribution and supply business were 22% and 74%, respectively. The remaining 4% of operating revenues was derived from Entergy London's investment in private distribution networks, electricity contracting services, and investments in generating assets.

PROPERTY

Generating Stations

The total capability of Entergy's owned and leased generating stations as of December 31, 1997, by company and by fuel type, is indicated below:

	Owned and Leased Capability MW(1)				
Company	Total	Fossil	Nuclear	Gas Turbine and Internal Combustion	Hydro
Entergy Arkansas	4,373 (2)	2,379	1,694	230 (4)	70
Entergy Gulf States	6,854 (2)	5,843	936	75	-
Entergy Louisiana	5,423 (2)	4,329	1,075	19	-
Entergy Mississippi	3,063 (2)	3,052	-	11	-
Entergy New Orleans	934 (2)	918	-	16	-
System Energy	1,080	-	1,080	-	-
Total	21,727 (3)	16,521 (3)	4,785	351	70

(1) "Owned and Leased Capability" is the dependable load carrying capability as demonstrated under actual operating conditions based on the primary fuel (assuming no curtailments) that each station was designed to utilize.

(2) Excludes the capacity of fossil-fueled generating stations placed on extended reserve as follows: Entergy Arkansas - 506 MW; Entergy Gulf States - 405 MW; Entergy Louisiana - 157 MW; Entergy Mississippi - 73 MW; Entergy New Orleans - 143 MW. Generating stations that are not expected to be utilized in the near-term to meet load requirements are placed in extended reserve shutdown in order to minimize operating expenses.

(3) Excludes net capability of generating facilities owned by Entergy Power, which owns 725 MW of fossil-fueled capacity.

(4) Includes 188 MW of capacity leased by Entergy Arkansas through 1999.

Load and capacity projections are reviewed periodically to assess the need and timing of additional generating capacity and of interconnections in light of the availability of power, the location of new loads, and maximum economy to Entergy. Domestically, based on load and capability projections and bulk power availability, Entergy has no current plans to install new generating capacity. When new generation resources are needed, Entergy expects to meet this need by means other than construction of new base load generating capacity. Entergy expects to meet future capacity needs by, among other things, purchasing power in the wholesale power market and/or removing generating stations from extended reserve shutdown.

Under the terms of the System Agreement, certain generating capacity and other power resources are shared among the domestic utility companies. The System Agreement provides, among other things, that parties having generating reserves greater than their load requirements (long companies) shall receive payments from those parties having deficiencies in generating reserves (short companies) and an amount sufficient to cover certain of the long companies' costs, including operating expenses, fixed charges on debt, dividend requirements on preferred and

preference stock, and a fair rate of return on common equity investment. Under the System Agreement, these charges are based on costs associated with the long companies' steam electric generating units fueled by oil or gas. In addition, for all energy exchanged among the domestic utility companies under the System Agreement, the short companies are required to pay the cost of fuel consumed in generating such energy plus a charge to cover other associated costs (see "**RATE MATTERS AND REGULATION - Rate Matters - Wholesale Rate Matters - System Agreement**," above, for a discussion of FERC proceedings relating to the System Agreement).

Entergy's domestic business is subject to seasonal fluctuations, with the peak period occurring in the summer months. The 1997 peak demand of 19,545 MW occurred on August 19, 1997. The total operational system capability at the time of peak was 21,446 MW. This gives a reserve margin at the time of the peak of approximately 8.9%. This does not include capacity owned by Entergy Power. London Electricity and CitiPower both normally have peak activity in their winter months.

Interconnections

The electric generating facilities of Entergy's domestic utility companies consist principally of steam-electric production facilities strategically located with reference to availability of fuel, protection of local loads, and other controlling economic factors. These are interconnected by a transmission system operating at various voltages up to 500 kV. Generally, with the exception of Grand Gulf 1, Entergy Power's capacity and a small portion of Entergy Mississippi's capacity, operating facilities or interests therein are owned by the domestic utility company serving the area in which the facilities are located. All of Entergy's generating facilities are centrally dispatched and operated in order to obtain low cost sources of energy with a minimum of investment and efficient use of plant.

In addition to the many neighboring utilities with which the domestic utility companies interconnect, the domestic utility companies are members of the Southeastern Electric Reliability Council, the primary purpose of which is to ensure the reliability and adequacy of the electric bulk power supply in the southeast region of the United States. The Southeastern Electric Reliability Council is a member of the North American Electric Reliability Council.

Gas Property

As of December 31, 1997, Entergy New Orleans distributed and transported natural gas for distribution solely within the limits of the City of New Orleans through a total of 1487 miles of gas distribution mains and 62 miles of gas transmission pipelines. Koch Gateway Pipeline Company is a principal supplier of natural gas to Entergy New Orleans, delivering to six of Entergy New Orleans' thirteen delivery points.

As of December 31, 1997, the gas properties of Entergy Gulf States were not material to Entergy Gulf States.

Titles

Entergy's generating stations are generally located on properties owned in fee simple. The greater portion of the transmission and distribution lines of the domestic utility companies have been constructed over property of private owners pursuant to easements or on public highways and streets pursuant to appropriate franchises, and pursuant to statute in the case of Entergy London. The rights of such company in the property on which its facilities are located are considered by each such company to be adequate for its use in the conduct of its business. Minor defects and irregularities customarily found in properties of like size and character exist, but such defects and irregularities do not materially impair the use of the properties affected thereby. The domestic utility companies generally have the right of eminent domain, whereby they may, if necessary, perfect or secure titles to, or easements or servitudes on, privately held lands used in or reasonable necessary for their utility operations.

Substantially all the physical properties owned by each domestic utility company, and System Energy, are subject to the lien of mortgages securing the first mortgage bonds of such company. The Lewis Creek generating

station is owned by GSG&T, Inc., a subsidiary of Entergy Gulf States, and is not subject to the lien of the Entergy Gulf States mortgage securing the first mortgage bonds of Entergy Gulf States, but is leased to and operated by Entergy Gulf States. In the case of Entergy Louisiana, certain properties are also subject to the lien of a second mortgage securing other obligations of Entergy Louisiana. In the case of Entergy Mississippi, substantially all of its properties and assets are also subject to the second mortgage lien of its general and refunding mortgage bond indenture.

FUEL SUPPLY

The sources of generation and average fuel cost per KWH for the domestic utility companies and System Energy for the years 1995-1997 were:

	Natural Gas		Fuel Oil		Nuclear Fuel		Coal	
Year	% of Gen	Cents per KWH	% of Gen	Cents per KWH	% of Gen	Cents Per KWH	% of Gen	Cents Per KWH
1997	39	2.97	4	3.11	41	.54	16	1.73
1996	42	2.99	1	3.03	41	.56	16	1.73
1995	50	1.99	-	-	35	.60	15	1.73

Actual 1997 and projected 1998 sources of generation for the domestic utility companies and System Energy are:

	Natural Gas		Fuel Oil		Nuclear		Coal	
	1997	1998	1997	1998	1997	1998	1997	1998
Entergy Arkansas	5%	8%	-	-	62%	51%	32%	40%
Entergy Gulf States	65%	64%	-	-	19%	21%	16%	15%
Entergy Louisiana	63%	47%	1%	-	36%	53%	-	-
Entergy Mississippi	38%	69%	33%	-	-	-	29%	31%
Entergy New Orleans	89%	100%	11%	-	-	-	-	-
System Energy	-	-	-	-	100%(a)	100%(a)	-	-
Total	39%	40%	4%	-	41%	41%	16%	19%

(a) Capacity and energy from System Energy's interest in Grand Gulf 1 is allocated as follows: Entergy Arkansas - 36%; Entergy Louisiana - 14%; Entergy Mississippi - 33%; and Entergy New Orleans - 17%.

The balance of generation, which was immaterial, was provided by hydroelectric power.

Natural Gas

The domestic utility companies have long-term firm and short-term interruptible gas contracts. Long-term firm contracts comprise less than 30% of the domestic utility companies' total requirements but can be called upon, if necessary, to satisfy a significant percentage of the domestic utility companies' needs. Additional gas requirements are satisfied by short-term contracts and spot-market purchases. Entergy Gulf States has a transportation service agreement with a gas supplier that provides flexible natural gas service to certain generating stations by using such supplier's pipeline and gas storage facility.

Many factors, including wellhead deliverability, storage and pipeline capacity, and demand requirements of end users, influence the availability and price of natural gas supplies for power plants. Demand is tied to weather conditions as well as to the prices of other energy sources. Supplies of natural gas are expected to be adequate in

1998. However, pursuant to federal and state regulations, gas supplies to power plants may be interrupted during periods of shortage. To the extent natural gas supplies may be disrupted, the domestic utility companies will use alternate fuels, such as oil, or rely on coal and nuclear generation.

Coal

Entergy Arkansas has long-term contracts with suppliers for the supply of low-sulfur coal from mines in the State of Wyoming for White Bluff and Independence. These contracts, which expire in 2002 and 2011, provide for approximately 85% of Entergy Arkansas' expected annual coal requirements through 2002. Additional requirements are satisfied by annual spot market purchases. Entergy Gulf States has a contract for a supply of low-sulfur Wyoming coal for Nelson Unit 6, which should be sufficient to satisfy its fuel requirements for that unit through 2010. Cajun has advised Entergy Gulf States that Cajun has contracts that should provide an adequate supply of coal until 1999 for the operation of Big Cajun 2, Unit 3.

Nuclear Fuel

The nuclear fuel cycle involves the mining and milling of uranium ore to produce a concentrate, the conversion of the concentrate to uranium hexafluoride gas, enrichment of that gas, fabrication of nuclear fuel assemblies for use in fueling nuclear reactors, and disposal of the spent fuel.

System Fuels is responsible for contracts to acquire nuclear material to be used in fueling Entergy Arkansas', Entergy Louisiana's, and System Energy's nuclear units and maintaining inventories of such materials during the various stages of processing. Each of these companies contracts for the fabrication of its own nuclear fuel and purchases the required enriched uranium hexafluoride from System Fuels. The requirements for Entergy Gulf States' River Bend plant are covered by contracts made by Entergy Gulf States. Entergy Operations acts as agent for System Fuels and Entergy Gulf States in negotiating and/or administering nuclear fuel contracts.

Based upon currently planned fuel cycles, Entergy's nuclear units have existing contracts and inventory to provide adequate materials and services. Current contracts for uranium concentrate and conversion of the concentrate to uranium hexafluoride will provide a significant percentage of these materials and services through termination dates ranging from 1998-2002. Additional materials and services required beyond these dates are expected to be available for the foreseeable future.

Current contracts for enrichment will provide a significant percentage of these materials and services through approximately 2002. Current fabrication contracts will provide a significant percentage of these materials and services for termination dates ranging from 2000-2002. The Nuclear Waste Policy Act of 1982 provides for the disposal of spent nuclear fuel or high level waste by the DOE. See Note 9, **COMMITMENTS AND CONTINGENCIES, Spent Nuclear Fuel and Decommissioning Costs** for additional discussion of spent nuclear fuel disposal.

Entergy will enter into additional arrangements to acquire nuclear fuel beyond the dates shown above. Except as noted above, Entergy cannot predict the ultimate cost of such arrangements.

Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, and System Energy have made arrangements to lease nuclear fuel and related equipment and services. The lessors finance the acquisition and ownership of nuclear fuel through credit agreements and the issuance of notes. These agreements are subject to annual renewal with, in Entergy Louisiana's and Entergy Gulf States' case, the consent of the lenders. See Note 10 for further discussion of nuclear fuel leases.

Entergy Gulf States received nuclear fuel as part of the settlement of the Cajun litigation. This nuclear fuel is currently owned by Entergy Gulf States and is not under lease.

Natural Gas Purchased for Resale

Entergy New Orleans has several suppliers of natural gas for resale. Its system is interconnected with three interstate and three intrastate pipelines. Presently, Entergy New Orleans' primary suppliers are Koch Energy Trading Company (KET), an interstate gas marketer, Bridgeline and Pontchartrain via Louisiana Gas Services (LGS). Entergy New Orleans has a "no-notice" service gas purchase contract with KET. The KET gas supply is transported to Entergy New Orleans pursuant to a transportation service agreement with Koch Gateway Pipeline Company (KGPC). This service is subject to FERC-approved rates. Entergy New Orleans has firm contracts with its two intrastate suppliers and also makes interruptible spot market purchases. In recent years, natural gas deliveries have been subject primarily to weather-related curtailments. However, Entergy New Orleans has experienced no such curtailments.

After the implementation of FERC-mandated interstate pipeline restructuring in 1993, curtailments of interstate gas supply could occur if Entergy New Orleans' suppliers failed to perform their obligations to deliver gas under their supply agreements. KGPC could curtail transportation capacity only in the event of pipeline system constraints. Based on the current supply of natural gas, and absent extreme weather-related curtailments, Entergy New Orleans does not anticipate any interruptions in natural gas deliveries to its customers.

Entergy Gulf States purchases natural gas for resale under an agreement with Mid Louisiana Gas Company. Abandonment of service by the present supplier would be subject to abandonment proceedings by FERC.

Research

Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans are members of the Electric Power Research Institute (EPRI). EPRI conducts a broad range of research in major technical fields related to the electric utility industry. Entergy participates in various EPRI projects based on Entergy's needs and available resources. During each of the years 1997, 1996, and 1995, Entergy contributed approximately $9 million for EPRI and other research programs.

Item 2. Properties

Refer to Item 1. "**Business - PROPERTY**," for information regarding the properties of the registrants.

Item 3. Legal Proceedings

Refer to Item 1. "**Business - RATE MATTERS AND REGULATION**," for details of the registrants' material rate proceedings, environmental regulation and proceedings, and other regulatory proceedings and litigation that are pending or that terminated in the fourth quarter of 1997.

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

During the fourth quarter of 1997, no matters were submitted to a vote of the security holders of Entergy Corporation, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, System Energy, or Entergy London.

DIRECTORS AND EXECUTIVE OFFICERS OF ENTERGY CORPORATION

Directors

Information required by this item concerning directors of Entergy Corporation is set forth under the heading "Proposal 1--Election of Directors" contained in the Proxy Statement of Entergy Corporation, (the "Proxy Statement"), to be filed in connection with its Annual Meeting of Stockholders to be held May 15, 1998, ("Annual Meeting"), and is incorporated herein by reference. Information required by this item concerning officers and directors of the remaining registrants is reported in Part III of this document.

Executive Officers

Name	Age	Position	Period
Edwin Lupberger (a)	61	Chairman of the Board, Chief Executive Officer, and Director of Entergy Corporation	1985-Present
		Chairman of the Board and Chief Executive Officer of Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans	1993-Present
		Chairman of the Board, Chief Executive Officer, and Director of Entergy Gulf States	1994-Present
		Chairman of the Board and Director of Entergy Integrated Solutions, Inc.	1996-Present
		Chairman of the Board of System Energy and Entergy Enterprises	1986-Present
		Chairman of the Board of Entergy Operations	1990-Present
		Chairman of the Board of Entergy Services	1985-Present
		Chief Executive Officer of Entergy Services	1991-Present
		Chief Executive Officer of Entergy Power, EPDC, and Entergy-Richmond Power Corporation	1993-Present
		Chief Executive Officer of Entergy Pakistan, Ltd. and Entergy Power Asia, Ltd.	1994-Present
		Chief Executive Officer of EP Edegel, Inc., Entergy Power Holding II, Ltd., EPMC, Entergy Power Operations Corporation, Entergy Power Operations Holdings, Ltd., Entergy Power Operations Pakistan LDC, Entergy Victoria LDC, Entergy Victoria Holdings LDC, EPG Cayman Holding I, EPG Cayman Holding II, Entergy Power CBA Holding, Ltd., and Entergy Power Edesur Holding, Ltd.	1995-Present
		Chief Executive Officer of Entergy Power Development International Corporation	1995-1997
		Chief Executive Officer of Entergy Power International Holdings Corporation and Entergy Mexico Ltd.	1996-Present
		Chief Executive Officer of Entergy London Limited, Entergy London, and Entergy Power Chile, Inc.	1997-Present
		President of Entergy Corporation	1995-Present
		President of Entergy Services and Entergy Enterprises	1994-Present
		General Manager of Entergy Power Chile, S.A.	1997-Present
		Director and Chairman of the Board of Entergy Nuclear, Inc., Entergy Technology Company, ETHC, Entergy London Limited and Entergy London	1997-Present
		Director of Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and System Energy	1986-Present
		Director of Entergy Operations and Entergy Services	1994-Present
		Director of Entergy Enterprises	1984-Present
		Chief Executive Officer of Entergy Edegel I, Inc., Entergy Power Holding I, Ltd., and Entergy Yacyreta I, Inc.	1995-1996
		Chairman of the Board of Entergy Power	1990-1993
		Chief Executive Officer of Entergy Enterprises	1991-1994
Jerry L. Maulden	61	Vice Chairman of Entergy Corporation	1995-Present
		Vice Chairman and Chief Operating Officer of Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans	1993-Present
		Vice Chairman of Entergy Services	1992-Present
		Director of Entergy Arkansas	1979-Present

Name	Age	Position	Period
		Director of Entergy Gulf States	1993-Present
		Director of Entergy Louisiana and Entergy New Orleans	1991-Present
		Director of Entergy Mississippi	1988-Present
		Director of Entergy Operations	1990-Present
		Director of System Energy	1987-Present
		Director of Entergy Services	1979-Present
		Director of Entergy Nuclear, Inc.	1997-Present
		Chairman of the Board of Entergy Arkansas	1989-1993
		Chairman of the Board and Chief Executive Officer of Entergy Louisiana and Entergy New Orleans	1991-1993
		Chairman of the Board and Chief Executive Officer of Entergy Mississippi	1989-1993
		Chief Executive Officer of Entergy Arkansas	1979-1993
		President and Chief Operating Officer of Entergy Corporation	1993-1995
		Group President, System Executive - Transmission, Distribution, and Customer Service of Entergy Corporation	1991-1993
Jerry D. Jackson	53	Chief Administrative Officer of Entergy Corporation, Entergy Services, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans	1997-Present
		Executive Vice President - External Affairs of Entergy Corporation and Entergy Services	1994-Present
		Executive Vice President - External Affairs of Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans	1995-Present
		Director of Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans	1992-Present
		Director of Entergy Gulf States	1994-Present
		Director of Entergy Services	1990-Present
		Director of Entergy Enterprises	1996-Present
		Executive Vice President of Marketing of Entergy Corporation	1994-1995
		Executive Vice President - Marketing of Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans	1995-1995
		Executive Vice President - Marketing of Entergy Services	1994-1995
		President and Chief Administrative Officer of Entergy Services	1992-1994
		Executive Vice President - Finance and External Affairs of Entergy Corporation	1990-1994
		Executive Vice President - Finance and External Affairs and Secretary of Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans	1992-1994
		Executive Vice President - Finance and External Affairs of Entergy Gulf States	1993-1994
		Secretary of Entergy Corporation	1991-1994
		Secretary of Entergy Gulf States	1994-1995
		Director of System Energy	1993-1995
Donald C. Hintz	55	Group President and Chief Nuclear Operating Officer of Entergy Corporation, Entergy Services, Entergy Arkansas, Entergy Gulf States, and Entergy Louisiana	1997-Present
		Executive Vice President and Chief Nuclear Officer of Entergy Corporation	1994-1997
		Executive Vice President - Nuclear of Entergy Arkansas, Entergy Gulf States, and Entergy Louisiana	1994-1997
		Executive Vice President of Nuclear of Entergy Services	1996-1997
		Chief Executive Officer and President of System Energy and Entergy Operations	1992-Present
		Director of Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, System Energy, System Fuels, and Entergy Services	1992-Present
		Director of Entergy Gulf States	1993-Present
		Director of Entergy Operations	1990-Present
		Director of GSG&T, Prudential Oil & Gas, Southern Gulf Railway, and Varibus Corporation	1994-Present

Name	Age	Position	Period
		Senior Vice President and Chief Nuclear Officer of Entergy Corporation	1993-1994
		Senior Vice President - Nuclear of Entergy Arkansas	1990-1994
		Senior Vice President - Nuclear of Entergy Gulf States	1993-1994
		Senior Vice President - Nuclear of Entergy Louisiana	1992-1994
		Director of Entergy New Orleans	1992-1994
		Chief Executive Officer, President, and Director of Entergy Nuclear, Inc.	1997-Present
Gerald D. McInvale	54	Vice Chairman and Chief Financial Officer of Entergy Corporation	1997-1997
		Executive Vice President and Chief Financial Officer of Entergy Corporation, Entergy Services, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, System Energy, Entergy Enterprises, Entergy Operations, System Fuels Inc., Entergy Integrated Solutions, Inc., GSG&T, Prudential Oil & Gas, Southern Gulf Railway, and Varibus Corporation	1995-1997
		Executive Vice President, Chief Financial Officer, and Director of ETHC	1996-1997
		Executive Vice President and Chief Financial Officer of Entergy Operations Services, Inc.	1996-1997
		Senior Vice President, Treasurer, and Director of Entergy Pakistan, Ltd. and Entergy Power Asia, Ltd.	1994-1997
		Senior Vice President, Treasurer, and Director of EPDC and Entergy-Richmond Power Corporation	1993-1997
		Senior Vice President, Treasurer, and Director of EP Edegel, Inc., Entergy Power Development International Corporation, Entergy Power Holding II, Ltd., EPMC, Entergy Power Operations Corporation, Entergy Power Operations Holdings, Ltd., Entergy Power Operations Pakistan LDC, Entergy Victoria LDC, Entergy Victoria Holdings LDC, EPG Cayman Holding I, EPG Cayman Holding II, Entergy Power CBA Holding, Ltd., and Entergy Power Edesur Holding, Ltd.	1995-1997
		Senior Vice President, Treasurer, and Director of Entergy Power International Holdings Corporation	1996-1997
		Senior Vice President, Treasurer, and Director of Entergy Power	1993-1997
		Senior Vice President and Director of Entergy Mexico Ltd.	1996-1997
		Senior Vice President and Treasurer of Entergy Power Peru, S.A.	1996-1997
		Director of Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, Entergy Services, System Energy, Entergy Operations, GSG&T, Prudential Oil & Gas, Southern Gulf Railway, and Varibus Corporation	1995-1997
		Director of System Fuels	1992-1997
		Director of Entergy Integrated Solutions, Inc.	1993-1997
		Director of Entergy Power International Corporation	1996-1997
		Senior Vice President, Treasurer, and Director of Entergy Edegel I, Inc., Entergy Power Holding I, Ltd., and Entergy Yacyreta I, Inc.	1995-1996
		Chairman of the Board of Entergy Integrated Solutions, Inc.	1994-1995
		Senior Vice President and Chief Financial Officer of Entergy Corporation, Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, System Energy, Entergy Operations, Entergy Services, and Entergy Enterprises	1991-1995
		Senior Vice President and Chief Financial Officer of Entergy Gulf States	1993-1995
		Senior Vice President and Chief Financial Officer of System Fuels	1994-1995
		Director and Acting Chief Operating Officer of Entergy Enterprises	1994-1995
		Treasurer of Entergy Enterprises	1992-1996
Michael G. Thompson	57	Senior Vice President and General Counsel of Entergy Corporation and Entergy Services	1992-Present
		Senior Vice President, General Counsel, and Secretary of Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans	1995-Present
		Senior Vice President - Law and Secretary of Entergy Enterprises	1992-Present
		Senior Vice President, Secretary, and Director of Entergy Pakistan, Ltd. and Entergy Power Asia, Ltd.	1994-Present
		Senior Vice President, Secretary, and Director of EPMC, Entergy Power Operations Holdings, Ltd., and EP Edegel, Inc.	1994-Present
		Senior Vice President, Secretary, and Director of Entergy Power	1995-1997

Name	Age	Position	Period
		Development International Corporation	
		Senior Vice President, Secretary, and Director of Entergy Power Holding II, Ltd., Entergy Power Operations Corporation, and Entergy Power Operations Pakistan LDC	1995-Present
		Senior Vice President, Secretary, and Director of Entergy Victoria LDC, Entergy Victoria Holdings LDC, EPG Cayman Holding I, EPG Cayman Holding II, Entergy Power CBA Holding, Ltd., and Entergy Power Edesur Holding, Ltd.	1996-Present
		Senior Vice President, Secretary, and Director of Entergy Power International Holdings Corporation	1996-Present
		Senior Vice President and Secretary of Entergy London, Entergy London Limited, Entergy Nuclear, Inc., Entergy Technology Company, ETHC, and Entergy Power Generation Corporation	1997-Present
		Senior Vice President, Secretary, and Director of Entergy Electric Asia, Ltd., Entergy Power Kingsnorth Ltd., and Entergy Power Chile, Inc.	1997-Present
		Manager, Secretary, and Director of Entergy Power Chile, S.A.	1997-Present
		Director of Entergy Power Peru, S.A.	1997-Present
		Senior Vice President, Secretary, and Director of EPDC	1992-Present
		Senior Vice President, Secretary and Director of Entergy-Richmond Power Corporation	1992-1997
		Vice President, Secretary, and Director of Entergy Power	1994-Present
		Vice President of Entergy Integrated Solutions, Inc.	1994-Present
		Secretary of Entergy Integrated Solutions, Inc.	1993-Present
		Director of ETHC and Entergy Technology Company	1997-Present
		Secretary of Entergy Corporation	1994-Present
		Director of Entergy Integrated Solutions, Inc.	1992-1996
		Director of Entergy Operations Services, Inc., and Entergy Power Generation Corporation	1996-Present
		Secretary of Entergy Services	1996-Present
		Senior Vice President, Chief Legal Officer, Director, and Secretary of Entergy Power	1993-1994
		Assistant Secretary of Entergy Corporation	1993-1994
S. M. Henry Brown, Jr.	59	Vice President - Federal Governmental Affairs of Entergy Corporation and Entergy Services	1989-Present
William J. Regan, Jr.	51	Vice President of Entergy Services	1995-Present
		Vice President and Treasurer of Entergy Corporation, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, System Energy, Entergy Operations, Entergy Services, System Fuels Inc., GSG&T, Prudential Oil & Gas, Southern Gulf Railway, and Varibus Corporation	1995-1998
		Vice President and Treasurer of ETHC, Entergy Operations Services, Inc., and Entergy Enterprises	1996-1998
		Vice President and Treasurer of Entergy Nuclear, Inc., Entergy Technology Company, and Entergy Integrated Solutions, Inc.	1997-1998
		Vice President and Treasurer of Entergy Electric Asia, Ltd., Entergy Power Chile, Inc., Entergy Power International Holdings Corporation, Entergy Power Kingsnorth Ltd., Entergy Pakistan, Ltd., EP Edegel, Inc., Entergy Power Chile, S.A., Entergy Power Asia, Inc. and Entergy Power Generation Corporation	1997-Present
		Vice President and Treasurer of EPDC, EPMC, Entergy Power Operations Corporation, Entergy Power, and Entergy- Richmond Power Corporation	1996-Present
		Treasurer of Entergy London Limited and Entergy London	1997-Present
		Treasurer of Entergy Mexico Ltd.	1996-Present
		Senior Vice President and Corporate Treasurer of United Services Automobile Association	1989-1995
Louis E. Buck, Jr.	49	Vice President, Chief Accounting Officer and Assistant Secretary of Entergy Corporation, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, System Energy, Entergy Operations, and Entergy Services	1995-Present
		Audit Controller of Entergy London and Entergy London Limited	1997-Present
		Assistant Secretary of Entergy Arkansas, Entergy Gulf States, Entergy	1995-Present

Name	Age	Position	Period
		Louisiana, Entergy Mississippi, Entergy New Orleans, Entergy Operations, and Entergy Services	
		Director of Entergy Operations Services, Inc.	1996-Present
		Assistant Secretary of Entergy Corporation and System Energy	1996-Present
		Vice President and Chief Operating Officer of Entergy International Holdings Ltd., LLC, Entergy International Ltd., LLC, Entergy International Investments No. 1 LLC, and Entergy International Investments No. 2 LLC	1997-Present
		Vice President and Chief Financial Officer of North Carolina Electric Membership Corporation	1992-1995
Michael B. Bemis (b)	50	Director and President of Entergy London, Entergy London Limited, London Electricity and CitiPower	1997-Present
		Executive Vice President - International Retail Operations of Entergy Corporation and Entergy Services	1997-Present
		Executive Vice President - Retail Services and Director of Entergy Arkansas, Entergy Louisiana, and Entergy Mississippi	1992-1997
		Executive Vice President - Retail Services of Entergy Corporation	1996-1997
		Executive Vice President - Retail Services of Entergy Gulf States	1993-1997
		Executive Vice President - Retail Services of Entergy New Orleans	1992-1997
		Director of Entergy Gulf States	1994-1997
		Director of Entergy New Orleans	1992-1994
		Director of System Fuels	1992-1997
		Director of Varibus Corporation, Prudential Oil & Gas, Inc., GSG&T, and Southern Gulf Railway Company	1994-1997
		Director of Entergy Services and Entergy Integrated Solutions, Inc.	1996-Present
		Director of Entergy Enterprises	1996-1997
Frank F. Gallaher	52	Group President and Chief Utility Operating Officer of Entergy Corporation and Entergy Services	1997-Present
		Director, Group President and Chief Utility Operating Officer of Entergy Arkansas, Entergy Louisiana, and Entergy Mississippi	1997-Present
		Group President and Chief Utility Operating Officer of Entergy New Orleans	1997-Present
		Group President and Chief Utility Operating Officer of Entergy Gulf States	1997-Present
		Executive Vice President of Operations of Entergy Corporation	1996-1997
		Chairman of the Board of System Fuels	1992-Present
		Chairman of the Board and Director of Varibus Corporation, Prudential Oil & Gas, Inc., GSG&T, and Southern Gulf Railway Company	1993-Present
		Chairman of the Board and Director of Entergy Operations Services, Inc.	1996-Present
		Executive Vice President - Operations of Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and Entergy Services	1993-1997
		President of Entergy Gulf States	1994-1996
		Director of Entergy Gulf States	1993-Present
		Director of Entergy Services and System Fuels	1992-Present
		Senior Vice President - Fossil Operations of Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and Entergy Services	1992-1993
Naomi A. Nakagama	32	Senior Vice President - Finance and Treasurer of Entergy Corporation	1998-Present
		Senior Vice President and Treasurer of Entergy Enterprises and Entergy Integrated Solutions, Inc.	1998-Present
		Vice President and Director of Entergy Electric Asia, Ltd.	1998-Present
		Vice President and Sector Manager of Banque Nationale de Paris (financial institution)	1990-1997

(a) Mr. Lupberger is a director of First Commerce Corporation, New Orleans, LA, International Shipholding Corporation, New Orleans, LA, and First National Bank of Commerce, New Orleans, LA.

(b) Mr. Bemis is an advisory director of Deposit Guaranty National Bank, Jackson, MS.

Each officer of Entergy Corporation is elected yearly by the Board of Directors.

Directorships shown in footnotes (a) and (b) above are generally limited to entities subject to Section 12 or 15(d) of the Securities and Exchange Act of 1934 or to the Investment Company Act of 1940.

PART II

Item 5. Market for Registrants' Common Equity and Related Stockholder Matters

Entergy Corporation

The shares of Entergy Corporation's common stock are listed on the New York Stock, Chicago Stock, and Pacific Exchanges.

The high and low prices of Entergy Corporation's common stock for each quarterly period in 1997 and 1996 were as follows:

	1997		1996	
	High	Low	High	Low
	(In Dollars)			
First	28 3/8	24	30 3/8	26 3/8
Second	27 1/2	22 3/8	28 1/2	25 1/4
Third	28	24 1/16	28 5/8	24 7/8
Fourth	30 1/4	23	29	26 3/4

Dividends of 45 cents per share were paid on Entergy Corporation's common stock in each of the quarters of 1997 and 1996.

As of February 28, 1998, there were 88,685 stockholders of record of Entergy Corporation.

For information with respect to Entergy Corporation's future ability to pay dividends, refer to Note 8, "**DIVIDEND RESTRICTIONS**." In addition to the restrictions described in Note 8, PUHCA provides that, without approval of the SEC, the unrestricted, undistributed retained earnings of any Entergy Corporation subsidiary are not available for distribution to Entergy Corporation's common stockholders until such earnings are made available to Entergy Corporation through the declaration of dividends by such subsidiaries.

Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, System Energy, and Entergy London

There is no market for the common stock of Entergy Corporation's wholly owned subsidiaries. Cash dividends on common stock paid by the subsidiaries to Entergy Corporation during 1997 and 1996, were as follows:

	1997	1996
	(In Millions)	
Entergy Arkansas	$ 128.6	$ 142.8
Entergy Gulf States	$ 77.2	--
Entergy Louisiana	$ 145.4	$ 179.2
Entergy Mississippi	$ 59.2	$ 79.9
Entergy New Orleans	$ 26.0	$ 34.0
System Energy	$ 113.8	$ 112.5
Entergy London	--	--
Entergy S.A.	--	$ 0.7
Entergy Transener S.A.	--	$ 1.7
Entergy Argentina S.A.	--	$ 0.3
Entergy Argentina S.A. Ltd.	--	$ 3.1

In January and February 1998, Entergy Corporation received common stock dividend payments from its subsidiaries totaling $103.9 million. For information with respect to restrictions that limit the ability of System Energy, the domestic utility companies and Entergy London to pay dividends, see Note 8. In order to improve its capital structure, Entergy Gulf States ceased paying common stock dividends after the third quarter of 1994. However, such dividends were resumed in the third quarter of 1997. (See **"Management's Financial Discussion and Analysis - Liquidity and Capital Resources."**)

Item 6. Selected Financial Data

Entergy Corporation.. Refer to information under the heading **"ENTERGY CORPORATION AND SUBSIDIARIES SELECTED FINANCIAL DATA - FIVE-YEAR COMPARISON."**

Entergy Arkansas. Refer to information under the heading **"ENTERGY ARKANSAS, INC. SELECTED FINANCIAL DATA - FIVE-YEAR COMPARISON."**

Entergy Gulf States. Refer to information under the heading **"ENTERGY GULF STATES, INC. SELECTED FINANCIAL DATA - FIVE-YEAR COMPARISON."**

Entergy Louisiana. Refer to information under the heading **"ENTERGY LOUISIANA, INC. SELECTED FINANCIAL DATA - FIVE-YEAR COMPARISON."**

Entergy Mississippi. Refer to information under the heading **"ENTERGY MISSISSIPPI, INC. SELECTED FINANCIAL DATA - FIVE-YEAR COMPARISON."**

Entergy New Orleans. Refer to information under the heading **"ENTERGY NEW ORLEANS, INC. SELECTED FINANCIAL DATA - FIVE-YEAR COMPARISON."**

System Energy. Refer to information under the heading **"SYSTEM ENERGY RESOURCES, INC. SELECTED FINANCIAL DATA - FIVE-YEAR COMPARISON."**

Entergy London (Successor Company). Refer to information under the headings **"ENTERGY LONDON INVESTMENTS PLC AND SUBSIDIARY SELECTED FINANCIAL DATA" AND "LONDON**

ELECTRICITY PLC AND SUBSIDIARIES SELECTED FINANCIAL DATA - FOUR-YEAR COMPARISON."

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

Entergy Corporation and Subsidiaries. Refer to information under the heading "ENTERGY CORPORATION AND SUBSIDIARIES MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - LIQUIDITY AND CAPITAL RESOURCES." " - SIGNIFICANT FACTORS AND KNOWN TRENDS." and "- RESULTS OF OPERATIONS."

Entergy Arkansas. Refer to information under the heading "ENTERGY ARKANSAS, INC. MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - RESULTS OF OPERATIONS."

Entergy Gulf States. Refer to information under the heading "ENTERGY GULF STATES, INC. MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - RESULTS OF OPERATIONS."

Entergy Louisiana. Refer to information under the heading "ENTERGY LOUISIANA, INC. MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - RESULTS OF OPERATIONS."

Entergy Mississippi. Refer to information under the heading "ENTERGY MISSISSIPPI, INC. MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - RESULTS OF OPERATIONS."

Entergy New Orleans. Refer to information under the heading "ENTERGY NEW ORLEANS, INC. MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - RESULTS OF OPERATIONS."

System Energy. Refer to information under the heading "SYSTEM ENERGY RESOURCES, INC. MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - RESULTS OF OPERATIONS."

Entergy London (Successor Company). Refer to information under the headings "ENTERGY LONDON INVESTMENTS PLC AND SUBSIDIARY MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - RESULTS OF OPERATIONS" AND "LONDON ELECTRICITY PLC AND SUBSIDIARIES MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - RESULTS OF OPERATIONS."

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Entergy Corporation and Subsidiaries. Refer to information under the heading "ENTERGY CORPORATION AND SUBSIDIARIES MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - SIGNIFICANT FACTORS AND KNOWN TRENDS."

Item 8. Financial Statements and Supplementary Data.

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REPORT OF MANAGEMENT

The management of Entergy Corporation and subsidiaries has prepared and is responsible for the financial statements and related financial information included herein. The financial statements are based on generally accepted accounting principles in the United States. Financial information included elsewhere in this report is consistent with the financial statements.

To meet its responsibilities with respect to financial information, management maintains and enforces a system of internal accounting controls that is designed to provide reasonable assurance, on a cost-effective basis, as to the integrity, objectivity, and reliability of the financial records, and as to the protection of assets. This system includes communication through written policies and procedures, an employee Code of Conduct, and an organizational structure that provides for appropriate division of responsibility and the training of personnel. This system is also tested by a comprehensive internal audit program.

The independent public accountants provide an objective assessment of the degree to which management meets its responsibility for fairness of financial reporting. They regularly evaluate the system of internal accounting controls and perform such tests and other procedures as they deem necessary to reach and express an opinion on the fairness of the financial statements.

Management believes that these policies and procedures provide reasonable assurance that its operations are carried out with a high standard of business conduct.

ED LUPBERGER
Chairman of the Board and Chief Executive Officer
of Entergy Corporation, Entergy Arkansas,
Entergy Gulf States, Entergy Louisiana,
Entergy Mississippi, Entergy New Orleans,
and Entergy London

LOUIS E. BUCK
Vice President, Chief Accounting Officer
and Assistant Secretary (Principal Accounting
Officer)

DONALD C. HINTZ
President and Chief Executive Officer of System Energy

ENTERGY CORPORATION AND SUBSIDIARIES
AUDIT COMMITTEE CHAIRPERSON'S LETTER

The Entergy Corporation Board of Directors' Audit Committee is comprised of five directors who are not officers of Entergy Corporation: Dr. Paul W. Murrill, Chairperson, Lucie J. Fjeldstad, James R. Nichols, Eugene H. Owen, and Bismark A. Steinhagen. The committee held three meetings during 1997.

The Audit Committee oversees Entergy Corporation's financial reporting process on behalf of the Board of Directors and provides reasonable assurance to the Board that sufficient operating, accounting, and financial controls are in existence and are adequately reviewed by programs of internal and external audits.

The Audit Committee discussed with Entergy's internal auditors and the independent public accountants (Coopers & Lybrand L.L.P.) the overall scope and specific plans for their respective audits, as well as Entergy Corporation's financial statements and the adequacy of Entergy Corporation's internal controls. The committee met, together and separately, with Entergy's internal auditors and independent public accountants, without management present, to discuss the results of their audits, their evaluation of Entergy Corporation's internal controls, and the overall quality of Entergy Corporation's financial reporting. The meetings were designed to facilitate and encourage private communication between the committee and the internal auditors and independent public accountants.

DR. PAUL W. MURRILL
Chairperson, Audit Committee

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

Net cash flow from operations for Entergy, the domestic utility companies and System Energy for the years ended December 31, 1997, 1996, and 1995, and for Entergy London for the year ended December 31, 1997, was as follows:

	1997	1996	1995
		(In Millions)	
Entergy	$ 1,725	$ 1,528	$1,504
Entergy Arkansas	$ 434	$ 377	$ 338
Entergy Gulf States	$ 466	$ 322	$ 401
Entergy Louisiana	$ 341	$ 352	$ 385
Entergy Mississippi	$ 159	$ 182	$ 185
Entergy New Orleans	$ 49	$ 44	$ 99
System Energy	$ 278	$ 287	$ 96
Entergy London	$ 51	N/A	N/A

The positive cash flow from operations for the domestic utility companies results from continued efforts to streamline operations and to reduce costs, as well as from collections under rate phase-in plans that exceed current cash requirements for the related costs. In the income statement, these revenue collections are offset by the amortization of previously deferred costs; thus, there is no effect on net income. These phase-in plans will continue to contribute to Entergy's cash position in the immediate future. Specifically, the Grand Gulf 1 phase-in plans will expire in September 1998 for Entergy Arkansas and Entergy Mississippi, and in 2001 for Entergy New Orleans. Entergy Gulf States' phase-in plan for River Bend expired in February 1998, and Entergy Louisiana's phase-in plan for Waterford 3 expired in June 1997. Competitive growth businesses contributed $104 million to Entergy Corporation's cash flow from operations in 1997. In accordance with the purchase method of accounting, London Electricity's results of operations are not included in Entergy Corporation and Subsidiaries' Statements of Consolidated Cash Flows prior to February 1, 1997, the effective date of the acquisition of London Electricity.

Financing Sources

As discussed in Note 13, Entergy London acquired London Electricity for $2.1 billion in February 1997. The acquisition was financed with $1.7 billion of debt that is non-recourse to Entergy Corporation, and $392 million of equity provided by Entergy Corporation from available cash and borrowings under its $300 million line of credit. Entergy London refinanced a portion of this debt during the fourth quarter of 1997 through the issuance of $300 million of quarterly income preferred securities. Subsequent to the refinancing, the debt is now an obligation of Entergy UK Limited, an indirect, wholly-owned subsidiary of Entergy Corporation. However, the obligation is reflected in the financial statements of Entergy London because the facility is guaranteed by Entergy London, Entergy UK Limited's indirect, wholly-owned subsidiary. Entergy London recognizes the interest expense associated with this debt in its financial statements, with a credit to shareholder's equity for the same amount. This credit to shareholder's equity offsets dividends as they are declared from Entergy London to Entergy UK Limited. These dividends are the funding mechanism for Entergy UK Limited to service this debt. Management intends to declare future dividends from Entergy London to enable Entergy UK Limited to continue to service this debt.

London Electricity is Entergy London's sole investment and only asset. Entergy London is therefore dependent upon dividends from London Electricity for all of its cash flow. In addition to London Electricity's cash flow from operations, Entergy London has other primary sources of liquidity including London Electricity's several uncommitted credit lines provided by banking institutions, and London Electricity's commercial paper program. In addition, London Electricity intends to use availability under existing facilities, or replacements thereof, to finance its remaining payment of windfall profits taxes in December 1998, which will total approximately $117 million (approximately BPS70 million).

Management believes that cash flow from operations, together with Entergy London's existing sources of credit and the restructuring of its credit facilities in November 1997, will result in sufficient financial resources being available to meet Entergy London's projected capital needs and other expenditure requirements for the foreseeable future. London Electricity has represented to the Regulator, in connection with its PES license, that it will use all reasonable endeavors to maintain an investment grade rating on its long-term debt.

Entergy Mississippi issued a series of general and refunding mortgage bonds in June 1997 totaling $65 million, the proceeds of which were used to meet a scheduled July 1, 1997 debt maturity. Excluding the London Electricity investment and the Entergy Mississippi bond issuance, cash from operations, supplemented by cash on hand, was sufficient to meet substantially all investing and financing requirements of the domestic utility companies, System Energy, and Entergy London, including capital expenditures, dividends, and debt/preferred stock maturities during 1997.

Entergy's domestic utility companies other than Entergy Mississippi have been able to fund their capital requirements with cash from operations as discussed above in "**Cash Flow**." Should additional cash be needed to fund investments or to retire debt, the domestic utility companies and System Energy each have the ability, subject to regulatory approval and compliance with issuance tests, to issue debt or preferred securities to meet such requirements. In addition, to the extent market conditions and interest and dividend rates allow, the domestic utility companies, System Energy, and Entergy London will continue to refinance and/or redeem higher cost debt and preferred stock prior to maturity. See Note 10 for a discussion of the refinancing by Entergy Louisiana. Entergy's domestic utility companies and Entergy London may continue to establish special purpose trusts or limited partnerships as financing subsidiaries for the purpose of issuing quarterly income preferred securities, such as those issued in 1996 by Entergy Louisiana Capital I and Entergy Arkansas Capital I, and those issued in 1997 by Entergy Gulf States Capital I and Entergy London Capital L.P. Entergy Corporation, the domestic utility companies, System Energy, and Entergy London also have the ability to effect short-term borrowings. See Notes 4, 5, 6, 7, and 9 for additional information on Entergy's capital and refinancing requirements in 1998-2002 and available lines of credit.

Financing Uses

Management believes that productive investment by Entergy is integral to enhancing the long-term value of its common stock. Entergy has been expanding its investments in business opportunities overseas as well as in the United States. As of December 31, 1997, Entergy had acquired or participated in foreign electric ventures in Australia, Argentina, Chile, China, Pakistan, Peru, and the UK and had acquired several telecommunications-based businesses in the United States. The ability of Entergy Corporation to provide additional capital to exempt wholesale generators or foreign utility companies currently is subject to the SEC's regulations under PUHCA. Absent SEC approval, these regulations limit the aggregate amount that Entergy may invest in foreign utility companies and exempt wholesale generators to 50% of consolidated retained earnings at the time an investment is made. As of November 1997, Entergy Corporation no longer had capacity to make additional investments under these regulations without SEC approval. Entergy has applied to the SEC to obtain additional authority to make such investments, and is also exploring means of raising capital for other foreign investments in a manner not inconsistent with these

regulations. As of December 31, 1997, Entergy Corporation had a net investment of $1.3 billion in equity capital in competitive growth businesses. See Note 13 for a discussion of Entergy London's acquisition of London Electricity effective February 1, 1997.

To make capital investments, fund its subsidiaries, and pay dividends, Entergy Corporation will utilize internally generated funds, cash on hand, funds available under its bank credit facilities, funds received from its dividend reinvestment and stock purchase plan, and bank financings, as required. See Note 5 for information regarding proceeds from the issuance of common stock under Entergy Corporation's dividend reinvestment and stock purchase plan during 1997. See Note 9 for a discussion of capital requirements. Entergy Corporation receives funds through dividend payments from its subsidiaries. During 1997, such dividend payments from subsidiaries totaled $550.2 million. Entergy Gulf States resumed paying common stock dividends in the third quarter of 1997. In 1997, Entergy Corporation paid $438 million of cash dividends on its common stock. Declarations of dividends on Entergy's common stock are made at the discretion of its Board of Directors. See Note 8 for information on dividend restrictions.

Entergy London's primary need for liquidity is to pay interest on its debt, and management believes that it will receive sufficient dividends from London Electricity to make such payments. Entergy London believes that London Electricity will be able to distribute all cash flow generated in excess of amounts necessary for London Electricity to conduct its business in compliance with its PES License.

Entergy Corporation and Entergy Gulf States

See Notes 2 and 9 regarding River Bend and Cajun litigation. During the fourth quarter of 1997, Entergy Gulf States established reserves of $381 million ($227 million net of tax) for the probable effects of the agreement in principle as discussed in Note 2. Final resolution of these matters could negatively affect Entergy Gulf States' ability to obtain financing, which in turn could affect Entergy Gulf States' liquidity and ability to pay common stock dividends to Entergy Corporation. See Note 2 for information related to the proposed agreement in principle between the parties to the Entergy Gulf States rate proceedings in Texas.

Entergy Corporation and System Energy

Under the Capital Funds Agreement, Entergy Corporation has agreed to supply System Energy with sufficient capital to maintain System Energy's equity capital at a minimum of 35% of its total capitalization (excluding short-term debt), to permit the continued commercial operation of Grand Gulf 1, and to pay in full all indebtedness for borrowed money of System Energy when due. In addition, under supplements to the Capital Funds Agreement assigning System Energy's rights thereunder as security for specific debt of System Energy, Entergy Corporation has committed to make cash capital contributions, if required, to enable System Energy to make payments on such debt when due. The Capital Funds Agreement may be terminated by the parties thereto, subject to consent of certain creditors.

Domestic Competition and Industry Challenges

The electric utility industry traditionally has operated as a regulated monopoly in which there was little opportunity for direct competition in the provision of electric service. The industry is now undergoing a transition to an environment of increased retail and wholesale competition. The causes of the movement toward competition are numerous and complex. They include legislative and regulatory changes, technological advances, consumer demands, relative cost and availability of natural gas and other fuels, environmental regulations, and other factors. The increasingly competitive environment presents opportunities to compete for new customers, as well as the risk of loss of existing customers. The following issues have been identified by Entergy as its major competitive challenges.

Open Access Transmission

In response to FERC Order No. 888, which was issued in 1996 and requires that all public utilities subject to FERC jurisdiction provide comparable wholesale transmission access through the filing of a single open access tariff, Entergy Services filed on behalf of the domestic utility companies a request for clarification and rehearing of the following four issues: (i) the special nature and treatment of stranded nuclear decommissioning costs; (ii) the reciprocity rules applicable to rural electric cooperatives; (iii) the functional unbundling requirements for registered holding companies; and (iv) the nature of network service. The request for rehearing remains pending.

FERC also issued Order No. 889 in 1996, prescribing the requirements and procedures for the implementation and maintenance of an open access same-time information system by each public utility. In addition, FERC issued a notice of proposed rulemaking concerning capacity reservation tariffs as the next phase of its efforts to promote wholesale competition. In July 1996, Entergy Services filed an open access pro forma tariff on behalf of the domestic utility companies.

In September 1996, FERC issued an order revising the original requirement that open access same-time information service sites and standards of conduct be in place for all transmission providers by November 1, 1996. FERC scheduled the operation of open access same-time information service sites to begin on a test basis in December 1996, with full commercial operation and compliance with the standards of conduct beginning in January 1997. In January 1997, Entergy Services filed its standards of conduct with FERC and an open access same-time information site was established. In July 1997, Entergy Services filed its wholesale transmission open access compliance tariff incorporating the requirements of FERC Order No. 888-A.

Transition to Competition Filings

Entergy has initiated discussions with its state and local regulators regarding an orderly transition to a more competitive market for electricity. As discussed in more detail in Note 2, each of the domestic utility companies made filings in 1996 or 1997 with their respective state or local regulators concerning the transition to competition. These filings called for the accelerated recovery of the companies' nuclear investment and nuclear-related purchase obligations over a seven-year period and for the protection of certain classes of ratepayers from possibly unfairly bearing the burden of cost shifting which may result from competition. The majority of the domestic utility companies' current net investment in nuclear generation shown in Note 1 was included in the proposals for accelerated recovery filed with state and local regulators.

Retail and Wholesale Rate Issues

The retail regulatory philosophy is shifting in some jurisdictions from traditional cost-of-service regulation to incentive-rate regulation. Incentive and performance-based rate plans encourage efficiencies and productivity while permitting utilities and their customers to share in the results. Entergy Mississippi and Entergy Louisiana have implemented incentive-rate plans, although Entergy Louisiana's plan has now expired.

Several of the domestic utility companies have recently been ordered to grant base rate reductions and have refunded or credited customers for previous overcollections of rates. The continuing pattern of rate reductions reflects both lower costs of service ordered by regulators and the competitive environment in which the domestic utilities operate. See Note 2 for additional discussion of rate reductions and incentive-rate regulation, as well as a proposed System Energy rate increase.

Legislative Activity

Retail wheeling is the transmission and/or distribution by an electric utility of energy produced by another entity over the utility's transmission and distribution system to a retail customer in the electric utility's area of service. California, Rhode Island, New Hampshire, Massachusetts, Montana, Oklahoma, Illinois, and Pennsylvania, among others, have begun the restructuring of the utility industry within their respective states. Most other states have initiated studies of industry restructuring. Included in many of these restructuring plans and studies are provisions or proposals allowing utilities to have a reasonable opportunity to recover investments in utility plant that have previously been determined to be prudently incurred. However, some states have not allowed full recovery of such investments. Within the areas served by the domestic utility companies, formal proceedings to study retail competition/industry restructuring are being conducted by the LPSC, the MPSC, the PUCT, and the Council.

A number of bills have been introduced in the U.S. Congress calling for deregulation of the electric power industry. Included among these are some that would amend or repeal PUHCA and/or PURPA. These bills generally have provisions that would give consumers the ability to choose their own electricity service provider. The Energy and Power Subcommittee of the Commerce Committee of the U.S. House of Representatives held hearings on this issue in October 1997, at which it was agreed that a consensus approach to electricity deregulation was needed. However, no agreement has been reached as to a specific approach.

Entergy Gulf States was an active participant in discussions aimed at developing legislation relating to electric utility industry restructuring and competition in the Texas Legislature. However, no such legislation was passed before the Legislature adjourned in June 1997. The legislature will not reconvene until January 1999, by which time Entergy Gulf States expects that the PUCT will have acted on the transition to competition filing of Entergy Gulf States.

The Arkansas Senate has passed a resolution requesting a study of the impact of electric utility industry competition on the citizens of Arkansas, the electric utility industry, and the regulatory authority of the APSC. This study, to be performed by a joint legislative committee of the Arkansas General Assembly, began in December 1997, and is expected to conclude prior to the 1999 legislative session.

The SEC issued Rule 58 under PUHCA, which became effective on March 22, 1997, permitting registered public utility holding companies such as Entergy to enter into an array of energy-related businesses for which specific approval had previously been required. These businesses include, among other things, management, operations and maintenance contracting for energy-related facilities, energy efficiency contracting, and the sale and servicing of a range of electric appliances and equipment. EPMC and Entergy Holdings, Inc., wholly-owned subsidiaries of Entergy Corporation, now operate pursuant to Rule 58. EPMC terminated its EWG status shortly after Rule 58 became effective.

Municipalization

In some areas of the country, municipalities whose residents are served at retail by investor-owned utilities are exploring the possibility of establishing new electric distribution systems, or extending existing ones. In some cases, municipalities are also seeking new delivery points in order to serve retail customers, especially large industrial customers, that currently receive service from an investor-owned utility. Where successful, the establishment of a municipal system or the acquisition by a municipal system of a utility's customers could result in the utility's inability to recover costs that it has incurred for the purpose of serving those customers.

Industry Consolidation

Another factor in the transition to competition nationwide is the continuing and accelerating trend of utility mergers and joint ventures. A significant trend over the last several years has been the combination of electric utilities and gas pipeline and/or distribution companies. Such mergers and joint ventures for the same purpose are expected to continue.

Functional Unbundling

An additional trend is the unbundling of traditional utility functions. In some areas of the country, utilities have either sold or are attempting to sell all or a substantial portion of their generation assets and will become, in large part, suppliers of transmission and/or distribution services only.

Effects of Alternate Energy Sources on Retail Electric Sales to Industrial and Large Commercial Customers

Many industrial and large commercial customers of the domestic utility companies have energy intensive needs. These customers are exploring available energy alternatives such as fuel switching, cogeneration, self-generation, production shifting, and efficiency measures in an effort to reduce their energy costs. To the extent that customers avail themselves of these options, the domestic utility companies may suffer a loss of load.

Recognizing the options that customers might pursue, the domestic utility companies, in particular, Entergy Gulf States and Entergy Louisiana, have negotiated electric service contracts with large industrial and commercial customers for the purpose of retaining the load represented by these customers. Electric service under such agreements may be provided at tariffed rates lower than would otherwise be applicable. While the results of operations of the domestic utility companies have not thus far been materially adversely affected as a result of the negotiation of retail electric service agreements with industrial and large commercial customers, this has been due in large measure to the utilities' success in reducing costs, overall load growth, increasing sales to all customer classes, and the regulatory treatment accorded to negotiated electric service agreements. In view of the likelihood of increased competition in the electric utility business in the future, there can be no assurance that at risk industrial and large commercial customers will continue to be retained by the domestic utility companies.

In 1995, Entergy Louisiana received separate notices from two large industrial customers that they were proceeding with proposed cogeneration projects for the purpose of fulfilling their future electric energy needs. In 1997, net income decreased by approximately $6 million and sales declined by 1,662 megawatt hours from the prior year, as a result of these customers proceeding with their proposed cogeneration projects. These customers will continue to purchase energy from Entergy Louisiana, but at a reduced level.

Change in Contract with Steam Customer

In 1996, Entergy Gulf States entered into agreements concerning a steam generating station that historically had been dedicated to providing steam and cogenerated electricity for a large industrial customer. Under these agreements, the generating facility was leased to the customer, but Entergy Gulf States continues to operate the facility. The customer is spending approximately $190 million to make major improvements to the facility, including a new 150 MW gas turbine generator. As a result of these agreements, which were entered into with the expectation that the customer otherwise would terminate its contracts with Entergy Gulf States and construct its own generating facilities, Entergy Gulf States' revenues from this customer are being reduced by approximately $33 million annually from the 1996 level of revenues, beginning in August 1997, and Entergy Gulf States' net income is being reduced by approximately $15 million annually. Revenue from this customer amounted to $44 million and $59 million in 1997 and 1996, respectively.

Domestic and Foreign Competitive Growth Businesses

Entergy Corporation seeks opportunities to expand its foreign businesses and its domestic businesses that are not regulated by state and local regulatory authorities. Such business ventures currently include power development and operations and retail services related to the utility business. Refer to **"MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS - LIQUIDITY AND CAPITAL RESOURCES"** for a discussion of Entergy Corporation's 1997 investments in domestic and foreign nonregulated businesses. These investments may involve a greater risk than domestically regulated utility enterprises. In 1997, Entergy Corporation's competitive growth businesses reduced consolidated net income by approximately $139 million principally due to the impact of a windfall profits tax in the UK, which was partially offset by a reduction in the UK corporation tax rate, as discussed in more detail below in **"Windfall Profits Tax"**. Excluding the impact of these and other non-recurring items, the competitive growth businesses contributed $51 million to consolidated net income during 1997.

In an effort to expand into new energy-related businesses, Entergy has begun to commercialize the fiber optic telecommunications network that connects its facilities and supports its internal business needs. Entergy provides long-haul fiber optic capacity to major telecommunications carriers which, in turn, market that service to third parties. The Telecommunications Act of 1996 permits a company such as Entergy to market such a service, subject to state and local regulatory approval. This law contains an exemption from PUHCA that will permit registered utility holding companies to form and capitalize subsidiaries to engage in telephone, telecommunications, and information service businesses without SEC approval. However, the law requires that such telecommunications subsidiaries file for exemption from regulation with the Federal Communications Commission, and that they not engage in transactions with utility affiliates within their holding company systems or acquire utility affiliates' rate-based property without state or local regulatory approval.

EPMC, which was created in 1995 to become a buyer and seller of electric energy and generating fuels, operates pursuant to Rule 58 under PUHCA. In February 1996, FERC approved sales of electricity by EPMC at market-based rates. Such approval allows EPMC to provide wholesale customers with a variety of services, including physical trading. An application before the SEC seeking additional authority for EPMC to purchase and sell derivative contracts relating to electricity, gas, and fuels was approved in January 1998.

SIGNIFICANT FACTORS AND KNOWN TRENDS

On December 18, 1996, Entergy made a formal cash offer to acquire London Electricity for $2.1 billion. London Electricity is an REC serving approximately two million customers in the metropolitan area of London, England. The offer was approved by authorities in the UK and was made unconditional on February 7, 1997. Entergy subsequently gained control of 100% of the common shares of London Electricity. The acquisition was financed with $1.7 billion of debt that is non-recourse to Entergy Corporation, and $392 million of equity provided by Entergy Corporation from available cash and borrowings under its $300 million line of credit, which has since been refinanced (see Note 7). Entergy has accounted for the transaction as a purchase and accordingly has included the results of London Electricity in its consolidated results of operations effective February 1, 1997.

Through its London Electricity acquisition, Entergy expects to gain valuable experience in the deregulated UK electricity market, in anticipation of the deregulation of the electricity market in the United States. London Electricity has already experienced seven years of a partially competitive supply environment and expects to be in a fully competitive supply market beginning in late 1998. In conjunction with the acquisition of London Electricity, Entergy established an international retail operations group to coordinate retail electric operations in the UK, Australia, and Argentina.

In September 1997, EPDC acquired KPL for $67 million. KPL owns land in Southeast England and certain rights to build a power station. The acquisition of KPL was financed by borrowings under a BPS50 million ($82 million) credit facility with an international bank, which has since been increased to BPS100 million ($165 million). In early October 1997, EPDC announced construction of a 770 MW combined cycle gas turbine merchant power plant on the KPL site to be known as Damhead Creek. Construction is scheduled to begin in April 1998, at an estimated cost of $625 million. The target date for commercial operation is the second quarter of 2000. Financing and other project requirements are currently in the final stages of development

In December 1997, SCC, a wholly-owned subsidiary of EPDC, entered into a BPS646 million ($1.07 billion) nonrecourse credit facility with an international bank group for the construction of 1,200 MW gas-fired power plant in Hull, England. The power plant will sell power into the UK power pool at prices established by the market. SCC entered into a lump-sum contract to build the power plant with a major international contractor. SCC has also entered into a series of contracts including a long-term ground lease for the site, a long-term gas supply agreement including take-or-pay obligations, and a long-term power supply with the industrial host. In connection with an equity contribution obligation to SCC, EPDC provided a BPS48 million ($79 million) letter of credit under a BPS100 million ($165 million) revolving credit facility. Entergy Corporation has issued a $170 million guaranty of EPDC's obligations under the revolving credit facility. The total cost of this project currently is estimated to be approximately $875 million and the project is expected to be operational by January 2000.

In 1997, Entergy continued to expand and diversify its domestic and foreign businesses. Such efforts included the formation of a joint venture (Entergy Hyperion Telecommunications) to offer competitive local access telephone services to business customers in the metropolitan areas of Little Rock, Arkansas, Jackson, Mississippi, and Baton Rouge, Louisiana. Entergy Nuclear, Inc., a wholly-owned subsidiary of Entergy Enterprises, entered into an agreement to provide management services for initial decommissioning activities (through September 30, 1998) at the Maine Yankee nuclear plant, owned by the Maine Yankee Atomic Power Company, whose board of directors announced in August 1997 the permanent closure of the plant.

Entergy also continued its expansion into the electronic security service field in 1997 through the acquisition by Entergy Security Company (a wholly-owned subsidiary of ETHC) of the Ranger American group of companies, a leading provider of electronic security services in the largest cities in Texas and in Atlanta, Georgia, which has approximately 140,000 customers and annual revenues of approximately $53 million. The aggregate purchase price (comprised of Entergy common stock and cash) was approximately $61 million.

As a part of its efforts to reposition itself in the evolving international power market, Entergy sold all or part of its interests in various power development projects for proceeds of $64 million, realizing after-tax gains of $17.6 million. Entergy Power Chile, S.A., an indirect wholly-owned subsidiary of Entergy Power purchased a 25% interest in the San Isidro project, a 370 MW gas-fired, combined cycle generating facility under construction in Chile. Entergy also announced in 1997 that, through a joint venture entered into by a subsidiary, it commenced construction of a 24 MW cogeneration plant in Nantong, China.

Foreign Distribution and Supply

On April 1, 1995, 1996, and 1997 certain reductions in London Electricity's allowed distribution revenues were made by the Regulator. Such allowed distribution revenues were reduced by 14% and 11% on April 1, 1995 and April 1, 1996, respectively, following reviews by the Regulator. On April 1, 1997, London Electricity's allowed distribution revenues were further decreased by 3%, with further annual reductions of 3% to occur on April 1, 1998 and 1999. London Electricity is pursuing a number of cost efficiency initiatives in an attempt to partially offset the expected price decreases. Such efficiencies will include voluntary early retirement programs, work force reductions, and labor cost realignment, and are expected to generate substantial cost savings when fully implemented by fiscal year 2001. The one-time cost of such savings will be approximately $58 million, which has been provided for by London Electricity.

At present, London Electricity has an exclusive right in its franchise area to supply electricity to customers with demand of less than 100 KW. In late 1998, this segment of the supply business will become open to competition, subject to a six-month transition period. See Note 2 for additional information related to expanded competition in the supply business and London Electricity's expected expenditures in preparation for full competition in supply by June 1999 and the Regulator's proposals regarding recovery of such costs.

On July 1 in each of the years 1997 through 2000 certain adjustments to Entergy's Australian subsidiary's (CitiPower's) allowed distribution revenues have been made by CitiPower's regulator. Such distribution revenues have been and will be adjusted by 1% less than the change in the consumer price index for each of the respective years. CitiPower has implemented certain cost efficiency and marketing initiatives to mitigate the impact of such revenue adjustments.

At present, CitiPower has an exclusive right in its franchise area to supply electricity to customers with annual usage of less than 750 MWH. In July 1998 and January 2001, CitiPower customers with annual usage of between 160 MWH to 750 MWH and less than 160 MWH, respectively, will become open to supply business competition.

Retail prices for CitiPower's non-franchise supply customers are subject to competitive market forces and are not regulated except for network tariffs, which are based on a maximum average charge incorporating annual price changes of 1.5% less than the change in the consumer price index plus full recovery of transmission charges. These controls will apply through the year 2000.

The London Electricity and CitiPower supply businesses generally involve entering into fixed price contracts to supply electricity to customers who have become subject to competition. The electricity is obtained primarily by purchases on a spot basis in which prices can be volatile. London Electricity and CitiPower are exposed to risks arising from differences between the fixed prices at which they sell electricity and the fluctuating prices at which electricity is purchased unless such exposure can be effectively hedged. This risk will be extended to additional supply business customers as described above as they become subject to competition.

To mitigate its exposure to volatility, London Electricity utilizes contracts for differences ("CFDs") and power purchase contracts with certain UK generators to fix the price of electricity for a contracted quantity over a specific period of time. As of December 31, 1997, London Electricity had outstanding CFDs and power purchase contracts for approximately 40,000 GWH of electricity. These include a long term power purchase contract with an affiliate, which is based on 27.5% of the affiliate's capacity from its 1000 MW facility through the year 2010. London Electricity's sales volumes were approximately 18,000 GWH for 1997. Management's estimate of the fair value of London Electricity's CFDs outstanding at December 31, 1997 is that fair value approximates contract value.

In accordance with the debt covenants included in the financing provisions of the CitiPower acquisition, CitiPower must hedge at least 80% of its energy purchases. CitiPower's current strategy is to hedge approximately 100% of its forecasted energy purchases through energy trading swaps entered into with certain generators. At December 31, 1997 CitiPower has outstanding energy trading swaps totaling a notional amount of 38,372 MW of average daily load of electricity. These contracts mature through the year 2000. Management's estimate of the fair value of such swaps outstanding at December 31, 1997 is a net liability of approximately $86.1 million.

The potential exists for additional distribution price reductions in both the UK and Australia. Cost efficiency initiatives may not result in sufficient savings to offset price reductions. Price reductions are mitigated by the inclusion of the general index for inflation in the determination of allowed revenues.

Windfall Profits Tax

As a result of Parliamentary elections held on May 1, 1997, the Labour Party gained control of the UK Government. On July 31, 1997, the British government enacted a one-time "windfall profits tax" on privatized industries, including regional electric utilities such as London Electricity. London Electricity's windfall profits tax liability is approximately BPS140 million (approximately $234 million), which will not be deductible for UK corporation tax purposes. Payment of the tax is required in two equal installments, the first of which was paid on December 1, 1997, and the second due on December 1, 1998.

The UK Government also decreased the UK corporation tax rate from 33% to 31%, effective April 1, 1997. In accordance with SFAS 109, "Accounting for Income Taxes", this reduction resulted in a one-time reduction in income tax expense of approximately BPS38 million (approximately $65 million).The liability for the windfall profits tax (with a corresponding increase in income tax expense) and the reduction in London Electricity's deferred income tax liability (with a corresponding reduction in income tax expense) were recorded in July 1997.

Waterford 3

On January 6, 1997, Waterford 3 received from the NRC its SALP report for the period April 29, 1995 through November 30, 1996. During this period, observed performance declined from the previous SALP report, and three of the four functional areas received lower ratings. Waterford 3 personnel are meeting with NRC personnel periodically, and significant Waterford 3 management changes have been effected in order to address these matters. Additionally, Waterford 3 has instituted a multi-year program to improve performance and is incurring additional costs in doing so.

A scheduled 45-day refueling outage for the Waterford 3 nuclear plant began on April 12, 1997. Additional work and two minor incidents caused the outage to be extended from May 27 to mid-June. On May 28, 1997, a start-up transformer at Waterford 3 failed due to an internal fault. A replacement transformer was located and shipped to Waterford 3, where certain plant configuration changes were made to facilitate its installation. After installation of the replacement transformer, the plant was restarted on July 29, 1997.

Cajun - River Bend

On October 7, 1997, the RUS elected not to become the transferee of Cajun's 30% interest in River Bend. Accordingly, under the terms of the Cajun Settlement, Cajun's interest in River Bend was transferred by Cajun's Trustee in Bankruptcy to Entergy Gulf States on December 23, 1997. As a result, Entergy Gulf States recorded this 30% interest at $139 million based on management's estimate of the fair value of the asset at the time of the transfer. Entergy Gulf States recorded a corresponding gain of $139 million in its results of operations in 1997 to reflect this transfer. This portion of River Bend will not be subject to cost of service regulation. In connection with the transfer, Cajun established a trust fund in the amount of $132 million to satisfy its obligation for decommissioning its 30% share of the plant. See Note 9 for additional information.

Labor Agreements

In April 1997, Entergy Gulf States and a union representing 1,000 employees in Texas and Louisiana signed a two-year labor contract (expiring August 14, 1999). The contract stipulates that no layoffs will occur in the next two years and wages will be increased 3% per year in 1997 and 1998.

In July 1997, Entergy Operations and the union representing 317 employees at River Bend and Entergy Mississippi and the union representing 400 of its employees signed two-year labor contracts for the period from October 1998 to October 2000 which stipulate that no layoffs of covered employees will occur over the next two years and that wages will be increased 3% in each of the next two years.

Deregulated Utility Operations

Entergy Gulf States discontinued regulatory accounting principles for its wholesale jurisdiction and steam department and the Louisiana deregulated portion of River Bend during 1989 and 1991, respectively. The operating income from these operations was $19.7 million in 1997, $13.9 million in 1996, and $1.2 million in 1995.

The increase in 1997 net income from deregulated operations was primarily due to decreased steam department expenses, partially offset by reduced wholesale jurisdiction revenues. The increase in 1996 net income from such operations was principally due to increased revenues, partially offset by increased depreciation. The future impact of the deregulated utility operations on Entergy and Entergy Gulf States' results of operations and financial position will depend on future operating costs, the efficiency and availability of generating units, the future market for energy over the remaining life of the assets, the operation of the steam generating station leased to a large industrial customer described above in **"Change in Contract with Steam Customer"**, and the recoverability through nonregulated power sales of the $139 million of net book value of the 30% of River Bend previously owned by Cajun. See **"Cajun - River Bend"** above.

Property Tax Exemptions

Waterford 3's local property tax exemptions expired in December 1995. In a March 1996 LPSC order, Entergy Louisiana was permitted to defer recovery of the estimated Waterford 3 property tax from January 1996 through June 1996. The order allowed the recovery of the property tax beginning in July 1996 and for recovery, from July 1996 through June 1997, of the related deferral. Entergy Louisiana paid property taxes of $18.9 million on Waterford 3 in 1997.

River Bend's local property tax exemptions expired in December 1996. The 1997 property tax was approximately $12.9 million. The portion of the property tax related to the Texas jurisdiction was included in the rate proceeding filed with the PUCT in November 1996 and in the fourth required Merger-related earnings review filed with the LPSC in May 1997.

Accounting Issues

Continued Application of SFAS 71

The electric utility industry is moving toward a combination of competition and a modified regulatory environment. The domestic utility companies' and System Energy's financial statements currently reflect, for the most part, assets and costs based on existing cost-based ratemaking regulations in accordance with SFAS 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS 71). Continued applicability of SFAS 71 to the domestic utility companies' and System Energy's financial statements requires that rates set by an independent regulator on a cost-of-service basis be charged to and collected from customers for the foreseeable future.

In the event that all or a portion of a utility's operations cease to meet those criteria for various reasons, including deregulation, a change in the method of regulation, or a change in the competitive environment for the utility's regulated services, the utility is required to discontinue application of SFAS 71 for the relevant portion of its operations by eliminating from the balance sheet the effects of any actions of regulators recorded as regulatory assets and liabilities. Discontinuation of the application of SFAS 71 could have a material adverse impact on Entergy's financial statements.

The SEC has expressed concern regarding the continued applicability of SFAS 71 to the financial statements of electric utilities that have been ordered by regulators to adopt transition to competition plans or are in the process of participating with the state legislatures and/or regulators in the development of such plans. While such plans may call for rate caps or decreases, they generally provide for recovery of investments in uneconomic or noncompetitive generating plants and other regulatory assets (together defined as stranded costs). The SEC is concerned that portions of entities subject to such plans may not meet the criteria for the continued application of SFAS 71.

During 1997, EITF 97-4: "Deregulation of the Pricing of Electricity - Issues Related to the Application of FASB Statements No. 71 and 101" was issued, specifying that SFAS 71 should be discontinued at a date no later than when the details of the transition to competition plan for all or a portion of the entity subject to such plan are known. However, other factors could cause the discontinuation of SFAS 71 before that date. Additionally, EITF 97-4 promulgates that regulatory assets to be recovered through cash flows derived from another portion of the entity which continues to apply SFAS 71 should not be written off; rather, they should be considered regulatory assets of the segment which will continue to apply SFAS 71.

The domestic utility companies' and System Energy's financial statements continue to apply SFAS 71 for their regulated operations, except for those portions of Entergy Gulf States' business described in "**Deregulated Utility Operations**" above. Although discussions with regulatory authorities regarding retail competition have occurred and are expected to continue, definitive outcomes have not yet been determined; therefore, the regulated operations continue to apply SFAS 71. See Note 1 for additional discussion of Entergy's application of SFAS 71.

Accounting for Decommissioning Costs

In February 1996, the FASB issued an exposure draft of a proposed SFAS addressing the accounting for decommissioning costs of nuclear generating units as well as liabilities related to the closure and removal of all long-lived assets. See Note 9 for a discussion of proposed changes in the accounting for decommissioning/closure costs and the potential impact of these changes on Entergy.

Year 2000 Issues

Like many companies, Entergy is currently evaluating its computer software, databases, embedded microprocessors, suppliers, and other constituent relationships to determine the extent to which modifications are required to prevent problems related to the year 2000, and the resources which will be required to make such modifications. These problems could result in malfunctions in certain software applications, databases, computer equipment, and supplier performance with respect to dates on or after January 1, 2000, unless corrected. Entergy has been working on the above mentioned modifications and contingencies throughout most of 1997, and will continue these efforts throughout 1998 and into 1999. Preliminary estimates of the total costs to be incurred by Entergy's global enterprises in 1998 through mid-2000 are approximately $95 million. Maintenance or modification costs will be expensed as incurred, while the costs of new software will be capitalized and amortized over the software's useful life in accordance with EITF 96-14: "Accounting for the Costs Associated with Modifying Computer Software for the Year 2000."

Market Risks

Entergy uses derivative instruments to manage the interest rate risk associated with certain of its variable rate credit facilities, the currency exchange rate risk for interest payments associated with its Entergy London Perpetual Junior Subordinated Debentures (Debentures), and the commodity price risk associated with its foreign electricity supply and domestic energy marketing businesses.

Entergy uses interest rate swaps to reduce the impact of interest rate changes on its CitiPower and Entergy London variable rate credit facilities. The interest rate swap agreements involve the exchange of floating rate interest payments for fixed rate interest payments over the life of the agreements. As of December 31, 1997, 77% of the outstanding variable interest rate borrowings on these credit facilities were converted to fixed interest rates through interest rate swaps. The potential loss in fair value from these positions resulting from a hypothetical 10% adverse movement in base interest rates is estimated at $29 million as of December 31, 1997. See Note 7 for further discussion of these swaps.

Entergy London's cash flows are predominately denominated in BPS. Entergy London has entered a U.S. dollar denominated obligation through issuance of the Perpetual Junior Subordinate Debentures (Debentures). To hedge currency exposure on the Debentures, Entergy London has entered foreign currency swap agreements to fix the British pound sterling equivalent which will be required to service interest on the Debentures for the next seven years. See Note 6 for further discussion of these swaps.

Entergy's UK and Australian electricity supply businesses utilize fixed price contracts to supply electricity to their customers. The electricity is obtained primarily by purchases from the spot market. Because the price of electricity purchased from the market can be volatile, Entergy's UK and Australian electricity supply businesses are exposed to risks arising from differences between the fixed prices at which they sell electricity and the fluctuating prices at which they purchase electricity. To mitigate exposure to volatility, Entergy's UK and Australian electricity supply businesses utilize contracts for differences (CFDs) and energy trading swaps to fix the price of their electricity purchases. The potential loss in fair value of these CFDs and energy trading swaps resulting from a hypothetical 10% adverse movement in future electricity prices is estimated at $103 million. Management, however, believes that any loss actually realized would be substantially offset by the effects of electricity price movements on the respective underlying hedged electricity supply contracts. See Note 9 for further discussion of the CFDs and energy trading swaps.

SIGNIFICANT FACTORS AND KNOWN TRENDS

Entergy's domestic energy and natural gas marketing business enters into sales and purchases of electricity and natural gas for delivery up to twelve months into the future. Because the market prices of electricity and natural gas can be volatile, Entergy's domestic energy and natural gas marketing business is exposed to risk arising from differences between the fixed prices in its commitments and fluctuating market prices. To mitigate its exposure, Entergy's domestic energy and natural gas marketing business enters into electricity and natural gas futures and option contracts. This business utilizes a value-at-risk model to assess the market risk of its derivative financial instruments. Value-at-risk represents the potential losses for an instrument or portfolio from adverse changes in market factors for a specified time period and confidence level. The value-at-risk was estimated using historical simulation calculated on a daily basis over a thirty-day period with a 95% confidence level and a holding period of one business day. Based on these assumptions, the business's value-at-risk as of December 31, 1997 was not material to Entergy.

Management's calculation of value-at-risk exposure represents an estimate of reasonably possible net losses that would be recognized on its portfolio of derivative financial instruments, assuming hypothetical movements in future market rates, and is not necessarily indicative of actual future results. It does not represent the maximum possible loss or an expected loss that may occur, because actual future gains and losses will differ from those estimated, based upon actual fluctuations in market rates, operating exposures, and the timing thereof, and changes in the portfolio of derivative financial instruments during the year.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
Entergy Corporation

We have audited the accompanying consolidated balance sheets of Entergy Corporation and Subsidiaries as of December 31, 1997 and 1996, and the related statements of consolidated income, retained earnings and paid in capital and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Corporation'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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Entergy Corporation and Subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, at January 1, 1996 the Company adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". Also, as discussed in Note 1 to the consolidated financial statements, in 1996, one of the Corporation's subsidiaries changed its method of accounting for incremental nuclear plant outage maintenance costs.

COOPERS & LYBRAND L.L.P.

New Orleans, Louisiana
March 4, 1998

On February 7, 1997, Entergy Corporation, through its wholly-owned subsidiary, Entergy London, made unconditional its offer to acquire 100% ownership of London Electricity. In accordance with the purchase method of accounting, the results of operations for 1996 and 1995 of Entergy Corporation and Subsidiaries do not include London Electricity's results of operations. Consolidated net income for 1997 reflects London Electricity's results subsequent to February 1, 1997. See Note 13 for additional information regarding London Electricity.

On January 5, 1996, Entergy Corporation finalized its acquisition of CitiPower. In accordance with the purchase method of accounting, the results of operations for 1995 of Entergy Corporation and Subsidiaries do not include CitiPower's results of operations.

Net Income

Consolidated net income decreased in 1997 primarily due to the recording of a one-time windfall profits tax at Entergy London, a reserve for regulatory adjustments at Entergy Gulf States, the write-off of the radioactive waste facility deferrals at Entergy Arkansas, Entergy Gulf States, and Entergy Louisiana, and the reversal of the Cajun-River Bend litigation accrual at Entergy Gulf States in September 1996. The decrease in net income was partially offset by the one-time write-off of River Bend rate deferrals pursuant to SFAS 121 at Entergy Gulf States in January 1996, by the 1997 one-time reduction in income tax expense for London Electricity due to a reduction in the UK corporation tax rate from 33% to 31%, and by the Cajun litigation settlement at Entergy Gulf States in December 1997. Excluding these items, net income would have decreased 8% due to a decrease in the earnings from domestic regulated operations offset by increased earnings from competitive growth businesses, primarily London Electricity.

Consolidated net income decreased in 1996 primarily due to the $174 million net of tax write-off of River Bend rate deferrals pursuant to SFAS 121 and the one-time recording in 1995 of the cumulative effect of the change in accounting method for incremental nuclear refueling outage maintenance costs at Entergy Arkansas. The effect of these items was partially offset by the reversal of a Cajun-River Bend litigation accrual at Entergy Gulf States. Excluding these items, net income would have increased 17% due to decreased other operation and maintenance expenses for domestic regulated operations as a result of restructuring programs and ongoing efficiency improvement programs throughout Entergy.

Significant factors affecting the results of operations and causing variances between the years 1997 and 1996, and between the years 1996 and 1995, are discussed under "**Revenues and Sales**", "**Expenses**", and "**Other**" below.

Revenues and Sales

See **"SELECTED FINANCIAL DATA - FIVE-YEAR COMPARISON"**, following the financial statements, for information on operating revenues by source and KWH sales.

RESULTS OF OPERATIONS

The changes in electric operating revenues for Entergy's domestic utility companies for the twelve months ended December 31, 1997 and 1996 are as follows:

Description	Increase/(Decrease) 1997	1996
	(In Millions)	
Change in base revenues	($189.1)	($117.5)
Rate riders	(3.6)	1.8
Fuel cost recovery	90.1	382.3
Sales volume/weather	31.3	108.0
Other revenue (including unbilled)	147.3	(49.3)
Sales for resale	(16.6)	37.6
Total	$59.4	$362.9

Electric operating revenues for Entergy's domestic utility companies increased slightly in 1997 as a result of increased other revenues, fuel adjustment revenues, which do not affect net income, and higher sales volume/weather. These increases were partially offset by a decrease in base revenues and sales for resale to non-associated utilities. Other revenue increased due to the gain on the Cajun Settlement for Cajun's 30% interest in the property associated with River Bend. Fuel adjustment revenues increased in 1997 due to a PUCT order that approved recovery of $18.5 million of previously under-recovered fuel expenses by Entergy Gulf States. Sales volume/weather increased primarily due to an increase in sales to industrial customers, particularly, certain cogeneration customers who purchased replacement electricity from Entergy Gulf States offset by a decrease due to milder weather in 1997. Base rate revenues decreased primarily due to the reserve for regulatory adjustments at Entergy Gulf States, rate reductions for Louisiana retail customers, aggressive pricing strategies for targeted customer segments, and a change in sales mix from residential and commercial customers to industrial customers at Entergy Gulf States. Sales for resale to non-associated utilities decreased due to changes in generation requirements and availability among the domestic utility companies, primarily Entergy Arkansas and Entergy Gulf States. During the fourth quarter of 1997, Entergy Gulf States established reserves for potential regulatory adjustments based on management's estimates of the financial effect of potential adverse rulings in connection with the River Bend plant-related costs and pending rate proceedings in Texas. See Note 2 for further discussion of the PUCT order related to under-recovered fuel expenses, the River Bend plant-related costs, and other pending rate proceedings.

Electric operating revenues increased in 1996 as a result of higher fuel adjustment revenues, which do not affect net income, and higher sales volume, partially offset by rate reductions at the domestic utility companies. The increase in sales volume was primarily the result of increases in customers and in customer usage.

Gas operating revenues increased in 1996 due to higher unit purchase prices for gas purchased for resale and colder than normal weather in the first quarter of 1996.

Competitive growth business revenues increased by $2.3 billion in 1997 primarily due to the February 1997 acquisition of London Electricity by Entergy London. London Electricity generated revenues of $1.8 billion during the eleven months it is included in 1997 results of operations. Also contributing to the increase in competitive growth business revenues was an increase in revenue at EPMC of $427 million. After obtaining the appropriate regulatory and board approvals, EPMC began trading in late May 1996. EPMC's increased revenues in 1997 are primarily due to full year of trading in 1997 as compared to six months in 1996 coupled with an aggressive marketing effort in 1997. These increases were offset by increased power purchased for resale as discussed below. The increase of $501 million in competitive growth business revenues in 1996 was due primarily to the acquisition of CitiPower.

Expenses

Operating expenses for 1997 include Entergy London's operating expenses of $1.7 billion for the year ended December 31, 1997, which were not included in the prior year's financial statements. Operating expenses, excluding Entergy London, increased primarily due to increases in nuclear refueling outage expenses, depreciation, amortization, and decommissioning expenses, increases in the amortization of rate deferrals, and increases in power purchased for resale by EPMC. These increases in operating expenses were partially offset by a decrease in other operation and maintenance expenses. The increase in purchased power is primarily the result of a higher level of power purchased for resale by EPMC. The increase in nuclear refueling outage expenses is primarily due to the amortization of previously deferred November 1996 outage expenses at System Energy, which are now being amortized over an 18-month period that began in December 1996. Prior to this outage, such costs were expensed as incurred and no such expenses were incurred in 1996. The increase in depreciation, amortization, and decommissioning is primarily due to the reduction of the regulatory asset established at System Energy to defer the depreciation associated with the sale and leaseback in 1989 of a portion of Grand Gulf 1. An increase in plant additions and improvements also contributed to the increase in depreciation, amortization, and decommissioning. The increase in rate deferral amortization is primarily due to greater Grand Gulf 1 rate deferral amortization at Entergy Arkansas and Entergy New Orleans, as prescribed in the Grand Gulf 1 rate phase-in plan and, for Entergy Arkansas, the December 1997 APSC Stipulation and Settlement Agreements. The decrease in other operation and maintenance expenses was primarily due to the Cajun litigation settlement at Entergy Gulf States in December 1997. This decrease was partially offset by the write-off of the radioactive waste facility deferrals at Entergy Arkansas, Entergy Gulf States, and Entergy Louisiana.

Operating expenses for 1996 include the operating expenses of CitiPower, which were not included in the 1995 financial statements. Excluding the operating expenses of CitiPower, Entergy's operating expenses increased in 1996. The following discussion excludes the impact of the acquisition of CitiPower. In 1996, fuel and purchased power expenses increased as a result of higher fuel costs and an increase in sales volume. Other operation and maintenance expenses decreased in 1996 due to lower payroll-related expenses, resulting from restructuring programs in addition to ongoing operating efficiency improvement programs throughout Entergy. Other regulatory credits reducing operating expenses in 1996 represent the deferral of Waterford 3 local property taxes and the deferral of a portion of the proposed System Energy rate increase at Entergy Mississippi and Entergy New Orleans. Nuclear refueling outage expenses decreased primarily due to the effect of deferring the nuclear refueling outage expenses at Grand Gulf 1 in the fourth quarter of 1996 rather than recognizing those expenses as incurred. The majority of the increase in decommissioning costs and depreciation rates is reflected in the 1995 System Energy FERC rate increase filing, subject to refund. See Note 2 for a discussion of the proposed rate increase.

Other

Other income decreased in 1997 primarily due to the reserve for regulatory adjustments at Entergy Gulf States, offset by interest income on the Cajun Settlement in December 1997, the write-off of River Bend rate deferrals pursuant to SFAS 121 at Entergy Gulf States in January 1996 and the Cajun litigation reversal in 1996.

Other income decreased in 1996 as a result of the write-off of River Bend rate deferrals pursuant to SFAS 121, and a decrease in Grand Gulf 1 carrying charges at Entergy Arkansas due to a decline in the deferral balance, partially offset by Entergy Gulf States' reversal of a Cajun-River Bend litigation accrual. Interest on long-term debt, excluding Entergy London, decreased in 1997 due primarily to ongoing retirement and refinancing of higher cost debt. Distributions on preferred securities of subsidiaries increased due to the issuance of Cumulative Income Preferred Securities at Entergy Arkansas in August 1996, Entergy Louisiana in July 1996, at Entergy Gulf States in January 1997, and Entergy London in November 1997.

Excluding CitiPower, interest on long-term debt decreased in 1996 due primarily to ongoing retirement and refinancing of higher cost debt. Borrowings by Entergy Corporation from a $300 million line of credit related to the CitiPower investment contributed to the increase in other interest-net in 1996.

Preferred dividend requirements decreased in 1997 and 1996 due to stock redemption activities.

The effective income tax rates for 1997, 1996, and 1995 were 61.0%, 46.2%, and 37.5% respectively. The effective income tax rate was higher in 1997 primarily due to the one-time windfall profits tax at Entergy London in 1997 and the tax effects of the Cajun litigation settlement and the 1996 SFAS 121 write-off at Entergy Gulf States, which included AFUDC which was originally recorded net of its related income tax benefits. In 1996, the effective income tax rate increased primarily due to higher state income taxes, depreciation related taxes, and the SFAS 121 write-off at Entergy Gulf States. For a further discussion of income taxes, see Note 3.

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ENTERGY CORPORATION AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME

	For the Years Ended December 31,		
	1997	1996	1995
	(In Thousands, Except Share Data)		
Operating Revenues:			
Domestic electric	$6,538,831	$6,450,940	$6,088,018
Natural gas	137,345	134,456	103,992
Steam products	43,664	59,143	49,295
Competitive growth businesses	2,841,881	533,118	31,767
Total	9,561,721	7,177,657	6,273,072
Operating Expenses:			
Operation and maintenance:			
Fuel, fuel-related expenses, and gas purchased for resale	1,677,041	1,635,885	1,395,889
Purchased power	2,318,811	704,744	356,596
Nuclear refueling outage expenses	73,857	55,148	84,972
Other operation and maintenance	1,886,149	1,577,383	1,528,351
Depreciation, amortization, and decommissioning	980,008	790,948	695,865
Taxes other than income taxes	365,439	353,270	300,120
Other regulatory charges (credits)	(18,545)	(47,542)	29,311
Amortization of rate deferrals	421,803	414,969	378,776
Total	7,704,563	5,484,805	4,769,880
Operating Income	1,857,158	1,692,852	1,503,192
Other Income (Deductions):			
Allowance for equity funds used during construction	10,057	9,951	9,629
Write-off of River Bend rate deferrals	-	(194,498)	-
Miscellaneous - net	(232,703)	123,452	45,127
Total	(222,646)	(61,095)	54,756
Interest Charges:			
Interest on long-term debt	797,266	674,532	633,851
Other interest - net	51,624	49,053	33,749
Distributions on preferred securities of subsidiaries	21,319	4,797	-
Allowance for borrowed funds used during construction	(7,937)	(8,347)	(8,368)
Total	862,272	720,035	659,232
Income Before Income Taxes	772,240	911,722	898,716
Income Taxes	471,341	421,159	336,182
Income before the Cumulative Effect of Accounting Changes	300,899	490,563	562,534
Cumulative Effect of Accounting Changes (net of income taxes)	-	-	35,415
Net Income	300,899	490,563	597,949
Preferred and Preference Dividend Requirements of Subsidiaries and Other	53,216	70,536	77,969
Earnings Applicable to Common Stock	$247,683	$420,027	$519,980
Earnings per average common share before cumulative effect of accounting changes:			
Basic and diluted	$1.03	$1.83	$2.13
Earnings per average common share:			
Basic and diluted	$1.03	$1.83	$2.28
Dividends declared per common share	$1.80	$1.80	$1.80
Average number of common shares outstanding:			
Basic	240,207,539	229,084,241	227,669,970
Diluted	240,297,842	229,175,392	227,729,975

See Notes to Financial Statements.

ENTERGY CORPORATION AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS

	For the Years Ended December 31,		
	1997	1996	1995
		(In Thousands)	
Operating Activities:			
Net income	$300,899	$490,563	$597,949
Noncash items included in net income:			
Write-off of River Bend rate deferrals	-	194,498	-
Cumulative effect of a change in accounting principle	-	-	(35,415)
Gain on Cajun Settlement	(246,022)	-	-
Reserve for regulatory adjustments	381,285	-	-
Amortization of rate deferrals	421,803	414,969	378,776
Other regulatory charges (credits)	(18,545)	(47,542)	29,311
Depreciation, amortization, and decommissioning	980,008	790,948	695,865
Deferred income taxes and investment tax credits	(252,955)	76,920	(31,006)
Allowance for equity funds used during construction	(10,057)	(9,951)	(9,629)
Changes in working capital:			
Receivables	(99,411)	(30,322)	(30,550)
Fuel inventory	20,272	(17,220)	(28,956)
Accounts payable	181,243	4,011	(19,124)
Taxes accrued	143,151	(27,488)	115,250
Interest accrued	(9,849)	7,176	(194)
Other working capital accounts	(130,715)	(121,692)	(85,454)
Changes in other regulatory assets	28,016	(85,051)	(3,876)
Decommissioning trust contributions and realized change in trust assets	(68,139)	(52,204)	(37,756)
Proceeds from settlement of Cajun litigation	102,299	-	-
Other	1,349	(59,566)	(31,509)
Net cash flow provided by operating activities	1,724,632	1,528,049	1,503,682
Investing Activities:			
Construction/capital expenditures	(847,223)	(571,890)	(618,436)
Allowance for equity funds used during construction	10,057	9,951	9,629
Nuclear fuel purchases	(89,237)	(123,929)	(207,501)
Proceeds from sale/leaseback of nuclear fuel	144,442	109,980	226,607
Acquisition of London Electricity, net of cash acquired	(1,951,701)	-	-
Acquisition of CitiPower	-	(1,156,112)	-
Acquisition of security companies	(87,669)	(83,000)	-
Investment in other nonregulated/nonutility properties	1,322	-	(172,814)
Proceeds from sale of Hub Power and Transener stock	54,153	26,955	-
Proceeds from sale of Independence 2	-	39,398	-
Other	(17,288)	(25,710)	(28,982)
Net cash flow used in investing activities	(2,783,144)	(1,774,357)	(791,497)

ENTERGY CORPORATION AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS

	For the Years Ended December 31,		
	1997	1996	1995
		(In Thousands)	
Financing Activities			
Proceeds from the issuance of:			
General and refunding mortgage bonds	64,827	39,608	109,285
First mortgage bonds	129,564	431,906	-
Bank notes and other long-term debt	1,852,891	1,066,858	273,542
Preferred securities of subsidiary trusts and partnership	382,323	125,963	-
Common stock	305,379	118,087	-
Retirement of:			
First mortgage bonds	(402,692)	(821,575)	(225,800)
General and refunding mortgage bonds	(7,622)	(56,000)	(69,200)
Other long-term debt	(341,355)	(145,110)	(221,043)
Redemption of preferred stock	(124,367)	(157,503)	(46,564)
Changes in short-term borrowings - net	142,025	(24,981)	(126,200)
Preferred stock dividends paid	(51,270)	(70,536)	(77,969)
Common stock dividends paid	(438,183)	(405,346)	(408,553)
Net cash flow provided by (used in) financing activities	1,511,520	101,371	(792,502)
Effect of exchange rates on cash and cash equivalents	(11,164)	50	-
Net increase (decrease) in cash and cash equivalents	441,844	(144,887)	(80,317)
Cash and cash equivalents at beginning of period	388,703	533,590	613,907
Cash and cash equivalents at end of period	$830,547	$388,703	$533,590
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest - net of amount capitalized	$858,871	$677,535	$626,531
Income taxes	$390,238	$373,247	$285,738
Noncash investing and financing activities:			
Capital lease obligations incurred	-	$16,358	-
Change in unrealized appreciation of decommissioning trust assets	$30,951	$7,803	$16,614
Acquisition of nuclear fuel	-	$47,695	-
Treasury shares issued to acquire Ranger American	$21,464	-	-
Net assets acquired from Cajun settlement	$319,056	-	-

See Notes to Financial Statements.

ENTERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
ASSETS

	December 31,	
	1997	1996
	(In Thousands)	
Current Assets:		
Cash and cash equivalents:		
Cash	$85,067	$34,807
Temporary cash investments - at cost, which approximates market	700,431	346,782
Special deposits	45,049	7,114
Total cash and cash equivalents	830,547	388,703
Notes receivable	8,157	1,384
Accounts receivable:		
Customer (less allowance for doubtful accounts of $31.7 million in 1997 and $9.2 million in 1996)	458,085	324,687
Other	225,523	99,066
Accrued unbilled revenues	580,194	351,429
Deferred fuel	150,596	122,184
Fuel inventory - at average cost	119,331	139,603
Materials and supplies - at average cost	367,870	339,622
Rate deferrals	259,628	444,543
Prepayments and other	171,391	151,312
Total	3,171,322	2,362,533
Other Property and Investments:		
Decommissioning trust funds	589,050	357,962
Non-regulated investments	568,951	513,058
Other	225,818	59,053
Total	1,383,819	930,073
Utility Plant:		
Electric	25,310,122	22,739,797
Plant acquisition adjustment - Entergy Gulf States	439,160	455,425
Electric plant under leases	674,483	679,991
Property under capital leases - electric	134,278	147,277
Natural gas	169,964	168,143
Steam products	82,289	81,743
Construction work in progress	565,667	401,676
Nuclear fuel under capital leases	269,011	250,651
Nuclear fuel	72,875	112,625
Total	27,717,849	25,037,328
Less - accumulated depreciation and amortization	9,585,021	8,866,764
Utility plant - net	18,132,828	16,170,564
Deferred Debits and Other Assets:		
Regulatory assets:		
Rate deferrals	162,602	399,493
SFAS 109 regulatory asset - net	1,174,187	1,196,041
Unamortized loss on reacquired debt	196,891	217,664
Other regulatory assets	466,780	477,942
Long-term receivables	36,984	216,082
CitiPower license (net of amortization of $25.6 million in 1997 and $15.6 million in 1996)	486,153	606,214
London Electricity license (net of $31.1 million of amortization)	1,327,312	-
Other	461,822	379,419
Total	4,312,731	3,492,855
TOTAL	$27,000,700	$22,956,025

See Notes to Financial Statements.

ENTERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31,	
	1997	1996
	(In Thousands)	
Current Liabilities:		
Currently maturing long-term debt	$390,674	$345,620
Notes payable	428,964	20,686
Accounts payable	915,800	554,558
Customer deposits	178,162	155,534
Taxes accrued	359,996	180,340
Accumulated deferred income taxes	56,524	78,010
Interest accrued	214,763	203,425
Dividends declared	8,166	8,950
Obligations under capital leases	167,700	151,287
Other	81,303	184,157
Total	2,802,052	1,882,567
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	4,567,052	3,760,491
Accumulated deferred investment tax credits	587,781	607,641
Obligations under capital leases	236,000	247,360
Other	1,857,514	1,298,306
Total	7,248,347	5,913,798
Long-term debt	9,068,325	7,590,804
Subsidiaries' preferred stock with sinking fund	185,005	216,986
Subsidiary's preference stock	150,000	150,000
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely junior subordinated deferrable debentures	215,000	130,000
Company-obligated redeemable preferred securities of subsidiary partnership holding solely junior subordinated deferrable debentures	300,000	-
Shareholders' Equity:		
Subsidiaries' preferred stock without sinking fund	338,455	430,955
Common stock, $.01 par value, authorized 500,000,000 shares; issued 246,149,198 shares in 1997 and 234,456,457 shares in 1996	2,461	2,345
Paid-in capital	4,613,572	4,320,591
Retained earnings	2,157,912	2,341,703
Cumulative foreign currency translation adjustment	(69,817)	21,725
Less - treasury stock (306,852 shares in 1997 and 1,496,118 shares in 1996)	10,612	45,449
Total	7,031,971	7,071,870
Commitments and Contingencies (Notes 2, 9, and 10)		
TOTAL	$27,000,700	$22,956,025

See Notes to Financial Statements.

ENTERGY CORPORATION AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED RETAINED EARNINGS AND PAID-IN CAPITAL

	For the Years Ended December 31,		
	1997	1996	1995
		(In Thousands)	
Retained Earnings, January 1	$2,341,703	$2,335,579	$2,223,739
Add:			
Earnings applicable to common stock	247,683	420,027	519,980
Deduct:			
Dividends declared on common stock	432,268	412,250	409,801
Capital stock and other expenses	(794)	1,653	(1,661)
Total	431,474	413,903	408,140
Retained Earnings, December 31	$2,157,912	$2,341,703	$2,335,579
Paid-in Capital, January 1	$4,320,591	$4,201,483	$4,202,134
Add:			
Gain (loss) on reacquisition of subsidiaries' preferred stock	273	1,795	(26)
Common stock issuances related to stock plans	292,870	117,560	(3,002)
Total	293,143	119,355	(3,028)
Deduct:			
Capital stock discounts and other expenses	162	247	(2,377)
Paid-in Capital, December 31	$4,613,572	$4,320,591	$4,201,483

See Notes to Financial Statements.

ENTERGY CORPORATION AND SUBSIDIARIES

SELECTED FINANCIAL DATA - FIVE-YEAR COMPARISON

	1997 (4)	1996 (3)	1995	1994	1993
	(In Thousands, Except Per Share Amounts)				
Operating revenues	$ 9,561,721	$ 7,177,657	$ 6,273,072	$ 5,981,820	$ 4,475,224
Income before cumulative effect of a change in accounting principle	$ 300,899	$ 490,563	$ 562,534	$ 423,559	$ 514,648
Earnings per share before cumulative effect of accounting changes					
Basic	$ 1.03	$ 1.83	$ 2.13	$ 1.49	$ 2.62
Diluted	$ 1.03	$ 1.83	$ 2.13	$ 1.49	$ 2.62
Dividends declared per share	$ 1.80	$ 1.80	$ 1.80	$ 1.80	$ 1.65
Return on average common equity	3.71%	6.41%	8.11%	5.31%	12.58%
Book value per share, year-end (2)	$ 27.23	$ 28.51	$ 28.41	$ 27.93	$ 28.27
Total assets (2)	$ 27,000,700	$ 22,956,025	$ 22,265,930	$ 22,621,874	$ 22,876,697
Long-term obligations (1)(2)	$ 10,154,330	$ 8,335,150	$ 7,484,248	$ 7,817,366	$ 8,177,882

(1) Includes long-term debt (excluding currently maturing debt), preferred and preference stock with sinking fund, preferred securities of subsidiary trusts and partnership, and noncurrent capital lease obligations.

(2) 1993 amounts include the effects of the Merger in accordance with the purchase method of accounting for combinations.

(3) 1996 amounts include the effects of the CitiPower acquisition.

(4) 1997 amounts include the effects of the London Electricity acquisition as of February 7, 1997 (see Note 13).

	1997	1996	1995	1994	1993
			(In Thousands)		
Domestic Utility Electric					
Operating Revenues:					
Residential	$2,271,363	$2,277,647	$2,177,348	$2,127,820	$1,594,515
Commercial	1,581,878	1,573,251	1,491,818	1,500,462	1,071,070
Industrial	2,018,625	1,987,640	1,810,045	1,834,155	1,197,695
Governmental	171,773	169,287	154,032	159,840	136,471
Total retail	6,043,639	6,007,825	5,633,243	5,622,277	3,999,751
Sales for resale	359,881	376,011	334,874	293,702	280,505
Other (1)	135,311	67,104	119,901	(123,569)	88,713
Total	$6,538,831	$6,450,940	$6,088,018	$5,792,410	$4,368,969
Billed Electric Energy Sales (GWH):					
Residential	28,286	28,303	27,704	26,231	18,946
Commercial	21,671	21,234	20,719	20,050	13,420
Industrial	44,649	44,340	42,260	41,030	24,889
Governmental	2,507	2,449	2,311	2,233	1,887
Total retail	97,113	96,326	92,994	89,544	59,142
Sales for resale	9,707	10,583	10,471	7,908	8,291
Total	106,820	106,909	103,465	97,452	67,433

(1) 1994 includes the effects of the FERC Settlement, the 1994 NOPSI Settlement, and an Entergy Gulf States reserve for rate refund.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
Entergy Arkansas, Inc.

We have audited the accompanying balance sheets of Entergy Arkansas, Inc. (formerly Arkansas Power & Light Company) as of December 31, 1997 and 1996, and the related statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1997. 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 the Company as of December 31, 1997 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

COOPERS & LYBRAND L.L.P.

New Orleans, Louisiana
March 4, 1998

Net Income

Net income decreased in 1997 primarily due to decreases in electric operating revenues and Grand Gulf 1 carrying charges, partially offset by lower income taxes.

Net income decreased in 1996 due primarily to the one-time recording of the cumulative effect of the change in accounting method in 1995 for incremental nuclear refueling outage maintenance costs. Excluding the above mentioned item, net income would have increased $21.1 million in 1996 primarily due to a decrease in other operation and maintenance expenses.

Significant factors affecting the results of operations and causing variances between the years 1997 and 1996, and between the years 1996 and 1995, are discussed under "**Revenues and Sales**", "**Expenses**", and "**Other**" below.

Revenues and Sales

See "**SELECTED FINANCIAL DATA - FIVE-YEAR COMPARISON**," following the financial statements, for information on operating revenues by source and KWH sales.

The changes in electric operating revenues for the twelve months ended December 31, 1997 and 1996 are as follows:

Description	Increase/(Decrease) 1997	1996
	(In Millions)	
Change in base revenues	($8.1)	($10.1)
Rate riders	15.4	(5.3)
Fuel cost recovery	10.3	8.0
Sales volume/weather	5.9	19.5
Other revenue (including unbilled)	(24.2)	(7.1)
Sales for resale	(27.0)	90.2
Total	($27.7)	$95.2

Electric operating revenues decreased in 1997 due primarily to decreases in sales for resale and other revenue, partially offset by an increase in rate rider revenues and higher fuel adjustment revenues, which do not affect net income. The decrease in sales for resale resulted from a decrease in sales to associated companies primarily due to changes in generation requirements and availability among the domestic utility companies. Other revenue (primarily unbilled revenue) decreased primarily as a result of the volume difference in the unbilled beginning of year amount and due to the $10.6 million impact of a rate reduction implemented in 1997 related to the transition to competition filing with the APSC. The increase in rate rider revenues was due to an increase in Grand Gulf 1 rate rider revenues as a result of warmer weather during the second half of the year.

Electric operating revenues increased in 1996 due primarily to increased sales for resale and higher sales volume. Sales for resale increased due to an increase in sales to associated companies primarily due to changes in generation requirements and availability among the domestic utility companies. The increase in sales volume resulted from increased customer usage, partially attributable to more severe weather as compared to 1995.

Expenses

Operating expenses increased in 1997 primarily due to the recognition of additional regulatory liabilities related to the APSC settlement agreement and the write-off of previously deferred radioactive waste facility costs, partially offset by a decrease in fuel and purchased power expenses. The increase in the amortization of rate deferrals is due to an increase in amortization prescribed in the Grand Gulf 1 rate phase-in plan and the Stipulation and Settlement Agreement with the APSC. See Note 2 for further discussion of the APSC agreement. Fuel and purchased power expenses decreased primarily as a result of significantly lower prices.

Operating expenses increased in 1996 primarily due to an increase in fuel and purchased power expenses, partially offset by reduced other regulatory charges and decreased other operation and maintenance expenses. The increase in fuel and purchased power expenses is largely due to an increase in generation and purchases related to the increase in sales for resale. The decrease in other operation and maintenance expenses resulted from lower payroll expenses. Payroll expenses decreased as a result of restructuring costs recorded in 1995 and the resulting decrease in employees.

Other

Miscellaneous other income - net decreased in 1997 and 1996 due to reduced Grand Gulf 1 carrying charges as a result of a decline in the deferral balance which does not impact net income.

The effective income tax rates for 1997, 1996, and 1995 were 31.6%, 34.9%, and 34.5%, respectively. The decrease in 1997 is primarily due to the impact of recording the tax benefit of Entergy Corporation's expenses as prescribed by the tax allocation agreement. The effective income tax rate for 1996 was relatively unchanged from 1995.

ENTERGY ARKANSAS, INC.
STATEMENTS OF INCOME

	For the Years Ended December 31,		
	1997	1996	1995
		(In Thousands)	
Operating Revenues	$1,715,714	$1,743,433	$1,648,233
Operating Expenses:			
Operation and maintenance:			
Fuel and fuel-related expenses	254,703	257,008	231,619
Purchased power	419,128	432,825	363,199
Nuclear refueling outage expenses	27,969	29,365	31,754
Other operation and maintenance	360,860	358,789	375,059
Depreciation, amortization, and decommissioning	166,652	167,878	162,087
Taxes other than income taxes	36,700	37,688	38,319
Other regulatory charges (credits)	29,686	18,096	60,227
Amortization of rate deferrals	153,141	131,634	114,102
Total	1,448,839	1,433,283	1,376,366
Operating Income	266,875	310,150	271,867
Other Income:			
Allowance for equity funds used during construction	3,563	3,886	3,567
Miscellaneous - net	18,663	32,591	46,227
Total	22,226	36,477	49,794
Interest Charges:			
Interest on long-term debt	95,122	98,531	106,853
Other interest - net	3,943	6,257	8,485
Distributions on preferred securities of subsidiary trust	5,100	1,927	-
Allowance for borrowed funds used during construction	(2,261)	(2,330)	(2,424)
Total	101,904	104,385	112,914
Income Before Income Taxes	187,197	242,242	208,747
Income Taxes	59,220	84,444	72,082
Income before the Cumulative Effect of Accounting Changes	127,977	157,798	136,665
Cumulative Effect of Accounting Changes (net of income taxes)	-	-	35,415
Net Income	127,977	157,798	172,080
Preferred Stock Dividend Requirements and Other	10,988	16,110	18,093
Earnings Applicable to Common Stock	$116,989	$141,688	$153,987

See Notes to Financial Statements.

ENTERGY ARKANSAS, INC.
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	1997	1996	1995
		(In Thousands)	
Operating Activities:			
Net income	$127,977	$157,798	$172,080
Noncash items included in net income:			
Cumulative effect of a change in accounting principle	-	-	(35,415)
Amortization of rate deferrals	153,141	139,701	125,504
Other regulatory charges (credits), net	29,686	18,096	60,227
Depreciation, amortization, and decommissioning	166,652	167,878	162,087
Deferred income taxes and investment tax credits	(77,814)	(46,026)	(33,882)
Allowance for equity funds used during construction	(3,563)	(3,886)	(3,567)
Changes in working capital:			
Receivables	9,099	(4,292)	(39,209)
Fuel inventory	29,150	137	(22,895)
Accounts payable	(25,451)	(1,112)	55,732
Taxes accrued	23,133	14,035	(5,080)
Interest accrued	1,201	(2,615)	(824)
Other working capital accounts	(10,220)	(7,529)	(28,375)
Decommissioning trust contributions and realized change in trust assets	(24,956)	(30,474)	(30,568)
Provision for estimated losses and reserves	9,594	4,125	2,849
Other	26,111	(29,258)	(40,306)
Net cash flow provided by operating activities	433,740	376,578	338,358
Investing Activities:			
Construction expenditures	(140,913)	(145,529)	(165,071)
Allowance for equity funds used during construction	3,563	3,886	3,567
Nuclear fuel purchases	(59,104)	(26,084)	(41,219)
Proceeds from sale/leaseback of nuclear fuel	59,065	25,451	41,832
Net cash flow used in investing activities	(137,389)	(142,276)	(160,891)
Financing Activities:			
Proceeds from issuance of:			
First mortgage bonds	84,064	84,256	-
Other long-term debt	45,500	-	118,662
Preferred securities of subsidiary trust	-	58,168	-
Retirement of:			
First mortgage bonds	(117,587)	(112,807)	(25,800)
Other long-term debt	-	(1,700)	(124,025)
Redemption of preferred stock	(9,000)	(69,624)	(9,500)
Changes in short-term borrowings - net	-	-	(34,000)
Dividends paid:			
Common stock	(128,600)	(142,800)	(153,400)
Preferred stock	(11,194)	(17,736)	(18,362)
Net cash flow used in financing activities	(136,817)	(202,243)	(246,425)
Net increase (decrease) in cash and cash equivalents	159,534	32,059	(68,958)
Cash and cash equivalents at beginning of period	43,857	11,798	80,756
Cash and cash equivalents at end of period	$203,391	$43,857	$11,798
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest - net of amount capitalized	$101,839	$94,662	$102,851
Income taxes	$111,394	$110,211	$113,080
Noncash investing and financing activities:			
Capital lease obligations incurred	-	$16,358	-
Acquisition of nuclear fuel	-	$27,500	-
Change in unrealized appreciation of decommissioning trust assets	$22,343	$5,968	$9,128

See Notes to Financial Statements.

ENTERGY ARKANSAS, INC.
BALANCE SHEETS
ASSETS

	December 31, 1997	December 31, 1996
	(In Thousands)	
Current Assets:		
Cash and cash equivalents:		
Cash	$6,076	$5,117
Temporary cash investments - at cost, which approximates market:		
Associated companies	41,389	17,462
Other	110,877	21,278
Special deposits	45,049	-
Total cash and cash equivalents	203,391	43,857
Accounts receivable:		
Customer (less allowance for doubtful accounts of $1.8 million in 1997 and $2.3 million in 1996)	71,910	71,144
Associated companies	46,166	45,303
Other	10,282	5,862
Accrued unbilled revenues	89,616	104,764
Fuel inventory - at average cost	28,169	57,319
Materials and supplies - at average cost	79,692	72,976
Rate deferrals	75,249	153,141
Deferred nuclear refueling outage costs	24,335	24,534
Prepayments and other	8,647	16,496
Total	637,457	595,396
Other Property and Investments:		
Investment in subsidiary companies - at equity	11,213	11,211
Decommissioning trust fund	250,573	203,274
Other - at cost (less accumulated depreciation)	4,939	5,058
Total	266,725	219,543
Utility Plant:		
Electric	4,650,065	4,578,728
Property under capital leases	53,843	57,869
Construction work in progress	123,087	83,524
Nuclear fuel under capital lease	92,621	79,103
Nuclear fuel	-	27,500
Total	4,919,616	4,826,724
Less - accumulated depreciation and amortization	2,116,826	1,976,204
Utility plant - net	2,802,790	2,850,520
Deferred Debits and Other Assets:		
Regulatory assets:		
Rate deferrals	-	75,249
SFAS 109 regulatory asset - net	252,712	244,767
Unamortized loss on reacquired debt	53,780	56,664
Other regulatory assets	79,461	80,257
Other	13,952	31,421
Total	399,905	488,358
TOTAL	$4,106,877	$4,153,817

See Notes to Financial Statements.

ENTERGY ARKANSAS, INC.
BALANCE SHEETS
LIABILITIES AND SHAREHOLDER'S EQUITY

	December 31,	
	1997	1996
	(In Thousands)	
Current Liabilities:		
Currently maturing long-term debt	$60,650	$32,465
Notes payable	667	667
Accounts payable:		
Associated companies	59,438	91,205
Other	76,405	97,589
Customer deposits	23,437	21,800
Taxes accrued	77,327	54,194
Accumulated deferred income taxes	32,239	70,506
Interest accrued	28,826	27,625
Co-owner advances	7,666	33,873
Deferred fuel cost	16,244	6,955
Obligations under capital leases	62,623	53,012
Other	21,696	17,967
Total	467,218	507,858
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	759,489	785,994
Accumulated deferred investment tax credits	103,899	108,307
Obligations under capital leases	83,841	83,940
Other	169,884	113,998
Total	1,117,113	1,092,239
Long-term debt	1,244,860	1,255,388
Preferred stock with sinking fund	31,027	40,027
Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely junior subordinated deferrable debentures	60,000	60,000
Shareholder's Equity:		
Preferred stock without sinking fund	116,350	116,350
Common stock, $0.01 par value, authorized 325,000,000 shares; issued and outstanding 46,980,196 shares	470	470
Additional Paid-in capital	590,134	590,169
Retained earnings	479,705	491,316
Total	1,186,659	1,198,305
Commitments and Contingencies (Notes 2, 9 and 10)		
TOTAL	$4,106,877	$4,153,817

See Notes to Financial Statements.

ENTERGY ARKANSAS, INC.
STATEMENTS OF RETAINED EARNINGS

	For the Years Ended December 31,		
	1997	1996	1995
	(In Thousands)		
Retained Earnings, January 1	$491,316	$492,386	$491,799
Add:			
Net income	127,977	157,798	172,080
Increase in investment in subsidiary	-	42	-
Total	127,977	157,840	172,080
Deduct:			
Dividends declared:			
Preferred stock	10,988	16,110	18,093
Common stock	128,600	142,800	153,400
Total	139,588	158,910	171,493
Retained Earnings, December 31 (Note 8)	$479,705	$491,316	$492,386

See Notes to Financial Statements.

ENTERGY ARKANSAS, INC.

SELECTED FINANCIAL DATA - FIVE-YEAR COMPARISON

	1997	1996	1995	1994	1993
			(In Thousands)		
Operating revenues	$1,715,714	$1,743,433	$1,648,233	$1,590,742	$1,591,568
Income before cumulative effect of accounting changes	$ 127,977	$ 157,798	$ 136,665	$ 142,263	$ 155,110
Total assets	$4,106,877	$4,153,817	$4,204,415	$4,292,215	$4,334,105
Long-term obligations (1)	$1,419,728	$1,439,355	$1,423,804	$1,446,940	$1,478,203

(1) Includes long-term debt (excluding currently maturing debt), preferred stock with sinking fund, preferred securities of subsidiary trust, and noncurrent capital lease obligations.

	1997	1996	1995	1994	1993
			(In Thousands)		
Electric Operating Revenues:					
Residential	$551,821	$546,100	$542,862	$506,160	$528,734
Commercial	332,715	323,328	318,475	307,296	306,742
Industrial	372,083	364,943	362,854	338,988	336,856
Governmental	18,200	16,989	17,084	16,698	16,670
Total retail	1,274,819	1,251,360	1,241,275	1,169,142	1,189,002
Sales for resale					
Associated companies	213,845	248,211	178,885	212,314	175,784
Non-associated companies	215,249	207,887	195,844	182,920	203,696
Other	11,801	35,975	32,229	26,366	23,086
Total	$1,715,714	$1,743,433	$1,648,233	$1,590,742	$1,591,568
Billed Electric Energy Sales (GWH):					
Residential	5,988	6,023	5,868	5,522	5,680
Commercial	4,445	4,390	4,267	4,147	4,067
Industrial	6,647	6,487	6,314	5,941	5,690
Governmental	239	234	243	231	230
Total retail	17,319	17,134	16,692	15,841	15,667
Sales for resale					
Associated companies	9,557	10,471	8,386	10,591	8,307
Non-associated companies	6,828	6,720	5,066	4,906	5,643
Total	33,704	34,325	30,144	31,338	29,617

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
Entergy Gulf States, Inc.

We have audited the accompanying balance sheets of Entergy Gulf States, Inc. (formerly Gulf States Utilities Company) as of December 31, 1997 and 1996, and the related statements of income (loss), retained earnings and cash flows for each of the three years in the period ended December 31, 1997. 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 the Company as of December 31, 1997 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, at January 1, 1996 the Company adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of".

COOPERS & LYBRAND L.L.P.

New Orleans, Louisiana
March 4, 1998

Net Income

Net income increased in 1997 due to (i) the $146 million net of tax receipt of funds and property resulting from the settlement of the Cajun litigation, and (ii) the 1996 net of tax write-off of $174 million of River Bend rate deferrals required by the adoption of SFAS 121. These increases were partially offset by (i) the 1997 $227 million net of tax reserve for regulatory adjustments; (ii) the 1997 net of tax write-off of $7.4 million of previously deferred radioactive waste facility costs; and (iii) the 1996 reversal of the Cajun-River Bend litigation accrual. Excluding the effects of the settlement of the Cajun litigation, the 1997 and 1996 write-offs, the reserve for regulatory adjustments, and the accrual reversal, net income for 1997 would have increased approximately $11 million due to an increase in electric operating revenues.

Net income decreased in 1996 primarily due to the write-off of rate deferrals, offset by the reversal of the Cajun-River Bend litigation accrual as discussed above. Excluding the River Bend rate deferrals and the Cajun-River Bend litigation accrual, net income for 1996 would have increased slightly due to an increase in electric operating revenues and a decrease in other operation and maintenance expenses.

Significant factors affecting the results of operations and causing variances between the years 1997 and 1996, and between the years 1996 and 1995, are discussed under "**Revenues and Sales**", "**Expenses**", and "**Other**" below.

Revenues and Sales

See "**SELECTED FINANCIAL DATA - FIVE-YEAR COMPARISON**", following the financial statements, for information on operating revenues by source and KWH sales.

The changes in electric operating revenues for the twelve months ended December 31, 1997 and 1996 are as follows:

Description	Increase/(Decrease) 1997	1996
	(In Millions)	
Change in base revenues	($103.8)	($60.3)
Fuel cost recovery	66.8	152.0
Sales volume/weather	46.2	65.1
Other revenue (including unbilled)	151.1	12.8
Sales for resale	(24.8)	(32.6)
Total	$135.5	$137.0

Electric operating revenues increased in 1997 as a result of increased other revenue, increased fuel adjustment revenues, which do not affect net income, and increased sales volume. These increases were partially offset by a decrease in base revenues and sales for resale. Other revenue increased due to the gain on the Cajun Settlement for Cajun's 30% of property associated with River Bend. Fuel adjustment revenues increased due to a PUCT order that approved recovery of under-recovered fuel expenses. Sales volume increased primarily due to an increase in sales to industrial customers, in particular, certain cogeneration customers who purchased electricity from Entergy Gulf States for less than their production cost. Base revenues decreased in 1997 due to the reserve for regulatory adjustments, the provision for rate reductions implemented for Louisiana retail customers in November 1996 and February 1997, aggressive pricing strategies for targeted customer segments, and a change in the sales mix

from residential customers to industrial customers. Sales for resale decreased due to decreased sales to both associated and non-associated companies. During the fourth quarter of 1997, Entergy Gulf States established reserves for potential regulatory adjustments based on management's estimates of the financial effect of potential adverse rulings in connection with the River Bend plant-related costs and pending rate proceedings in Texas. See Note 2 for further discussion of the PUCT order related to under-recovered fuel expenses, the River Bend plant-related costs, and other pending rate proceedings.

Gas operating revenues increased in 1997 due to an increase in the fuel factor granted by the LPSC. This increase permits recovery of previously deferred gas costs. The increase in gas operating revenues was offset by a decrease in steam operating revenues due to a change in a customer contract in 1997 and an increase in customer requirements in 1996.

Electric operating revenues increased in 1996 primarily due to increased fuel adjustment revenues, which do not affect net income, increased customers, and increased customer usage. These increases were partially offset by rate reductions in effect for both Texas and Louisiana retail customers and increased base revenues for 1995. Base revenues also increased in 1995 as a result of rate refund reserves established in 1994, which were subsequently reduced as a result of an amended PUCT order. Sales for resale to associated companies decreased as a result of changes in generation availability and requirements among the domestic utility companies.

Gas operating revenues and steam operating revenues increased for 1996 primarily due to higher fuel prices and increased usage.

Expenses

Operating expenses increased slightly in 1997 due to increases in fuel and purchased power expenses and in the amortization of rate deferrals, partially offset by decreased other operation and maintenance expenses resulting from the Cajun settlement. Fuel and purchased power expenses increased due to increased gas usage and increased energy requirements resulting from higher sales volume. Amortization of rate deferrals increased based on the LPSC-approved River Bend phase-in plan. See Note 2 for further discussion. The decrease in other operation and maintenance expenses was partially offset by the write-off of radioactive waste facility costs.

Operating expenses increased in 1996 as a result of higher fuel expenses, including purchased power, partially offset by lower other operation and maintenance expenses. Fuel and purchase power expenses, taken together, increased because of higher gas prices and increased energy requirements resulting from higher sales volume. Other operation and maintenance expenses decreased primarily due to lower payroll-related expenses associated with restructuring programs accrued for in 1995.

Other

Other income decreased in 1997 due to the reserve for other regulatory adjustments, partially offset by the 1997 settlement of the Cajun litigation and the 1996 write-off of River Bend rate deferrals. Interest expense decreased in 1997 due to the retirement of long-term debt.

Other income decreased in 1996 due to the write-off of River Bend rate deferrals pursuant to the adoption of SFAS 121. See Note 2 for further discussion. This decrease was partially offset by the Cajun-River Bend litigation accrual reversal.

The effective income tax rates for 1997, 1996, and 1995 were 27.2%, 104.0%, and 35.3%, respectively. The decrease in the effective income tax rate in 1997 is due to a decrease in regulatory operating reserves which receive flow through treatment in 1997 and the $194.5 million River Bend SFAS 121 write-off in 1996. The change in effective income tax rates in 1996 is primarily due to the River Bend SFAS 121 write-off of $194.5 million in January 1996.

ENTERGY GULF STATES, INC.
STATEMENTS OF INCOME (LOSS)

	For the Years Ended December 31,		
	1997	1996	1995
		(In Thousands)	
Operating Revenues:			
Electric	$2,061,511	$1,925,988	$1,788,964
Natural gas	42,654	34,050	23,715
Steam products	43,664	59,143	49,295
Total	2,147,829	2,019,181	1,861,974
Operating Expenses:			
Operation and maintenance:			
Fuel, fuel-related expenses, and gas purchased for resale	560,104	520,065	516,812
Purchased power	327,037	295,960	169,767
Nuclear refueling outage expenses	10,829	8,660	10,607
Other operation and maintenance	316,253	402,719	432,647
Depreciation, amortization, and decommissioning	214,644	206,070	202,224
Taxes other than income taxes	109,572	102,170	102,228
Other regulatory charges (credits)	(26,611)	(25,317)	(24,359)
Amortization of rate deferrals	105,455	96,956	90,384
Total	1,617,283	1,607,283	1,500,310
Operating Income	530,546	411,898	361,664
Other Income (Deductions):			
Allowance for equity funds used during construction	2,211	2,618	1,125
Write-off of River Bend rate deferrals	-	(194,498)	-
Miscellaneous - net	(272,135)	69,841	22,573
Total	(269,924)	(122,039)	23,698
Interest Charges:			
Interest on long-term debt	163,146	181,071	191,341
Other interest - net	10,026	12,819	8,884
Distributions on preferred securities of subsidiary trust	6,901	-	-
Allowance for borrowed funds used during construction	(1,829)	(2,235)	(1,026)
Total	178,244	191,655	199,199
Income Before Income Taxes	82,378	98,204	186,163
Income Taxes	22,402	102,091	63,244
Net Income (Loss)	59,976	(3,887)	122,919
Preferred and Preference Stock Dividend Requirements and Other	23,865	28,505	29,643
Earnings (Loss) Applicable to Common Stock	$36,111	($32,392)	$93,276

See Notes to Financial Statements.

ENTERGY GULF STATES, INC.
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	1997	1996	1995
		(In Thousands)	
Operating Activities:			
Net income (loss)	$59,976	($3,887)	$122,919
Noncash items included in net income (loss):			
Write-off of River Bend rate deferrals	-	194,498	-
Gain on Cajun Settlement	(246,022)	-	-
Reserve for regulatory adjustments	381,285	-	-
Amortization of rate deferrals	105,455	96,956	90,384
Other regulatory charges (credits)	(26,611)	(25,317)	(24,359)
Depreciation, amortization, and decommissioning	214,644	206,070	202,224
Deferred income taxes and investment tax credits	(52,486)	101,380	63,231
Allowance for equity funds used during construction	(2,211)	(2,618)	(1,125)
Changes in working capital:			
Receivables	(19,679)	3,691	40,193
Fuel inventory	7,382	(12,868)	(6,357)
Accounts payable	16,999	(26,706)	(4,820)
Taxes accrued	12,171	(1,266)	24,935
Interest accrued	(4,497)	(7,186)	1,510
Reserve for rate refund	-	-	(56,972)
Deferred fuel	(46,254)	(68,349)	(24,840)
Other working capital accounts	(11,765)	(70,775)	(16,079)
Decommissioning trust contributions and realized change in trust assets	(9,540)	(7,436)	(9,513)
Provision for estimated losses and reserves	(5,852)	(1,885)	10,119
Proceeds from settlement of Cajun litigation	102,299	-	-
Other	(8,970)	(51,947)	(10,696)
Net cash flow provided by operating activities	466,324	322,355	400,754
Investing Activities:			
Construction expenditures	(132,566)	(154,993)	(185,944)
Allowance for equity funds used during construction	2,211	2,618	1,125
Nuclear fuel purchases	(25,522)	(25,124)	(1,425)
Proceeds from sale/leaseback of nuclear fuel	25,522	26,523	542
Net cash flow used in investing activities	(130,355)	(150,976)	(185,702)
Financing Activities:			
Proceeds from the issuance of:			
Long-term debt	-	780	2,277
Preferred securities of subsidiary trust	82,323	-	-
Retirement of:			
First mortgage bonds	(132,240)	(195,417)	-
Other long-term debt	(50,865)	(50,425)	(50,425)
Redemption of preferred and preference stock	(93,367)	(10,179)	(7,283)
Dividends paid:			
Common stock	(77,200)	-	-
Preferred and preference stock	(21,862)	(28,336)	(29,661)
Net cash flow used in financing activities	(293,211)	(283,577)	(85,092)
Net increase (decrease) in cash and cash equivalents	42,758	(112,198)	129,960
Cash and cash equivalents at beginning of period	122,406	234,604	104,644
Cash and cash equivalents at end of period	$165,164	$122,406	$234,604
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest - net of amount capitalized	$167,642	$189,962	$187,918
Income taxes	$50,477	$285	$208
Noncash investing and financing activities:			
Change in unrealized appreciation of decommissioning trust assets	$3,939	$1,604	$2,121
Net assets acquired from Cajun settlement	$319,056	-	-

See Notes to Financial Statements.

ENTERGY GULF STATES, INC.
BALANCE SHEETS
ASSETS

	December 31, 1997	December 31, 1996
	(In Thousands)	
Current Assets:		
Cash and cash equivalents:		
Cash	$10,549	$6,573
Temporary cash investments - at cost, which approximates market:		
Associated companies	37,389	45,234
Other	117,226	70,599
Total cash and cash equivalents	165,164	122,406
Accounts receivable:		
Customer (less allowance for doubtful accounts of $1.8 million in 1997 and $2.0 million in 1996)	99,762	87,883
Associated companies	9,024	2,777
Other	32,837	30,758
Accrued unbilled revenues	74,825	75,351
Deferred fuel costs	145,757	99,503
Accumulated deferred income taxes	22,093	56,714
Fuel inventory - at average cost	37,627	45,009
Materials and supplies - at average cost	104,690	86,157
Rate deferrals	21,749	105,456
Prepayments and other	21,680	16,321
Total	735,208	728,335
Other Property and Investments:		
Decommissioning trust fund	187,462	41,983
Other - at cost (less accumulated depreciation)	176,953	38,358
Total	364,415	80,341
Utility Plant:		
Electric	7,168,668	7,040,654
Natural Gas	47,656	45,443
Steam products	82,289	81,743
Property under capital leases	67,946	72,800
Construction work in progress	90,333	112,137
Nuclear fuel under capital lease	54,390	49,833
Nuclear fuel	23,051	-
Total	7,534,333	7,402,610
Less - accumulated depreciation and amortization	2,996,147	2,827,275
Utility plant - net	4,538,186	4,575,335
Deferred Debits and Other Assets:		
Regulatory assets:		
Rate deferrals	98,410	120,158
SFAS 109 regulatory asset - net	376,275	372,817
Unamortized loss on reacquired debt	48,417	54,761
Other regulatory assets	86,819	87,429
Long-term receivables	36,984	216,082
Other	203,923	185,921
Total	850,828	1,037,168
TOTAL	$6,488,637	$6,421,179

See Notes to Financial Statements.

ENTERGY GULF STATES, INC.
BALANCE SHEETS
LIABILITIES AND SHAREHOLDER'S EQUITY

	December 31,	
	1997	1996
	(In Thousands)	
Current Liabilities:		
Currently maturing long-term debt	$190,890	$160,865
Accounts payable:		
Associated companies	48,726	55,630
Other	109,444	85,541
Customer deposits	30,311	25,572
Taxes accrued	48,318	36,147
Interest accrued	45,154	49,651
Nuclear refueling reserve	3,386	12,354
Obligations under capital leases	30,280	39,110
Other	17,646	18,186
Total	524,155	483,056
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	1,124,644	1,190,666
Accumulated deferred investment tax credits	215,438	219,188
Obligations under capital leases	92,055	83,524
Deferred River Bend finance charges	9,330	33,688
Other	914,079	539,752
Total	2,355,546	2,066,818
Long-term debt	1,702,719	1,915,346
Preferred stock with sinking fund	68,978	77,459
Preference stock	150,000	150,000
Company - obligated mandatorily redeemable preferred securities of subsidiary trust holding solely junior subordinated deferrable debentures	85,000	-
Shareholder's Equity:		
Preferred stock without sinking fund	51,444	136,444
Common stock, no par value, authorized 200,000,000 shares; issued and outstanding 100 shares	114,055	114,055
Additional paid-in capital	1,152,575	1,152,689
Retained earnings	284,165	325,312
Total	1,602,239	1,728,500
Commitments and Contingencies (Notes 2, 9 and 10)		
TOTAL	$6,488,637	$6,421,179

See Notes to Financial Statements.

ENTERGY GULF STATES, INC.
STATEMENTS OF RETAINED EARNINGS

	For the Years Ended December 31,		
	1997	1996	1995
	(In Thousands)		
Retained Earnings, January 1	$325,312	$357,704	$264,626
Add:			
Net income (loss)	59,976	(3,887)	122,919
Deduct:			
Dividends declared:			
Preferred and preference stock	21,862	28,336	29,482
Common stock	77,200	-	-
Preferred and preference stock redemption and other	2,061	169	359
Total	101,123	28,505	29,841
Retained Earnings, December 31 (Note 8)	$284,165	$325,312	$357,704

See Notes to Financial Statements.

ENTERGY GULF STATES, INC. AND SUBSIDIARIES

SELECTED FINANCIAL DATA - FIVE-YEAR COMPARISON

	1997	1996	1995	1994	1993
			(In Thousands)		
Operating revenues	$ 2,147,829	$2,019,181	$ 1,861,974	$1,797,365	$1,827,620
Net income (loss)	$ 59,976	$ (3,887)	$ 122,919	$ (82,755)	$ 69,461
Total assets	$ 6,488,637	$6,421,179	$ 6,861,058	$6,843,461	$7,137,351
Long-term obligations (1)	$ 2,098,752	$2,226,329	$ 2,521,203	$2,689,042	$2,772,002

(1) Includes long-term debt (excluding currently maturing debt), preferred and preference stock with sinking fund, preferred securities of subsidiary trust, and noncurrent capital lease obligations.

	1997	1996	1995	1994	1993
			(In Thousands)		
Electric Operating Revenues:					
Residential	$624,862	$612,398	$573,566	$569,997	$585,799
Commercial	452,724	444,133	412,601	414,929	415,267
Industrial	740,418	685,178	604,688	626,047	650,230
Governmental	33,774	31,023	25,042	25,242	26,118
Total retail	1,851,778	1,772,732	1,615,897	1,636,215	1,677,414
Sales for resale					
Associated companies	14,260	20,783	62,431	45,263	-
Non-associated companies	57,936	76,173	67,103	52,967	31,898
Other (1)	137,537	56,300	43,533	(15,244)	38,649
Total	$2,061,511	$1,925,988	$1,788,964	$1,719,201	$1,747,961
Billed Electric Energy Sales (GWH):					
Residential	8,178	8,035	7,699	7,351	7,192
Commercial	6,575	6,417	6,219	6,089	5,711
Industrial	18,038	16,661	15,393	15,026	14,294
Governmental	481	438	311	297	296
Total retail	33,272	31,551	29,622	28,763	27,493
Sales for resale					
Associated companies	414	656	2,935	1,866	-
Non-associated companies	1,503	2,148	2,212	1,650	666
Total Electric Department	35,189	34,355	34,769	32,279	28,159

(1) 1994 includes the effects of an Entergy Gulf States reserve for rate refund.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
Entergy Louisiana, Inc.

We have audited the accompanying balance sheets of Entergy Louisiana, Inc. (formerly Louisiana Power & Light Company) as of December 31, 1997 and 1996, and the related statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1997. 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 the Company as of December 31, 1997 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

COOPERS & LYBRAND L.L.P.

New Orleans, Louisiana
March 4, 1998

Net Income

Net income decreased in 1997 primarily due to a decrease in electric operating revenues and an increase in other operation and maintenance expenses, partially offset by lower income taxes.

Net income decreased in 1996 primarily due to a decrease in base rate revenues, partially offset by decreases in other operation and maintenance expenses and lower interest charges.

Significant factors affecting the results of operations and causing variances between the years 1997 and 1996, and between the years 1996 and 1995, are discussed under "**Revenues and Sales**", "**Expenses**", and "**Other**" below.

Revenues and Sales

See "**SELECTED FINANCIAL DATA - FIVE-YEAR COMPARISON**", following the financial statements, for information on operating revenues by source and KWH sales.

The changes in electric operating revenues for the twelve months ended December 31, 1997 and 1996 are as follows:

Description	Increase/(Decrease) 1997	1996
	(In Millions)	
Change in base revenues	($26.9)	($36.4)
Fuel cost recovery	29.7	160.2
Sales volume/weather	(23.8)	19.7
Other revenue (including unbilled)	-	3.9
Sales for resale	(4.6)	6.6
Total	($25.6)	$154.0

Electric operating revenues decreased in 1997 primarily as a result of a decrease in base revenues and lower sales volume, partially offset by higher fuel adjustment revenues, which do not affect net income. Base revenues decreased due to base rate reductions that became effective in the third quarters of 1996 and 1997. Sales volume decreased because of milder weather during the first half of 1997 and the loss of a large industrial customer as well as substantially lower sales to another large industrial customer in 1997 due to customer cogeneration. Fuel adjustment revenues increased due to shifting generation requirements as a result of the extended Waterford 3 refueling outage.

Electric operating revenues increased in 1996 due primarily to higher fuel adjustment revenues, which do not affect net income, and to higher sales volume, primarily due to modest growth in the number of customers. These increases were partially offset by the impact of base rate reductions ordered in the second quarters of 1995 and 1996, and by a settlement of related rate issues during the fourth quarter of 1995.

Expenses

Operating expenses increased in 1997 primarily due to increases in fuel and purchased power expenses and other operation and maintenance expenses. Fuel and purchased power expenses increased primarily due to shifting generation requirements resulting from the extended refueling outage at the Waterford 3 nuclear plant, partially offset by lower fuel prices. Other operation and maintenance expenses increased due primarily to the write-off of previously deferred radioactive waste facility costs. Also contributing to the increase in other operation and maintenance expenses were nonfueling outage related contract work at Waterford 3 as well as maintenance performed at Waterford 3 and expenses related to fire damage sustained at the Little Gypsy fossil plant in September 1997.

Operating expenses increased in 1996 primarily due to increases in fuel and purchased power expenses, higher depreciation, and higher taxes other than income taxes. These increases were partially offset by a decrease in other operation and maintenance expenses as a result of restructuring charges recorded in 1995 and by the recording of rate deferrals in 1996, as discussed below. The increase in fuel and purchased power expenses is due to both higher gas costs and higher sales volume. Depreciation expense increased due to capital improvements to transmission lines and substations and due to an increase in the depreciation rate associated with Waterford 3. Taxes other than income taxes increased largely as a result of the expiration of Waterford 3's local property tax exemption in December 1995. This increase was offset for the first six months of 1996 by the recording of the LPSC-approved rate deferral for these taxes as discussed in Note 2.

Other

Interest charges on long-term debt decreased for 1996 and 1997 due to the retirement and refinancing of higher-cost long-term debt.

The effective income tax rates for 1997, 1996, and 1995 were 41.1%, 38.3%, and 36.8%, respectively. The increase in 1997 is primarily due to decreased amortization of deferred income taxes on property fully depreciated for income tax purposes. The effective income tax rate for 1996 was relatively unchanged from 1995.

ENTERGY LOUISIANA, INC.
STATEMENTS OF INCOME

	For the Years Ended December 31,		
	1997	1996	1995
		(In Thousands)	
Operating Revenues	$1,803,272	$1,828,867	$1,674,875
Operating Expenses:			
Operation and maintenance:			
Fuel and fuel-related expenses	429,823	419,331	300,015
Purchased power	413,532	403,322	351,583
Nuclear refueling outage expenses	18,634	15,885	17,675
Other operation and maintenance	318,856	297,667	311,535
Depreciation, amortization, and decommissioning	172,035	167,779	161,023
Taxes other than income taxes	71,558	72,329	55,867
Other regulatory charges (credits)	5,505	(3,752)	-
Amortization of rate deferrals	5,749	19,860	28,422
Total	1,435,692	1,392,421	1,226,120
Operating Income	367,580	436,446	448,755
Other Income (Deductions):			
Allowance for equity funds used during construction	1,149	862	1,950
Miscellaneous - net	(517)	2,933	2,831
Total	632	3,795	4,781
Interest Charges:			
Interest on long-term debt	116,715	122,604	129,691
Other interest - net	5,885	6,938	7,210
Distributions on preferred securities of subsidiary trust	6,300	2,870	
Allowance for borrowed funds used during construction	(1,410)	(1,493)	(2,016)
Total	127,490	130,919	134,885
Income Before Income Taxes	240,722	309,322	318,651
Income Taxes	98,965	118,560	117,114
Net Income	141,757	190,762	201,537
Preferred Stock Dividend Requirements and Other	13,355	19,947	21,307
Earnings Applicable to Common Stock	$128,402	$170,815	$180,230

See Notes to Financial Statements.

ENTERGY LOUISIANA, INC.
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	1997	1996	1995
		(In Thousands)	
Operating Activities:			
Net income	$141,757	$190,762	$201,537
Noncash items included in net income:			
Amortization of rate deferrals	5,749	19,860	28,422
Other regulatory charges (credits)	5,505	(3,752)	-
Depreciation, amortization, and decommissioning	172,035	167,779	161,023
Deferred income taxes and investment tax credits	(15,456)	18,809	2,450
Allowance for equity funds used during construction	(1,149)	(862)	(1,950)
Changes in working capital:			
Receivables	2,445	(4,889)	(8,069)
Accounts payable	9,140	22,838	4,420
Taxes accrued	17,853	(11,222)	20,472
Interest accrued	(14,678)	5,047	1,215
Other working capital accounts	19,329	(26,831)	(16,993)
Decommissioning trust contributions and realized change in trust assets	(11,191)	(11,620)	(9,180)
Provision for estimated losses and reserves	3,986	3,240	(1,996)
Other	5,801	(17,488)	3,306
Net cash flow provided by operating activities	341,126	351,671	384,657
Investing Activities:			
Construction expenditures	(84,767)	(103,187)	(120,244)
Allowance for equity funds used during construction	1,149	862	1,950
Nuclear fuel purchases	(43,332)	-	(44,707)
Proceeds from sale/leaseback of nuclear fuel	43,332	-	47,293
Net cash flow used in investing activities	(83,618)	(102,325)	(115,708)
Financing Activities:			
Proceeds from the issuance of:			
First mortgage bonds	-	113,994	-
Other long-term debt	-	-	16,577
Preferred securities of subsidiary trust	-	67,795	-
Retirement of:			
First mortgage bonds	(34,000)	(130,000)	(75,000)
Other long-term debt	(288)	(270)	(308)
Redemption of preferred stock	(7,500)	(67,824)	(11,256)
Changes in short-term borrowings - net	(31,066)	(45,393)	49,305
Dividends paid:			
Common stock	(145,400)	(179,200)	(221,500)
Preferred stock	(13,251)	(19,072)	(21,115)
Net cash flow used in financing activities	(231,505)	(259,970)	(263,297)
Net increase (decrease) in cash and cash equivalents	26,003	(10,624)	5,652
Cash and cash equivalents at beginning of period	23,746	34,370	28,718
Cash and cash equivalents at end of period	$49,749	$23,746	$34,370
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest - net of amount capitalized	$132,199	$118,007	$128,485
Income taxes	$68,323	$125,924	$96,066
Noncash investing and financing activities:			
Acquisition of nuclear fuel	-	$32,685	-
Change in unrealized appreciation of decommissioning trust assets	$3,432	$301	$2,304

See Notes to Financial Statements.

ENTERGY LOUISIANA, INC.
BALANCE SHEETS
ASSETS

	December 31, 1997	December 31, 1996
	(In Thousands)	
Current Assets:		
Cash and cash equivalents:		
Cash	$5,148	$1,804
Temporary cash investments - at cost, which approximates market	44,601	21,942
Total cash and cash equivalents	49,749	23,746
Accounts receivable:		
Customer (less allowance for doubtful accounts of $1.2 million in 1997 and $1.4 million in 1996)	69,566	73,823
Associated companies	15,035	11,606
Other	7,441	7,053
Accrued unbilled revenues	61,874	63,879
Deferred fuel costs	-	18,347
Accumulated deferred income taxes	10,994	1,465
Materials and supplies - at average cost	82,850	78,449
Rate deferrals	-	5,749
Deferred nuclear refueling outage costs	27,176	5,300
Prepaid income tax	-	24,651
Prepayments and other	10,793	10,234
Total	335,478	324,302
Other Property and Investments:		
Nonutility property	22,525	22,525
Decommissioning trust fund	65,104	50,481
Investment in subsidiary companies - at equity	14,230	14,230
Total	101,859	87,236
Utility Plant:		
Electric	5,058,130	4,997,456
Property under capital leases	233,513	232,582
Construction work in progress	52,632	56,180
Nuclear fuel under capital lease	57,811	38,157
Nuclear fuel	1,560	34,191
Total	5,403,646	5,358,566
Less - accumulated depreciation and amortization	2,021,392	1,881,847
Utility plant - net	3,382,254	3,476,719
Deferred Debits and Other Assets:		
Regulatory assets:		
SFAS 109 regulatory asset - net	278,234	295,836
Unamortized loss on reacquired debt	33,468	37,552
Other regulatory assets	29,991	30,320
Other	14,116	27,313
Total	355,809	391,021
TOTAL	$4,175,400	$4,279,278

See Notes to Financial Statements.

ENTERGY LOUISIANA, INC.
BALANCE SHEETS
LIABILITIES AND SHAREHOLDER'S EQUITY

	December 31,	
	1997	1996
	(In Thousands)	
Current Liabilities:		
Currently maturing long-term debt	$35,300	$34,275
Notes payable - associated companies	-	31,066
Accounts payable:		
Associated companies	43,508	73,389
Other	95,886	89,550
Customer deposits	55,331	59,070
Taxes accrued	25,243	7,390
Interest accrued	34,571	49,249
Dividends declared	3,253	3,489
Deferred fuel costs	3,268	-
Obligations under capital leases	29,232	28,000
Other	8,578	4,940
Total	334,170	380,418
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	813,748	831,093
Accumulated deferred investment tax credits	134,276	139,899
Obligations under capital leases	28,579	10,156
Deferred interest - Waterford 3 lease obligation	17,799	16,809
Other	119,519	114,665
Total	1,113,921	1,112,622
Long-term debt	1,338,464	1,373,233
Preferred stock with sinking fund	85,000	92,500
Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely junior subordinated deferrable debentures	70,000	70,000
Shareholder's Equity:		
Preferred stock without sinking fund	100,500	100,500
Common stock, no par value, authorized 250,000,000 shares; issued and outstanding 165,173,180 shares	1,088,900	1,088,900
Capital stock expense and other	(2,321)	(2,659)
Retained earnings	46,766	63,764
Total	1,233,845	1,250,505
Commitments and Contingencies (Notes 2, 9 and 10)		
TOTAL	$4,175,400	$4,279,278

See Notes to Financial Statements.

ENTERGY LOUISIANA, INC.
STATEMENTS OF RETAINED EARNINGS

	For the Years Ended December 31,		
	1997	1996	1995
	(In Thousands)		
Retained Earnings, January 1	$63,764	$72,150	$113,420
Add:			
Net income	141,757	190,762	201,537
Deduct:			
Dividends declared:			
Preferred stock	13,016	17,412	20,775
Common stock	145,400	179,200	221,500
Capital stock expenses	339	2,536	532
Total	158,755	199,148	242,807
Retained Earnings, December 31 (Note 8)	$46,766	$63,764	$72,150

See Notes to Financial Statements.

ENTERGY LOUISIANA, INC.

SELECTED FINANCIAL DATA - FIVE-YEAR COMPARISON

	1997	1996	1995	1994	1993
			(In Thousands)		
Operating revenues	$1,803,272	$1,828,867	$1,674,875	$1,710,415	$1,731,541
Net income	$ 141,757	$ 190,762	$ 201,537	$ 213,839	$ 188,808
Total assets	$4,175,400	$4,279,278	$4,331,523	$4,435,439	$4,463,998
Long-term obligations (1)	$1,522,043	$1,545,889	$1,528,542	$1,530,558	$1,611,436

(1) Includes long-term debt (excluding currently maturing debt), preferred stock with sinking fund, preferred securities of subsidiary trust, and noncurrent capital lease obligations.

	1997	1996	1995	1994	1993
			(In Thousands)		
Electric Operating Revenues:					
Residential	$606,173	$609,308	$583,373	$577,084	$572,738
Commercial	379,131	374,515	353,582	358,672	345,254
Industrial	708,356	727,505	641,196	659,061	652,574
Governmental	34,171	33,621	31,616	31,679	29,723
Total retail	1,727,831	1,744,949	1,609,767	1,626,496	1,600,289
Sales for resale					
Associated companies	3,817	5,065	1,178	352	4,849
Non-associated companies	55,345	58,685	48,987	36,928	46,414
Other	16,279	20,168	14,943	46,639	79,989
Total	$1,803,272	$1,828,867	$1,674,875	$1,710,415	$1,731,541
Billed Electric Energy Sales (GWH):					
Residential	7,826	7,893	7,855	7,449	7,368
Commercial	4,906	4,846	4,786	4,631	4,435
Industrial	16,390	17,647	16,971	16,561	15,914
Governmental	460	457	439	423	398
Total retail	29,582	30,843	30,051	29,064	28,115
Sales for resale					
Associated companies	104	143	44	10	112
Non-associated companies	805	982	1,293	776	1,213
Total	30,491	31,968	31,388	29,850	29,440

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
Entergy Mississippi, Inc.

We have audited the accompanying balance sheets of Entergy Mississippi, Inc. (formerly Mississippi Power & Light Company) as of December 31, 1997 and 1996, and the related statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1997. 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 the Company as of December 31, 1997 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

COOPERS & LYBRAND L.L.P.

New Orleans, Louisiana
March 4, 1998

Net Income

Net income decreased in 1997 as a result of a decrease in electric operating revenues and an increase in other operation and maintenance expenses, partially offset by lower income taxes.

Net income increased in 1996 primarily due to reduced other operation and maintenance expenses, partially offset by higher income taxes.

Significant factors affecting the results of operations and causing variances between the years 1997 and 1996, and between the years 1996 and 1995, are discussed under "**Revenues and Sales**", "**Expenses**", and "**Other**" below.

Revenues and Sales

See "**SELECTED FINANCIAL DATA - FIVE-YEAR COMPARISON**", following the financial statements, for information on operating revenues by source and KWH sales.

The changes in electric operating revenues for the twelve months ended December 31, 1997 and 1996 are as follows:

Description	Increase/(Decrease) 1997	1996
	(In Millions)	
Change in base revenues	($7.7)	($2.2)
Grand Gulf rate rider	(19.0)	7.1
Fuel cost recovery	(14.5)	33.6
Sales volume/weather	3.8	8.5
Other revenue (including unbilled)	(1.6)	(2.1)
Sales for resale	18.0	23.7
Total	($21.0)	$68.6

Electric operating revenues decreased in 1997 primarily due to a decrease in the Grand Gulf 1 rate rider and fuel adjustment revenues, which do not affect net income, partially offset by an increase in sales for resale. In connection with an annual MPSC review, in October 1996, Entergy Mississippi's Grand Gulf 1 rate rider was decreased based on the estimate of costs over the next year. Therefore, Grand Gulf 1 rate rider revenues for 1997 were lower than those in 1996. The decrease in fuel adjustment revenues is due to an MPSC order, effective May 1, 1997, that changed fuel recovery pricing to a fixed fuel factor. Sales for resale increased because of an increase in sales to associated companies due to changes in generation requirements and availability among the domestic utility companies.

Electric operating revenues increased in 1996 primarily due to increases in fuel adjustment revenues, the Grand Gulf 1 rate rider, sales for resale, and higher sales volume. Fuel adjustment revenues increased in response to higher fuel costs. In connection with an annual MPSC review, in October 1995, Entergy Mississippi's Grand Gulf 1 rate rider was adjusted upward as a result of its undercollection of Grand Gulf 1 costs. The fuel adjustment clause and the Grand Gulf 1 rate rider do not affect net income. Sales for resale increased because of an increase in sales to associated companies due to changes in generation requirements and availability among the domestic utility companies. The increase in sales volume is primarily due to increased customer usage.

Expenses

Operating expenses increased in 1997 due to an increase in purchased power expenses and other operation and maintenance expenses, partially offset by decreases in fuel expense and net rate deferral activity. The increase in purchased power expenses in 1997 compared to 1996 is due both to the shift in use from higher priced fuel to lower priced purchased power and to an increase in generation and purchases related to increases in sales volume and sales for resale. The increase in other operation and maintenance expenses is due to increases in contract labor and loss reserves. Contract labor increased because of maintenance and plant outage expenses in 1997. Loss reserves expense increased as a result of increased litigation reserves.

The other regulatory credits reducing operating expenses in 1996 and 1997 principally represents the deferral of Entergy Mississippi's portion of the proposed System Entergy rate increase. See Note 2 for further discussion.

Operating expenses increased in 1996 due to an increase in fuel and purchased power expenses, partially offset by a decrease in other operation and maintenance expenses. Fuel and purchased power expenses increased as a result of higher fuel costs and higher sales volume. Other operation and maintenance expenses decreased as a result of lower payroll, contract work, and materials and supplies expenses. Payroll expenses decreased due to restructuring costs recorded in 1995 and the resulting decrease in employees. Contract work and materials and supplies expenses decreased because of the turbine repairs at some of Entergy Mississippi's generating plants in 1995.

Other

The effective income tax rates for 1997, 1996, and 1995 were 28.6%, 34.2%, and 33.7% respectively. The decrease in 1997 is primarily due to the impact of recording the tax benefit of Entergy Corporation's expenses as prescribed by the tax allocation agreement. The effective income tax rate for 1996 was relatively unchanged from 1995.

ENTERGY MISSISSIPPI, INC.
STATEMENTS OF INCOME

	For the Years Ended December 31,		
	1997	1996	1995
	(In Thousands)		
Operating Revenues	$937,395	$958,430	$889,843
Operating Expenses:			
Operation and maintenance:			
Fuel, fuel-related expenses	199,880	207,116	163,198
Purchased power	285,447	272,812	240,519
Other operation and maintenance	129,812	122,628	144,183
Depreciation and amortization	43,300	40,313	38,197
Taxes other than income taxes	43,142	43,389	46,019
Other regulatory charges (credits)	(20,731)	(23,026)	(6,965)
Amortization of rate deferrals	119,797	130,602	114,304
Total	800,647	793,834	739,455
Operating Income	136,748	164,596	150,388
Other Income:			
Allowance for equity funds used during construction	543	1,143	950
Miscellaneous - net	919	1,662	3,036
Total	1,462	2,805	3,986
Interest Charges:			
Interest on long-term debt	40,791	44,137	46,998
Other interest - net	4,483	3,870	4,638
Allowance for borrowed funds used during construction	(469)	(923)	(806)
Total	44,805	47,084	50,830
Income Before Income Taxes	93,405	120,317	103,544
Income Taxes	26,744	41,106	34,877
Net Income	66,661	79,211	68,667
Preferred Stock Dividend Requirements and Other	4,044	5,010	7,515
Earnings Applicable to Common Stock	$62,617	$74,201	$61,152

See Notes to Financial Statements.

ENTERGY MISSISSIPPI, INC.
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	1997	1996	1995
		(In Thousands)	
Operating Activities:			
Net income	$66,661	$79,211	$68,667
Noncash items included in net income:			
Amortization of rate deferrals	119,797	130,602	114,304
Other regulatory charges (credits)	(20,731)	(23,026)	(6,965)
Depreciation and amortization	43,300	40,313	38,197
Deferred income taxes and investment tax credits	(32,204)	(32,887)	(36,774)
Allowance for equity funds used during construction	(543)	(1,143)	(950)
Changes in working capital:			
Receivables	2,978	(4,123)	(5,277)
Fuel inventory	3,275	20	(1,901)
Accounts payable	(9,246)	88	15,553
Taxes accrued	5,832	(2,157)	7,818
Interest accrued	(6,600)	(925)	1,457
Other working capital accounts	(12,283)	4,074	(21,108)
Other	(1,150)	(8,081)	11,922
Net cash flow provided by operating activities	159,086	181,966	184,943
Investing Activities:			
Construction expenditures	(50,334)	(85,018)	(79,146)
Allowance for equity funds used during construction	543	1,143	950
Net cash flow used in investing activities	(49,791)	(83,875)	(78,196)
Financing Activities:			
Proceeds from the issuance of general and refunding mortgage bonds	64,827	-	79,480
Retirement of:			
General and refunding mortgage bonds	(96,000)	(26,000)	(45,000)
First mortgage bonds	-	(35,000)	(20,000)
Other long-term debt	(15)	(15)	(965)
Redemption of preferred stock	(14,500)	(9,876)	(15,000)
Changes in short-term borrowings - net	(3,091)	50,253	(30,000)
Dividends paid:			
Common stock	(59,200)	(79,900)	(61,700)
Preferred stock	(3,998)	(5,000)	(6,215)
Net cash flow used in financing activities	(111,977)	(105,538)	(99,400)
Net increase (decrease) in cash and cash equivalents	(2,682)	(7,447)	7,347
Cash and cash equivalents at beginning of period	9,498	16,945	9,598
Cash and cash equivalents at end of period	$6,816	$9,498	$16,945
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest - net of amount capitalized	$50,194	$46,769	$48,617
Income taxes	$51,598	$73,687	$67,746

See Notes to Financial Statements.

ENTERGY MISSISSIPPI, INC.
BALANCE SHEETS
ASSETS

	December 31,	
	1997	1996
	(In Thousands)	
Current Assets:		
Cash and cash equivalents:		
Cash	$6,816	$2,384
Special deposits	-	7,114
Total cash and cash equivalents	6,816	9,498
Accounts receivable:		
Customer (less allowance for doubtful accounts of $1 million in 1997 and $1.4 million and 1996)	36,636	44,809
Associated companies	6,842	4,382
Other	4,139	2,014
Accrued unbilled revenues	49,993	49,383
Fuel inventory - at average cost	3,386	6,661
Materials and supplies - at average cost	17,657	17,567
Rate deferrals	127,295	142,504
Prepayments and other	17,537	7,434
Total	270,301	284,252
Other Property and Investments:		
Investment in subsidiary companies - at equity	5,531	5,531
Other - at cost (less accumulated depreciation)	7,757	7,923
Total	13,288	13,454
Utility Plant:		
Electric	1,687,400	1,633,484
Construction work in progress	22,960	47,373
Total	1,710,360	1,680,857
Less - accumulated depreciation and amortization	656,828	635,754
Utility plant - net	1,053,532	1,045,103
Deferred Debits and Other Assets:		
Regulatory assets:		
Rate deferrals	-	104,588
SFAS 109 regulatory asset - net	22,993	11,813
Unamortized loss on reacquired debt	8,404	9,254
Other regulatory assets	64,827	46,309
Other	6,216	6,693
Total	102,440	178,657
TOTAL	$1,439,561	$1,521,466

See Notes to Financial Statements.

ENTERGY MISSISSIPPI, INC.
BALANCE SHEETS
LIABILITIES AND SHAREHOLDER'S EQUITY

	December 31,	
	1997	1996
	(In Thousands)	
Current Liabilities:		
Currently maturing long-term debt	$20	$96,015
Notes payable - associated companies	47,162	50,253
Accounts payable:		
Associated companies	36,057	32,878
Other	11,276	23,701
Customer deposits	24,084	26,258
Taxes accrued	32,314	26,482
Accumulated deferred income taxes	44,277	58,634
Interest accrued	14,309	20,909
Other	2,806	3,065
Total	212,305	338,195
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	244,464	249,522
Accumulated deferred investment tax credits	23,915	25,422
Other	15,892	19,445
Total	284,271	294,389
Long-term debt	464,156	399,054
Preferred stock with sinking fund	-	7,000
Shareholder's Equity:		
Preferred stock without sinking fund	50,381	57,881
Common stock, no par value, authorized 15,000,000 shares; issued and outstanding 8,666,357 shares	199,326	199,326
Capital stock expense and other	(59)	(143)
Retained earnings	229,181	225,764
Total	478,829	482,828
Commitments and Contingencies (Notes 2 and 9)		
TOTAL	$1,439,561	$1,521,466

See Notes to Financial Statements.

ENTERGY MISSISSIPPI, INC.
STATEMENTS OF RETAINED EARNINGS

	For the Years Ended December 31,		
	1997	1996	1995
	(In Thousands)		
Retained Earnings, January 1	$225,764	$231,463	$232,011
Add:			
Net income	66,661	79,211	68,667
Deduct:			
Dividends declared:			
Preferred stock	3,656	4,803	5,971
Common stock	59,200	79,900	61,700
Preferred stock expenses	388	207	1,544
Total	63,244	84,910	69,215
Retained Earnings, December 31 (Note 8)	$229,181	$225,764	$231,463

See Notes to Financial Statements.

ENTERGY MISSISSIPPI, INC.

SELECTED FINANCIAL DATA - FIVE-YEAR COMPARISON

	1997	1996	1995	1994	1993
			(In Thousands)		
Operating revenues	$ 937,395	$ 958,430	$ 889,843	$ 859,845	$ 883,818
Net Income	$ 66,661	$ 79,211	$ 68,667	$ 48,779	$ 69,037
Total assets	$1,439,561	$1,521,466	$1,581,983	$1,637,828	$1,681,992
Long-term obligations (1)	$ 464,156	$ 406,054	$ 511,613	$ 507,555	$ 563,612

(1) Includes long-term debt (excluding currently maturing debt) and preferred stock with sinking fund.

	1997	1996	1995	1994	1993
			(In Thousands)		
Electric Operating Revenues:					
Residential	$342,818	$358,264	$336,194	$332,567	$341,620
Commercial	274,195	281,626	262,786	257,154	251,285
Industrial	173,152	185,351	178,466	184,637	182,060
Governmental	26,882	29,093	27,410	27,495	28,530
Total retail	817,047	854,334	804,856	801,853	803,495
Sales for resale					
Associated companies	78,233	58,749	35,928	37,747	34,640
Non-associated companies	21,276	22,814	21,906	16,728	21,100
Other	20,839	22,533	27,153	3,517	24,583
Total	$937,395	$958,430	$889,843	$859,845	$883,818
Billed Electric Energy Sales (GWH):					
Residential	4,323	4,355	4,233	4,014	3,983
Commercial	3,673	3,508	3,368	3,151	2,928
Industrial	3,089	3,063	3,044	2,985	2,787
Governmental	333	346	336	330	336
Total retail	11,418	11,272	10,981	10,480	10,034
Sales for resale					
Associated companies	1,918	1,368	959	1,079	758
Non-associated companies	412	521	692	512	670
Total	13,748	13,161	12,632	12,071	11,462

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
Entergy New Orleans, Inc.

We have audited the accompanying balance sheets of Entergy New Orleans, Inc. (formerly New Orleans Public Service Inc.) as of December 31, 1997 and 1996, and the related statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1997. 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 the Company as of December 31, 1997 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

COOPERS & LYBRAND L.L.P.

New Orleans, Louisiana
March 4, 1998

Net Income

Net income decreased in 1997 primarily due to an increase in taxes other than income taxes, partially offset by lower income taxes.

Net income decreased in 1996 primarily due to the electric and gas rate refund recorded in December 1996, based on the Council's review of Entergy New Orleans' 1996 earnings. This decrease in net income was partially offset by reduced other operation and maintenance expenses.

Significant factors affecting the results of operations and causing variances between the years 1997 and 1996, and between the years 1996 and 1995, are discussed under "**Revenues and Sales**", "**Expenses**", and "**Other**" below.

Revenues and Sales

See "**SELECTED FINANCIAL DATA - FIVE-YEAR COMPARISON**", following the financial statements, for information on electric operating revenues by source and KWH sales.

The changes in electric operating revenues for the twelve months ended December 31, 1997 and 1996 are as follows:

Description	Increase/(Decrease) 1997	1996
	(In Millions)	
Change in base revenues	($13.6)	($8.5)
Fuel cost recovery	(2.2)	28.5
Sales volume/weather	(0.8)	(4.8)
Other revenue (including unbilled)	16.7	(1.4)
Sales for resale	6.8	(0.5)
Total	$6.9	$13.3

Electric operating revenues increased in 1997 primarily due to increases in other revenue and sales for resale, partially offset by a decrease in base revenues. Other revenue increased as a result of a rate refund recorded in 1996. Sales for resale increased as a result of an increase in electric sales to associated companies primarily due to changes in generation requirements and availability among the domestic utility companies. The decrease in base revenues is caused by 1996 and 1997 reductions in residential and commercial rates. Electric operating revenues increased in 1996 primarily due to higher fuel adjustment revenues, as a result of higher fuel prices, which do not affect net income. This increase was partially offset by a rate refund recorded in 1996, as discussed in "**Net Income**" above, and lower sales attributable to a significant reduction in electricity usage by a large industrial customer.

Gas operating revenues decreased in 1997 primarily due to lower gas prices. Gas operating revenues increased in 1996 primarily due to higher gas prices. This increase was partially offset by the rate refund recorded in 1996, as discussed in "**Net Income**" above.

Expenses

Operating expenses increased in 1997 due primarily to increases in taxes other than income taxes and lower other regulatory credits. These increases were partially offset by a decrease in total fuel expenses, including purchased power and gas purchased for resale. Taxes other than income taxes increased because of higher franchise taxes resulting from a December 1996 Council order increasing Entergy New Orleans' annual franchise fee from 2.5% to 5% of gross revenues. The decrease in other regulatory credits is primarily a result of the 1996 deferral of Entergy New Orleans' portion of the proposed System Energy rate increase. See Note 2 for further discussion. Fuel and purchased power expenses decreased in 1997 primarily due to a shift from higher priced purchased power to lower priced fuel.

Operating expenses increased in 1996 primarily due to higher fuel expenses, including purchased power and gas purchased for resale and increased amortization of rate deferrals, partially offset by an increase in other regulatory credits and a decrease in other operation and maintenance expenses. Fuel expenses, including gas purchased for resale, increased as a result of significantly higher unit prices. Purchased power increased due to changes in generation availability and requirements among the domestic utility companies. Other regulatory credits increased due to the deferral of a portion of the System Energy rate increase being billed to Entergy New Orleans, as discussed in Note 2. Other operation and maintenance expenses decreased primarily due to lower payroll expenses as a result of restructuring and reduced regulatory commission expenses.

Other

The effective income tax rates for 1997, 1996, and 1995 were 44.0%, 37.7%, and 37.3%, respectively. The increase in 1997 is primarily due to decreased amortization of deferred income taxes on property fully depreciated for federal income tax purposes. The effective income tax rate for 1996 was relatively unchanged from 1995.

ENTERGY NEW ORLEANS, INC.
STATEMENTS OF INCOME

	For the Years Ended December 31,		
	1997	1996	1995
		(In Thousands)	
Operating Revenues:			
Electric	$410,131	$403,254	$390,002
Natural gas	94,691	101,023	80,276
Total	504,822	504,277	470,278
Operating Expenses:			
Operation and maintenance:			
Fuel, fuel-related expenses, and gas purchased for resale	141,902	129,059	102,314
Purchased power	156,542	176,450	145,920
Other operation and maintenance	72,748	71,421	76,510
Depreciation and amortization	21,107	20,007	19,420
Taxes other than income taxes	38,964	27,388	27,805
Other regulatory charges (credits)	(6,394)	(13,543)	(3,985)
Amortization of rate deferrals	37,662	35,917	31,564
Total	462,531	446,699	399,548
Operating Income	42,291	57,578	70,730
Other Income (Deductions):			
Allowance for equity funds used during construction	380	321	[illegible]
Miscellaneous - net	(77)	1,146	1,639
Total	303	1,467	1,797
Interest Charges:			
Interest on long-term debt	13,918	15,268	15,948
Other interest - net	1,369	1,036	1,853
Allowance for borrowed funds used during construction	(286)	(252)	(127)
Total	15,001	16,052	17,674
Income Before Income Taxes	27,593	42,993	54,853
Income Taxes	12,142	16,217	20,467
Net Income	15,451	26,776	34,386
Preferred Stock Dividend Requirements and Other	965	965	1,411
Earnings Applicable to Common Stock	$14,486	$25,811	$32,975

See Notes to Financial Statements.

ENTERGY NEW ORLEANS, INC.
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	1997	1996	1995
		(In Thousands)	
Operating Activities:			
Net income	$15,451	$26,776	$34,386
Noncash items included in net income:			
Amortization of rate deferrals	37,662	35,917	31,564
Other regulatory charges (credits)	(6,394)	(13,543)	(3,985)
Depreciation and amortization	21,107	20,007	19,420
Deferred income taxes and investment tax credits	(1,957)	(12,274)	(1,998)
Allowance for equity funds used during construction	(380)	(321)	(158)
Changes in working capital:			
Receivables	(1,260)	832	(5,468)
Accounts payable	540	(5,638)	12,566
Taxes accrued	4,066	(4,350)	3,225
Interest accrued	(276)	214	(131)
Income tax refund	-	-	20,172
Other working capital accounts	(18,148)	(5,216)	(4,803)
Other	(1,823)	1,602	(5,515)
Net cash flow provided by operating activities	48,588	44,006	99,275
Investing Activities:			
Construction expenditures	(16,137)	(27,956)	(27,836)
Allowance for equity funds used during construction	380	321	158
Net cash flow used in investing activities	(15,757)	(27,635)	(27,678)
Financing Activities:			
Proceeds from the issuance of general and refunding mortgage bonds	-	39,608	29,805
Retirement of:			
First mortgage bonds	(12,000)	(23,250)	-
General and refunding mortgage bonds	-	(30,000)	(24,200)
Redemption of preferred stock	-	-	(3,525)
Dividends paid:			
Common stock	(26,000)	(34,000)	(30,600)
Preferred stock	(965)	(965)	(1,362)
Net cash flow used in financing activities	(38,965)	(48,607)	(29,882)
Net increase (decrease) in cash and cash equivalents	(6,134)	(32,236)	41,715
Cash and cash equivalents at beginning of period	17,510	49,746	8,031
Cash and cash equivalents at end of period	$11,376	$17,510	$49,746
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest - net of amount capitalized	$14,951	$15,357	$17,187
Income taxes - net	$10,981	$31,870	($941)

See Notes to Financial Statements.

ENTERGY NEW ORLEANS, INC.
BALANCE SHEETS
ASSETS

	December 31, 1997	December 31, 1996
	(In Thousands)	
Current Assets:		
Cash and cash equivalents:		
Cash	$4,321	$1,015
Temporary cash investments - at cost, which approximates market:		
Associated companies	1,918	7,435
Other	5,137	9,060
Total cash and cash equivalents	11,376	17,510
Accounts receivable:		
Customer (less allowance for doubtful accounts of $0.7 million in 1997 and 1996)	26,913	27,430
Associated companies	1,081	714
Other	4,155	1,764
Accrued unbilled revenues	16,083	17,064
Deferred electric fuel and resale gas costs	9,384	7,290
Materials and supplies - at average cost	9,389	9,904
Rate deferrals	35,336	37,692
Prepayments and other	6,087	7,157
Total	119,804	126,525
Other Property and Investments:		
Investment in subsidiary companies - at equity	3,259	3,259
Utility Plant:		
Electric	508,338	503,061
Natural gas	122,308	122,700
Construction work in progress	19,184	18,247
Total	649,830	644,008
Less - accumulated depreciation and amortization	355,854	347,790
Utility plant - net	293,976	296,218
Deferred Debits and Other Assets:		
Regulatory assets:		
Rate deferrals	64,192	99,498
SFAS 109 regulatory asset - net	1,202	6,051
Unamortized loss on reacquired debt	1,435	1,647
Other regulatory assets	13,392	15,908
Other	890	890
Total	81,111	123,994
TOTAL	$498,150	$549,996

See Notes to Financial Statements.

ENTERGY NEW ORLEANS, INC.
BALANCE SHEETS
LIABILITIES AND SHAREHOLDER'S EQUITY

	December 31,	
	1997	1996
	(In Thousands)	
Current Liabilities:		
Currently maturing long-term debt	$-	$12,000
Accounts payable:		
Associated companies	15,922	18,757
Other	17,505	14,130
Customer deposits	16,982	18,974
Taxes accrued	5,270	1,204
Accumulated deferred income taxes	11,544	5,584
Interest accrued	5,049	5,325
Provision for rate refund	3,108	19,465
Other	2,231	1,521
Total	77,611	96,960
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	61,000	72,895
Accumulated deferred investment tax credits	7,396	7,984
Accumulated provision for property insurance	15,487	15,666
Other	16,327	24,713
Total	100,210	121,258
Long-term debt	168,953	168,888
Shareholder's Equity:		
Preferred stock without sinking fund	19,780	19,780
Common Shareholder's Equity:		
Common stock, $4 par value, authorized 10,000,000 shares; issued and outstanding 8,435,900 shares	33,744	33,744
Additional paid-in capital	36,294	36,294
Retained earnings subsequent to the elimination of the accumulated deficit on November 30, 1988	61,558	73,072
Total	151,376	162,890
Commitments and Contingencies (Notes 2 and 9)		
TOTAL	$498,150	$549,996

See Notes to Financial Statements.

ENTERGY NEW ORLEANS, INC.
STATEMENTS OF RETAINED EARNINGS

	For the Years Ended December 31,		
	1997	1996	1995
	(In Thousands)		
Retained Earnings, January 1	$73,072	$81,261	$78,886
Add:			
Net income	15,451	26,776	34,386
Deduct:			
Dividends declared:			
Preferred stock	965	965	1,231
Common stock	26,000	34,000	30,600
Capital stock expenses	-	-	180
Total	26,965	34,965	32,011
Retained Earnings, December 31 (Note 8)	$61,558	$73,072	$81,261

See Notes to Financial Statements.

ENTERGY NEW ORLEANS, INC.

SELECTED FINANCIAL DATA - FIVE-YEAR COMPARISON

	1997	1996	1995	1994	1993
			(In Thousands)		
Operating revenues	$ 504,822	$ 504,277	$ 470,278	$ 447,787	$ 514,822
Net Income	$ 15,451	$ 26,776	$ 34,386	$ 13,211	$ 36,761
Total assets	$ 498,150	$ 549,996	$ 596,206	$ 592,894	$ 647,605
Long-term obligations (1)	$ 168,953	$ 168,888	$ 155,958	$ 167,610	$ 193,262

(1) Includes long-term debt (excluding currently maturing debt).

	1997	1996	1995	1994	1993
			(In Thousands)		
Electric Operating Revenues:					
Residential	$145,688	$151,577	$141,353	$142,013	$151,423
Commercial	143,113	149,649	144,374	162,410	167,788
Industrial	24,616	24,663	22,842	25,422	26,205
Governmental	58,746	58,561	52,880	58,726	61,548
Total retail	372,163	384,450	361,449	388,571	406,964
Sales for resale					
Associated companies	10,342	2,649	3,217	2,061	2,487
Non-associated companies	8,996	9,882	9,864	7,512	9,291
Other (1)	18,630	6,273	15,472	(37,714)	5,088
Total	$410,131	$403,254	$390,002	$360,430	$423,830
Billed Electric Energy Sales (GWH):					
Residential	1,971	1,998	2,049	1,896	1,914
Commercial	2,072	2,073	2,079	2,031	1,989
Industrial	484	481	537	518	499
Governmental	994	974	983	951	924
Total retail	5,521	5,526	5,648	5,396	5,326
Sales for resale					
Associated companies	316	66	149	92	89
Non-associated companies	160	212	297	202	262
Total	5,997	5,804	6,094	5,690	5,677

(1) 1994 includes the effects of the 1994 NOPSI Settlement.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholder of
System Energy Resources, Inc.

We have audited the accompanying balance sheets of System Energy Resources, Inc. as of December 31, 1997 and 1996, and the related statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1997. 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 the Company as of December 31, 1997 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 1996 the Company changed its method of accounting for incremental nuclear plant outage maintenance costs.

COOPERS & LYBRAND L.L.P.

New Orleans, Louisiana
March 4, 1998

RESULTS OF OPERATIONS

Net Income

Net income increased slightly in 1997 and 1996 primarily due to lower interest charges attributed to the refinancing of higher-cost debt.

Significant factors affecting the results of operations and causing variances between the years 1997 and 1996, and between the years 1996 and 1995, are discussed under "**Revenues**", "**Expenses**", and "**Other**" below.

Revenues

Operating revenues recover operating expenses, depreciation, and capital costs attributable to Grand Gulf 1. Capital costs are computed by allowing a return on System Energy's common equity funds allocable to its net investment in Grand Gulf 1 and adding to such amount System Energy's effective interest cost for its debt allocable to its investment in Grand Gulf 1. See Note 2 herein for a discussion of System Energy's proposed rate increase.

Expenses

Operating expenses increased in 1997 due to higher nuclear refueling outage expenses and higher depreciation, amortization, and decommissioning expenses. Nuclear refueling outage expenses increased due to costs that were deferred from the November 1996 outage, which are now being amortized over an 18-month period that began in December 1996. Prior to this outage, such costs were expensed as incurred and no such expenses were incurred in 1996. The increase in depreciation, amortization, and decommissioning expense is due to the reduction of the regulatory asset set up to defer the depreciation associated with the sale and leaseback in 1989 of a portion of Grand Gulf 1. The depreciation was deferred to match the collection of lease principal and revenues with the depreciation of the asset. Grand Gulf 1 was on-line for 365 days in 1997 as compared to 322 days in 1996.

Operating expenses increased in 1996 due primarily to increases in other operation and maintenance expenses, and depreciation, amortization, and decommissioning expenses. Other operation and maintenance expenses increased primarily because of higher waste disposal costs and medical benefit charges for the year. The increase in decommissioning costs and depreciation rates is reflected in the 1995 System Energy FERC rate increase filing, subject to refund (see Note 2). These increases were partially offset by a decrease in nuclear refueling outage expenses. The decrease in nuclear outage expenses was primarily due to the effect of deferring the nuclear refueling outage expenses in the fourth quarter of 1996 rather than recognizing those expenses as incurred (see Note 1). Grand Gulf 1 was on-line for 322 days in 1996 as compared with 285 days in 1995. The increase in the on-line days was primarily due to the unit's shorter eighth refueling outage that lasted from October 19, 1996 to November 30, 1996 (41 days), compared to a 68-day outage in 1995, and to a lesser extent, unplanned outages in 1996 totaling 3 days, compared to 12 days for 1995.

Other

Interest charges decreased in both 1997 and in 1996 due primarily to the retirement and refinancing of higher-cost long-term debt.

The effective income tax rates in 1997, 1996, and 1995 were 42.2%, 45.4%, and 44.8%, respectively. The decrease in 1997 is primarily due to the impact of recording the tax benefit of Entergy Corporation's expenses as prescribed by the tax allocation agreement. The effective income tax rate for 1996 was relatively unchanged from 1995.

SYSTEM ENERGY RESOURCES, INC.
STATEMENTS OF INCOME

	For the Years Ended December 31,		
	1997	1996	1995
		(In Thousands)	
Operating Revenues	$633,698	$623,620	$605,639
Operating Expenses:			
Operation and maintenance:			
Fuel and fuel-related expenses	48,475	43,761	40,262
Nuclear refueling outage expenses	16,425	1,239	24,935
Other operation and maintenance	101,269	105,453	98,441
Depreciation, amortization, and decommissioning	147,859	128,474	100,747
Taxes other than income taxes	26,477	27,654	27,549
Total	340,505	306,581	291,934
Operating Income	293,193	317,039	313,705
Other Income:			
Allowance for equity funds used during construction	2,209	1,122	1,878
Miscellaneous - net	8,517	5,234	2,492
Total	10,726	6,356	4,370
Interest Charges:			
Interest on long-term debt	121,633	135,376	143,020
Other interest - net	7,020	8,344	8,491
Allowance for borrowed funds used during construction	(1,683)	(1,114)	(1,968)
Total	126,970	142,606	149,543
Income Before Income Taxes	176,949	180,789	168,532
Income Taxes	74,654	82,121	75,493
Net Income	$102,295	$98,668	$93,039

See Notes to Financial Statements.

SYSTEM ENERGY RESOURCES, INC.
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	1997	1996	1995
		(In Thousands)	
Operating Activities:			
Net income	$102,295	$98,668	$93,039
Noncash items included in net income:			
Depreciation, amortization, and decommissioning	147,859	128,474	100,747
Deferred income taxes and investment tax credits	(39,370)	48,975	(45,337)
Allowance for equity funds used during construction	(2,209)	(1,122)	(1,878)
Changes in working capital:			
Receivables	(9,543)	3,436	(66,433)
Accounts payable	11,172	560	(18,955)
Taxes accrued	7,852	(4,825)	37,266
Interest accrued	8,127	(2,548)	(4,053)
Other working capital accounts	19,054	(13,430)	(21,874)
Decommissioning trust contributions and realized change in trust assets	(22,452)	(21,366)	(7,507)
FERC Settlement - refund obligation	(4,539)	(4,009)	(3,540)
Provision for estimated losses and reserves	43,216	46,919	3,167
Other	16,684	7,125	31,818
Net cash flow provided by operating activities	278,146	286,857	96,460
Investing Activities:			
Construction expenditures	(35,141)	(29,469)	(21,747)
Allowance for equity funds used during construction	2,209	1,122	1,878
Nuclear fuel purchases	(16,524)	(44,704)	(51,455)
Proceeds from sale/leaseback of nuclear fuel	16,524	43,971	52,188
Net cash flow used in investing activities	(32,932)	(29,080)	(19,136)
Financing Activities:			
Proceeds from the issuance of:			
First mortgage bonds	-	233,656	-
Other long-term debt	-	133,933	73,343
Retirement of:			
First mortgage bonds	(10,000)	(325,101)	(105,000)
Other long-term debt	(7,319)	(92,700)	(45,320)
Changes in short-term borrowings - net	-	(2,990)	2,990
Common stock dividends paid	(113,800)	(112,500)	(92,800)
Net cash flow used in financing activities	(131,119)	(165,702)	(166,787)
Net increase (decrease) in cash and cash equivalents	114,095	92,075	(89,463)
Cash and cash equivalents at beginning of period	92,315	240	89,703
Cash and cash equivalents at end of period	$206,410	$92,315	$240
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest - net of amount capitalized	$103,684	$138,483	$147,492
Income taxes	$105,621	$36,397	$87,016
Noncash investing and financing activities:			
Change in unrealized appreciation (depreciation) of decommissioning trust assets	$1,237	($70)	$3,061

See Notes to Financial Statements.

SYSTEM ENERGY RESOURCES, INC.
BALANCE SHEETS
ASSETS

	December 31, 1997	December 31, 1996
	(In Thousands)	
Current Assets:		
Cash and cash equivalents:		
Cash	$792	$26
Temporary cash investments - at cost, which approximates market:		
Associated companies	55,891	41,600
Other	149,727	50,689
Total cash and cash equivalents	206,410	92,315
Accounts receivable:		
Associated companies	79,262	71,337
Other	4,140	2,522
Materials and supplies - at average cost	63,782	66,302
Deferred nuclear refueling outage costs	7,777	24,005
Prepayments and other	3,658	4,929
Total	365,029	261,410
Other Property and Investments:		
Decommissioning trust fund	85,912	62,223
Utility Plant:		
Electric	3,025,389	2,994,445
Electric plant under leases	440,970	447,409
Construction work in progress	36,445	41,362
Nuclear fuel under capital lease	64,190	83,558
Total	3,566,994	3,566,774
Less - accumulated depreciation and amortization	1,086,820	974,472
Utility plant - net	2,480,174	2,592,302
Deferred Debits and Other Assets:		
Regulatory assets:		
SFAS 109 regulatory asset - net	243,027	264,758
Unamortized loss on reacquired debt	51,386	57,785
Other regulatory assets	192,290	207,214
Other	14,213	15,601
Total	500,916	545,358
TOTAL	$3,432,031	$3,461,293

See Notes to Financial Statements.

SYSTEM ENERGY RESOURCES, INC.
BALANCE SHEETS
LIABILITIES AND SHAREHOLDER'S EQUITY

	December 31,	
	1997	1996
	(In Thousands)	
Current Liabilities:		
Currently maturing long-term debt	$70,000	$10,000
Accounts payable:		
Associated companies	29,131	18,245
Other	19,122	18,836
Taxes accrued	75,675	67,823
Interest accrued	42,322	34,195
Obligations under capital leases	41,977	28,000
Other	1,341	2,306
Total	279,568	179,405
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	562,051	624,020
Accumulated deferred investment tax credits	100,171	103,647
Obligations under capital leases	22,213	55,558
FERC Settlement - refund obligation	48,300	52,839
Other	227,847	165,517
Total	960,582	1,001,581
Long-term debt	1,341,948	1,418,869
Common Shareholder's Equity:		
Common stock, no par value, authorized 1,000,000 shares; issued and outstanding 789,350 shares	789,350	789,350
Retained earnings	60,583	72,088
Total	849,933	861,438
Commitments and Contingencies (Notes 2, 9 and 10)		
TOTAL	$3,432,031	$3,461,293

See Notes to Financial Statements.

SYSTEM ENERGY RESOURCES, INC.
STATEMENTS OF RETAINED EARNINGS

	For the Years Ended December 31,		
	1997	1996	1995
	(In Thousands)		
Retained Earnings, January 1	$72,088	$85,920	$85,681
Add:			
Net income	102,295	98,668	93,039
Deduct:			
Dividends declared	113,800	112,500	92,800
Retained Earnings, December 31 (Note 8)	$60,583	$72,088	$85,920

See Notes to Financial Statements.

SYSTEM ENERGY RESOURCES, INC.

SELECTED FINANCIAL DATA - FIVE-YEAR COMPARISON

	1997	1996	1995	1994	1993
			(In Thousands)		
Operating revenues	$ 633,698	$ 623,620	$ 605,639	$ 474,963	$ 650,768
Net income	$ 102,295	$ 98,668	$ 93,039	$ 5,407	$ 93,927
Total assets	$3,432,031	$3,461,293	$3,431,012	$3,613,359	$3,891,066
Long-term obligations (1)	$1,364,161	$1,474,427	$1,264,024	$1,456,993	$1,536,593
Electric energy sales (GWH)	9,735	8,302	7,212	8,653	7,113

(1) Includes long-term debt (excluding current maturities) and noncurrent capital lease obligations.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
Entergy London Investments plc

We have audited the accompanying consolidated balance sheet of Entergy London Investments plc and Subsidiary as of December 31, 1997, and the related consolidated statements of loss, retained earnings and cash flows for the year ended December 31, 1997. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Entergy London Investments plc and Subsidiary as of December 31, 1997, and the results of their operations and their cash flows for the year ended December 31, 1997 in conformity with generally accepted accounting principles.

COOPERS & LYBRAND L.L.P.

New Orleans, Louisiana
March 4, 1998

Background

Entergy London (formerly Entergy Power UK plc) was incorporated as a public limited company under the laws of England and Wales in October 1996, as a vehicle for the acquisition of London Electricity. In February 1997, Entergy London gained effective control of London Electricity, having acquired over 90% of its shares. In May 1997, Entergy London acquired the remaining shares of London Electricity. Total consideration for the acquisition was approximately $2.0 billion, based on the exchange rate at the time of the acquisition. Entergy London's sole significant asset is the stock of London Electricity. Entergy London has no operations outside of its investment in London Electricity.

Accounting for the Acquisition

Entergy London's acquisition of London Electricity effective February 1, 1997 was accounted for as a purchase in accordance with US GAAP. Accordingly, the results of operations of London Electricity have been consolidated into the results of operations for Entergy London beginning on such date. In accordance with the purchase method of accounting, Entergy London has allocated the price paid for London Electricity to London Electricity's assets and liabilities based on their estimated fair market values with the remainder allocated to London Electricity's distribution license which represents an other identifiable intangible asset. The assets and liabilities acquired as of February 1, 1997 were as follows (in millions):

Current assets	$ 518.2
Network assets	2,134.3
Other long term assets	1,601.2
Current liabilities	(614.8)
Long term debt	(333.9)
Other long term liabilities	(1,285.9)
Total purchase price	$ 2,019.1

The principal adjustments to London Electricity's historical cost of its assets and liabilities include: (a) increase in the value of network assets ($782.9 million); (b) increase in pension asset for defined benefit pension plan under US GAAP ($108.6 million); (c) recordation of distribution license ($1,335.8 million); and (d) recordation of liability for unfavorable long term contracts ($159.4 million). Additionally, the Company provided for the deferred income tax effect of these adjustments at a rate of 33%, which is included in other long term liabilities. Entergy London is amortizing the adjustments for network assets and the distribution license over estimated useful lives of 40 years and the adjustment for unfavorable long term contracts over their remaining lives ranging from 14 to 18 years. Entergy London's asset recorded for the defined benefit pension plan will be increased or decreased on a prospective basis based on future actuarial studies of the plan's projected benefit obligation and fair value of pension plan assets. The liability for unfavorable long term contracts is based on the estimated fair market value of these contracts over the present value of the future cash flows under the contracts at the applicable discount rates and prices. Although amortization of the liability for unfavorable long-term contracts will reduce the expense related to these contracts, it will not impact Entergy London's actual payments or cash flow obligations.

London Electricity has utilized a portion of the pension plan surplus to increase benefits to members and reduce employer and employee contributions. A recent court ruling in the UK upheld such uses of pension surplus. However, the decision is under appeal and should the decision be reversed on appeal, Entergy London could be required to repay pension surplus utilized and recompute Entergy London's prepaid pension asset, which was $241 million at December 31, 1997.

Results of Operations - Successor Company

The following discussion compares the results of operations for the year ended December 31, 1997 for Entergy London with the results of operations of London Electricity for the ten month period ended January 31, 1997 (London Electricity's fiscal year ended on March 31, prior to its acquisition). The year ended December 31, 1997 for Entergy London includes eleven months results for London Electricity due to its acquisition on February 1, 1997. Periods prior to February 1, are included for comparative purposes, however, they do not include the effects of acquisition adjustments described above under "**Accounting for the Acquisition**".

Operating Income

Operating income was $187 million for the year ended December 31, 1997 which included London Electricity for the eleven month period from February 1, 1997 through December 31, 1997. This represented an increase of $18 million compared to the historical London Electricity results for the ten month period from April 1, 1996 through January 31, 1997. This increase was due principally to higher revenue from an additional month's results of operations in the later period and restructuring charges of $19 million during the earlier period. Partially offsetting this were increases of $59 million in depreciation and amortization expense due principally to acquisition adjustments and $17 million in other operation and maintenance costs. The above variances were all impacted by an increase in the US dollar to BPS average exchange rate from 1.58 to 1.00 in the ten month period from April 1, 1996 through January 31, 1997 to 1.64 to 1.00 for the eleven month period ending December 31, 1997.

Operating income by segments for the year ended December 31, 1997 was $141 million, $15 million, and $31 million for the distribution, supply, and other segments, respectively. Income (loss) from those segments for the ten month period from April 1, 1996 through January 31, 1997 was $159 million, $(1) million, and $11 million, respectively.

The decrease in distribution operating income was principally due to additional depreciation and amortization expense of $59 million in the later period attributable to acquisition adjustments for fixed assets and the distribution license based on 40-year useful lives partially offset by one additional month of operations in the later period. Increases in the supply and other segments are due principally to one additional month of operations in the later period and improved margins in the non-Franchise supply market and one-time charges in the period ending January 31, 1997 relating to the disposal of certain subsidiaries and associated undertakings.

Net Income

Net income decreased by $245 million, from $98 million during the period from April 1, 1996 to January 31, 1997, to a loss of $147 million for the year ended December 31, 1997. The net loss for the later period includes a one-time charge of $234 million (reflected in income taxes) for the windfall profits tax enacted by the UK government in July 1997. The windfall profits tax is not deductible for UK corporation tax purposes. This charge was partially offset by a reduction of $65 million in the Company's deferred income tax liability, in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," due to the UK government also reducing the UK corporation tax rate from 33% to 31%, effective April 1, 1997. Acquisition related adjustments including increased depreciation and amortization of approximately $59 million ($41 million after tax effect) and increased interest expense, principally on acquisition debt, of approximately $152 million ($105 million after tax effect) also contributed to the reduction in net income. The increase in operating income of $18 million ($12 million after tax effect) and an increase in interest and dividend income of $17 million ($12 million after tax effect) partially offset the above impacts.

Revenues

Operating revenues increased by $82 million (5%) from $1,765 million during the ten month period from April 1, 1996 to January 31, 1997 to $1,847 million for the year ended December 31, 1997, as follows:

	Operating Revenues Increase (Decrease) from ten-month Period from April 1, 1996 through January 31, 1997 to the year ended December 31, 1997 (In millions)
Electricity distribution	$ 64
Electricity supply	26
Other	(4)
Intra-business	(4)
Total operating revenues	$ 82

Two principal factors determine the amount of revenues produced by the main electricity distribution business: the unit price of the electricity distributed (which is controlled by the Distribution Price Control Formula) and the number of electricity units distributed which depends on the demand of London Electricity's customers for electricity within its Franchise Area. Demand varies based upon weather conditions and economic activity. Following London Electricity's regulatory distribution price review in 1994, London Electricity's allowable expected distribution revenues were reduced by 14%, during the fiscal year ended March 31, 1996. Subsequently, the Regulator announced a further allowed distribution price reduction of 11% beginning April 1, 1996, and an additional 3%, beginning April 1, 1997. These price reductions have reduced and will continue to reduce London Electricity's distribution revenues.

Revenues from the distribution business increased by $64 million (15%) from $435 million for the ten month period from April 1, 1996 to January 31, 1997 to $499 million for the year ended December 31, 1997, principally due to an 11% increase in units distributed as a result of there being eleven months of London Electricity operations in the year ended December 31, 1997 compared to only ten months in the earlier period. Also contributing to the total increase was the increase in the U.S. dollars to BPS exchange rate during the year ended December 31, 1997.

Two principal factors determine the amount of revenues produced by the supply business: the unit price of the electricity supplied (which, in the case of the franchise supply customers, is controlled by the Supply Price Control Formula) and the number of electricity units supplied. London Electricity is expected to have the exclusive right to supply all franchise supply customers in its Franchise Area until late 1998.

Franchise supply customers, who are generally residential and small commercial customers, comprised 56% of total sales volume for the February 1, 1997 through December 31, 1997 period of London Electricity's inclusion in Entergy London's 1997 results of operations. The volume of unit sales of electricity for franchise supply customers is influenced largely by the number of customers in London Electricity's Franchise Area, weather conditions and prevailing economic conditions. Unit sales to non-franchise supply customers, who are typically large commercial and industrial businesses, constituted 44% of total sales volume for the period from February 1, 1997

through December 31, 1997. Sales to non-franchise supply customers are determined primarily by the success of the supply business in contracting to supply customers with electricity who are located both inside and outside London Electricity's Franchise Area.

During the February 1, 1997 through December 31, 1997 period that London Electricity was included in Entergy London's 1997 results of operations, the number of electricity units supplied increased by 5% while total revenues produced by the supply business increased by 2% ($26 million) to $1,689 million from $1,663 million for the ten month period from April 1, 1996 to January 31, 1997. While volume increased for both Franchise Supply Customers and Non-Franchise Supply Customers due to the additional month included in the later period, this was partially offset by lower average unit prices for both customer categories. Reductions in prices for Franchise Supply Customers are due primarily to pass-through of reduced costs of purchased power. Reductions in prices for Non-Franchise Supply Customers are due primarily to competitive pressures in this market as purchased power costs decline.

Other revenues for the February 1, 1997 through December 31, 1997 period that London Electricity was included in Entergy London's 1997 results of operations were $103 million, a decrease of $4 million compared to the ten month period from April 1, 1996 to January 31, 1997. This was due principally to reduced revenues in the contracting business and the exclusion of revenues from subsidiaries disposed of in the period ending January 31, 1997.

Expenses

Operating expenses increased by $64 million (4%) from $1,596 million in the ten month period from April 1, 1996 to January 31, 1997 to $1,660 million in the February 1, 1997 through December 31, 1997 period that London Electricity was included in Entergy London's 1997 results of operations. This increase was due principally to one additional month's operations in the later period and to increases of $59 million in depreciation and amortization expense related to the acquisition adjustments for fixed assets and distribution license based on 40-year useful lives and of $17 million in other operation and maintenance costs. These increases were partially offset by restructuring charges of $19 million during the earlier period and a decrease in purchase power costs due to a decline in the average purchase price per unit which was offset by an increase in the exchange rate. Also contributing to the total increase was the increase in the U.S. dollars to BPS exchange rate during the year ended December 31, 1997.

Other

Interest Expense, Net

Interest expense, net increased by $152 million from $27 million during the ten month period from April 1, 1996 to January 31, 1997 to $179 million for the year ended December 31, 1997. This increase was principally as a result of the financing costs associated with the debt facilities entered into to finance the acquisition of London Electricity, effective February 1, 1997.

Income Taxes

Entergy London's effective income tax rate was approximately 596% and 34% for the year ended December 31, 1997, and for the ten month period from April 1, 1996 to January 31, 1997, respectively. The effective rate in the 1997 period was affected by the recording of a one-time charge of $234 million during the year ended December 31, 1997 for the windfall profits tax enacted by the UK government in July 1997 and the non-deductibility, for UK corporation tax purposes, of this charge. This impact was partially offset by the $65 million favorable impact of the reduction in the UK corporation tax rate from 33% to 31%, as discussed above.

Entergy London's 34% effective income tax rate for the ten month period from April 1, 1996 to January 31, 1997, approximated the statutory rate of 33%.

ENTERGY LONDON INVESTMENTS PLC AND SUBSIDIARY
CONSOLIDATED STATEMENT OF LOSS

	For the Year Ended December 31, 1997 (In Thousands)
Operating Revenues	$1,847,042
Operating Expenses:	
Purchased power	1,222,034
Depreciation and amortization	121,365
Other operation and maintenance costs	316,833
Total	1,660,232
Operating Income	186,810
Other income (deductions):	
Interest and dividend income	22,328
Miscellaneous - net	(803)
Total	21,525
Interest Charges:	
Distributions on preferred securities of subsidiaries	3,019
Other interest - net	175,628
Total	178,647
Income Before Income Taxes	29,688
Income tax expense	177,023
Net Loss	($147,335)

See Notes to Financial Statements.

ENTERGY LONDON INVESTMENTS PLC AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS

	For the Year Ended December 31, 1997 (In Thousands)
Operating Activities:	
Net loss	($147,335)
Noncash items included in net income:	
Depreciation and amortization	121,365
Deferred income taxes	(56,217)
Changes in assets and liabilities:	
Inventory	375
Accounts receivable and unbilled revenue	(66,019)
Other receivables	42,506
Prepayments and other	(4,340)
Long-term receivables and other	4,546
Accounts payable	116,091
Income taxes accrued	81,568
Interest accrued	(8,270)
Deferred revenue and other current liabilities	(32,383)
Other liabilities	(37,002)
Other	36,372
Net cash flow provided by operating activities	51,257
Investing Activities:	
Construction expenditures	(181,165)
Acquisition of London Electricity, net of cash acquired	(1,951,701)
Other investments	1,321
Net cash flow used in investing activities	(2,131,545)
Financing Activities:	
Proceeds from the issuance of:	
Bank notes and other long-term debt	1,559,748
Common Stock	505,953
Preferred securities of subsidiary partnership	300,000
Payment of long-term debt	(259,428)
Changes in short-term borrowings - net	(25,460)
Net cash flow provided by financing activities	2,080,813
Effect of exchange rates on cash and cash equivalents	(10,615)
Net decrease in cash and cash equivalents	(10,090)
Cash and cash equivalents at beginning of period	54,478
Cash and cash equivalents at end of period	$44,388
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid for interest	$139,578
Cash paid for income taxes	$127,585

See Notes to Financial Statements.

ENTERGY LONDON INVESTMENTS PLC AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
ASSETS

	December 31, 1997 (In Thousands)
Current Assets:	
Cash and cash equivalents	
Cash	$ -
Temporary cash investments	44,388
Total cash and cash equivalents	44,388
Notes receivable	7,364
Accounts receivable:	
Customer (less allowance for doubtful accounts of $21.9 million)	139,265
Other	39,764
Accrued unbilled revenue	262,818
Accumulated deferred income taxes	12,401
Inventory	1,976
Prepayments and other	13,623
Total	521,599
Property, Plant, and Equipment:	
Property, plant and equipment	2,283,549
Construction work in progress	81,306
Total	2,364,855
Less - accumulated depreciation and amortization	90,021
Property, plant, and equipment - net	2,274,834
Other Property, Investments, and Assets:	
Investments, long-term	11,413
Distribution license (net of accumulated amortization of $31.1 million)	1,327,312
Long-term receivables	17,172
Prepaid pension asset	241,216
Other	10,079
Total	1,607,192
TOTAL	$4,403,625

See Notes to Financial Statements.

ENTERGY LONDON INVESTMENTS PLC AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31, 1997 (In Thousands)
Current Liabilities:	
Currently maturing long-term debt	$33,814
Notes payable	240,794
Accounts payable	349,821
Customer deposits	24,946
Taxes accrued	120,981
Interest accrued	14,201
Other	805
Total	785,362
Other Liabilities:	
Accumulated deferred income taxes	995,865
Other	250,470
Total	1,246,335
Long-term debt	1,706,096
Company-obligated redeemable preferred securities of subsidiary partnership holding solely junior subordinated deferrable debentures	300,000
Shareholders' Equity:	
Common stock, BPS1 par value, 901,000,000 shares authorized, 877,359,785 shares issued and outstanding (less Entergy UK Limited debt adjustment of $1,371.8 million (Note 7))	114,000
Paid-in capital	391,981
Accumulated deficit	(132,390)
Cumulative foreign currency translation adjustment	(7,759)
Total	365,832
Commitments and Contingencies (Notes 2, 9 and 10)	
TOTAL	$4,403,625

See Notes to Financial Statements.

ENTERGY LONDON INVESTMENTS PLC AND SUBSIDIARY
STATEMENT OF CONSOLIDATED RETAINED EARNINGS

	For the Year Ended December 31, 1997 (In Thousands)
Retained Earnings, January 1	$ -
Add:	
Net loss	(147,335)
Imputed interest on parent company debt	14,945
Accumulated Deficit, December 31	($132,390)

See Notes to Financial Statements.

ENTERGY LONDON INVESTMENTS PLC AND SUBSIDIARY

SELECTED FINANCIAL DATA

	1997 (In Thousands)
Operating revenues	$ 1,847,042
Net loss	$ (147,335)
Total assets	$ 4,403,625
Long-term obligations (1)	$ 2,006,096

(1) Includes long-term debt (excluding currently maturing debt) and preferred securities of subsidiary partnership.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Entergy Corporation, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, System Energy, and Entergy London)

The accompanying consolidated financial statements include the accounts of Entergy Corporation and its direct and indirect subsidiaries, including the domestic utility companies, System Energy, and Entergy London, whose financial statements are included in this document. Except for London Electricity, which was the predecessor company to Entergy London (see Note 13), the financial statements presented herein result from these companies having registered securities with the SEC.

All significant intercompany transactions have been eliminated. Entergy Corporation's domestic utility subsidiaries maintain accounts in accordance with FERC and other regulatory guidelines. Certain previously reported amounts have been reclassified to conform to current classifications, with no effect on net income or shareholders' equity.

Use of Estimates in the Preparation of Financial Statements

The preparation of Entergy Corporation and its subsidiaries' 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, and the reported amounts of revenues and expenses. Adjustments to the reported amounts of assets and liabilities may be necessary in the future to the extent that future estimates or actual results are different from the estimates used.

Revenues and Fuel Costs

Entergy Arkansas, Entergy Louisiana, and Entergy Mississippi generate, transmit, and distribute electricity (primarily to retail customers) in Arkansas, Louisiana, and Mississippi, respectively. Entergy Gulf States generates, transmits, and distributes electricity primarily to retail customers in Texas and Louisiana; distributes gas at retail primarily in Baton Rouge, Louisiana, and also sells steam to a large refinery complex in Baton Rouge. Entergy New Orleans sells both electricity and gas to retail customers in the City of New Orleans (except for Algiers, where Entergy Louisiana is the electricity supplier). London Electricity, Entergy London's sole asset, distributes and supplies electricity to customers in the London metropolitan area.

System Energy's operating revenues recover operating expenses, depreciation, and capital costs attributable to Grand Gulf 1 from Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans. Capital costs are computed by allowing a return on System Energy's common equity funds allocable to its net investment in Grand Gulf 1, plus System Energy's effective interest cost for its debt allocable to its investment in Grand Gulf 1. See Note 2 for a discussion of System Energy's proposed rate increase.

A portion of Entergy Arkansas' and Entergy Louisiana's purchase of power from Grand Gulf has not been included in the determination of the cost of service to retail customers by the APSC and LPSC, respectively, as described in Note 2.

The domestic utility companies and Entergy London accrue estimated revenues for energy delivered since the latest billings. Entergy London records revenue net of value-added tax.

The domestic utility companies' rate schedules include either fuel adjustment clauses or fixed fuel factors, both of which allow either current recovery or deferrals of fuel costs until such costs are reflected in the related

revenues. Fixed fuel factors remain in effect until changed as part of a general rate case, fuel reconciliation, or fixed fuel factor filing.

Entergy London purchases power primarily from the wholesale trading market for electricity in England and Wales (Electricity Pool). The Electricity Pool monitors supply and demand between generators and suppliers, sets prices for generation, and provides centralized settlement of amounts due between generators and suppliers.

Price Control

Certain supply customers of Entergy London are subject to price control formulas through December 1998 which allow a maximum charge per unit of electricity. Distribution customers are subject to price control formulas which allow a maximum charge per unit of electricity. Differences in the charges, or in the purchase cost of electricity, can result in the under or over-recovery of revenues in a particular year.

Where there is an over-recovery of supply or distribution business revenues against the regulated maximum allowable amount, revenues are deferred in an amount equivalent to the over-recovered amount. The deferred amount is deducted from operating revenues and included in other liabilities. Where there is an under-recovery, no asset is recorded in anticipation of any potential future recovery.

Utility Plant

Utility plant is stated at original cost. The original cost of utility plant retired or removed, plus the applicable removal costs, less salvage, is charged to accumulated depreciation. Maintenance, repairs, and minor replacement costs are charged to operating expenses. Substantially all of the utility plant is subject to liens from mortgage bond indentures.

Utility plant includes the portions of Grand Gulf 1 and Waterford 3 that have been sold and leased back. For financial reporting purposes, these sale and leaseback arrangements are reflected as financing transactions.

Net utility plant, by company and functional category, as of December 31, 1997 is shown below (in millions):

	Entergy	Entergy Arkansas	Entergy Gulf States	Entergy Louisiana	Entergy Mississippi	Entergy New Orleans	System Energy	Entergy London
Production								
Nuclear	$ 7,559	$ 951	$ 2,312	$ 1,940	$ -	$ -	$ 2,356	$ -
Other	1,538	366	631	224	213	14	-	
Transmission	1,703	450	467	329	304	21	10	-
Distribution	5,370	916	788	731	424	162	-	1,976
Other	859	131	189	107	90	16	13	218
Plant acquisition adjustment - Entergy Gulf States	439	-	-	-	-	-	-	-
Other	93	-	32	-	-	61	-	-
Construction Work in Progress	566	123	90	52	23	19	37	81
Nuclear Fuel (leased and owned)	342	93	78	59	-	-	64	-
Accumulated Provision For Decommissioning (1)	(336)	(227)	(49)	(60)	-	-	-	-
Utility Plant - Net	$ 18,133	$ 2,803	$ 4,538	$ 3,382	$ 1,054	$ 293	$ 2,480	$ 2,275

(1) System Energy's decommissioning liability is recorded on the Balance Sheet in "Deferred Credits and Other Liabilities - Other"

Depreciation is computed on the straight-line basis at rates based on the estimated service lives and costs of removal of the various classes of property. Depreciation rates on average depreciable property are shown below:

	Entergy	Entergy Arkansas	Entergy Gulf States	Entergy Louisiana	Entergy Mississippi	Entergy New Orleans	System Energy	Entergy London
1997	3.2%	3.1%	2.8%	3.0%	2.5%	3.1%	3.4%	4.4%
1996	3.0%	3.2%	2.7%	3.0%	2.4%	3.1%	3.3%	N/A
1995	2.9%	3.3%	2.7%	3.0%	2.4%	3.1%	2.9%	N/A

AFUDC represents the approximate net composite interest cost of borrowed funds and a reasonable return on the equity funds used for construction. Although AFUDC increases both utility plant and earnings, it is only realized in cash through depreciation provisions included in rates.

Jointly-Owned Generating Stations

Certain Entergy Corporation subsidiaries jointly own electric generating facilities with third parties, and record the investments and expenses associated with these generating stations to the extent of their respective undivided ownership interests. As of December 31, 1997, the subsidiaries' investment and accumulated depreciation in each of these generating stations were as follows:

Generating Stations		Fuel Type	Total Megawatt Capability	Ownership	Investment	Accumulated Depreciation
					(In Thousands)	
Entergy Arkansas						
Independence	Unit 1	Coal	836	31.50%	$ 117,515	$ 45,471
	Common Facilities	Coal		15.75%	29,568	10,591
White Bluff	Units 1 and 2	Coal	1,659	57.00%	397,304	174,227
Entergy Gulf States (1)						
Roy S. Nelson	Unit 6	Coal	550	70.00%	400,409	177,305
Big Cajun 2	Unit 3	Coal	540	42.00%	222,957	92,960
Entergy Mississippi -						
Independence	Units 1 and 2	Coal	1,678	25.00%	224,081	85,860
System Energy -						
Grand Gulf	Unit 1	Nuclear	1,200	90.00%(2)	3,454,067	1,086,820
Entergy Power -						
Independence	Unit 2	Coal	842	21.50%	121,138	41,883

(1) On December 23, 1997, Cajun's 30% ownership interest in River Bend Unit 1, a 936 MW nuclear unit located near St. Francisville, Louisiana, was transferred to Entergy Gulf States, which previously had owned the other 70% of the unit. See Note 9.

(2) Includes an 11.5% leasehold interest held by System Energy. See Note 10.

Income Taxes

Entergy Corporation and its subsidiaries file a U.S. consolidated federal income tax return. Income taxes are allocated to the subsidiaries in proportion to their contribution to consolidated taxable income. SEC regulations require that no Entergy Corporation subsidiary pay more taxes than it would have paid if a separate income tax return had been filed. Entergy London, as a member of an affiliated group in the UK, is eligible for group relief. Group relief enables current losses to be surrendered by one affiliated company to another affiliated company. It is the policy of Entergy London's affiliated group to apply the group relief provisions in order to minimize the UK

corporation income tax of the group. In accordance with SFAS 109, "Accounting for Income Taxes", deferred income taxes are recorded for all temporary differences between the book and tax basis of assets and liabilities, and for certain credits available for carryforward.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Investment tax credits are deferred and amortized based upon the average useful life of the related property, in accordance with rate treatment.

Distribution Licenses

Distribution licenses represent the identifiable intangible assets related to Entergy London and CitiPower which exclusively permit distribution services to be provided within defined territories. These licenses are being amortized over 40 years using the straight-line method. Entergy's future net cash flows are expected to be sufficient to recover the amortization of the cost of the CitiPower and Entergy London licenses.

Reacquired Debt

The premiums and costs associated with reacquired debt of the domestic utility companies and System Energy (except that allocable to the deregulated operations of Entergy Gulf States) are being amortized over the life of the related new issuances, in accordance with ratemaking treatment.

Cash and Cash Equivalents

Entergy considers all unrestricted highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments

Entergy applies the provisions of SFAS 115, "Accounting for Investments for Certain Debt and Equity Securities", in accounting for investments. As a result, Entergy has recorded on the consolidated balance sheet an additional $53 million in decommissioning trust funds of the domestic utility companies. Such increase represents the amount by which the fair value of the securities held in such funds exceeds the amounts deposited from rate recovery, plus the related earnings on the amounts deposited. In accordance with the regulatory treatment for decommissioning trust funds, Entergy has recorded an offsetting amount in unrealized gains on investment securities as a regulatory liability in other deferred credits.

Entergy London accounts for investments whose fair market values are readily determinable in accordance with SFAS 115. These securities are considered available-for-sale securities under SFAS 115 and their fair values approximate cost. Other securities whose fair market values are not readily determinable and in which Entergy London does not have a significant interest are recorded at cost.

Investments in which Entergy London's ownership interest ranges from 20% to 50%, or which are less than 20% owned but over which Entergy London exercises significant influence over operating and financial policies, are accounted for using the equity method. The following are Entergy London's principal equity method investments as of December 31, 1997:

Investment	Percentage Ownership
Thames Valley Power Ltd	50%
London Total Energy Ltd	50%
Barking Power Limited	13.5%

These investments were acquired effective February 1, 1997, as part of Entergy's acquisition of London Electricity.

Foreign Currency Translation

In accordance with SFAS 52, "Foreign Currency Translation," all assets and liabilities of Entergy's foreign subsidiaries are translated into U.S. dollars at the exchange rate in effect at the end of the period, and revenues and expenses are translated at average exchange rates prevailing during the period. The resulting translation adjustments are reflected in a separate component of shareholders' equity. Current exchange rates are used for U.S. dollar disclosures of future obligations denominated in foreign currencies. No representation is made that the foreign currency denominated amounts have been, could have been, or could be converted into U.S. dollars at the rates indicated or at any other rates.

Earnings per Share - SFAS 128

The FASB issued SFAS 128, "Earnings per Share", in February 1997, effective for calendar year-end 1997 financial statements. Entergy adopted SFAS 128 and has included a dual presentation of basic and diluted earnings per share on its consolidated statement of income. The average number of common shares outstanding for the presentation of diluted earnings per share for the years 1997, 1996, and 1995 were greater by approximately 90,000, 91,000, and 60,000 shares, respectively, than the number of such shares for the presentation of basic earnings per share due to Entergy's stock option and other stock compensation plans discussed more fully in Note 5.

Options to purchase approximately 120,000, 235,000, and 155,000 shares of common stock at various prices were outstanding at the end of 1997, 1996, and 1995, respectively, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the market price of the common shares at the end of each of the years presented.

Application of SFAS 71

The domestic utility companies and System Energy currently account for the effects of regulation pursuant to SFAS 71, "Accounting for the Effects of Certain Types of Regulation". This statement applies to the financial statements of a rate-regulated enterprise that meets three criteria. The enterprise must have rates that (i) are approved by the regulator; (ii) are cost-based; and (iii) can be charged to and collected from customers. These criteria may also be applied to separable portions of a utility's business, such as the generation or transmission functions, or to specific classes of customers. If an enterprise meets these criteria, it may capitalize costs that would otherwise be charged to expense if the rate actions of its regulator make it probable that those costs will be recovered in future revenue. Such capitalized costs are reflected as regulatory assets in the accompanying financial statements. SFAS 71 requires that rate-regulated enterprises assess the probability of recovering their regulatory assets at each balance sheet date. When an enterprise concludes that recovery of a regulatory asset is no longer probable, the regulatory asset must be removed from the entity's balance sheet.

SFAS 101, "Accounting for the Discontinuation of Application of FASB Statement No. 71", specifies how an enterprise that ceases to meet the criteria for application of SFAS 71 for all or part of its operations should report that event in its financial statements. In general, SFAS 101 requires that the enterprise report the discontinuation of the application of SFAS 71 by eliminating from its balance sheet all regulatory assets and liabilities related to the applicable segment. Additionally, if it is determined that a regulated enterprise is no longer recovering all of its costs and therefore no longer qualifies for SFAS 71 accounting, it is possible that an impairment (see further discussion below) may exist which could require further write-offs of plant assets.

During 1997, EITF 97-4: "Deregulation of the Pricing of Electricity - Issues Related to the Application of FASB Statements No. 71 and 101" was issued and specifies that SFAS 71 should be discontinued at a date no later

than when the details of the transition to competition plan for all or a portion of the entity subject to such plan are known. However, other factors could cause the discontinuation of SFAS 71 before that date. Additionally, EITF 97-4 promulgates that regulatory assets to be recovered through cash flows derived from another portion of the entity which continues to apply SFAS 71 should not be written off; rather, they should be considered regulatory assets of the segment which will continue to apply SFAS 71.

As of December 31, 1997, the majority of the domestic utility companies' and System Energy's operations continue to meet each of the criteria required for the use of SFAS 71, and the companies have recorded significant regulatory assets.

During 1996, FERC issued Orders No. 888 and 889, which require utilities to provide open access to their transmission system to promote a more competitive market for wholesale power sales. As described in Note 2, the domestic utility companies have filed transition to competition proposals with their regulators providing, among other things, for accelerated recovery of certain capitalized costs to facilitate for an orderly transition to a competitive retail power market. In response to these filings, certain regulatory commissions have begun proceedings to consider retail competition in their jurisdictions.

Regulators have generally deferred action on the plans in lieu of their general proceedings on competition. Entergy cannot, at this time, predict the completion dates or ultimate outcome of all of these proceedings. Accordingly, the domestic utility companies and System Energy anticipate that they will continue to meet the criteria for the application of SFAS 71 in the foreseeable future.

Entergy's foreign utility operations are not subject to cost-based rate regulation in the jurisdictions in which they operate, but rather are subject to price cap regulation in certain instances and to competitive market forces in other instances. Therefore, the provisions of SFAS 71 do not apply to Entergy's foreign utility operations.

Domestic Deregulated Operations

Entergy Gulf States discontinued regulatory accounting principles for its wholesale jurisdiction and its steam department during 1989 and for the Louisiana retail deregulated portion of River Bend in 1991. The results of these deregulated operations (before interest charges) for the years ended December 31, 1997, 1996, and 1995 are as follows:

	1997	1996	1995
		(In Thousands)	
Operating Revenues	$155,471	$174,751	$141,171
Operating Expenses:			
Fuel, operating, and maintenance	89,987	119,784	115,799
Depreciation	36,351	31,455	31,129
Total Operating Expenses	126,338	151,239	146,928
Income Taxes	9,416	9,598	(6,979)
Net Income From Deregulated Utility Operations	$19,717	$13,914	$1,222

The net investment associated with these deregulated operations was approximately $964 million as of December 31, 1997, which includes Cajun's interest in River Bend which was transferred by Cajun's Trustee in Bankruptcy to Entergy Gulf States in late 1997 at a fair value of $139 million, based on management's estimate of such value at the time of transfer.

Impairment of Long-Lived Assets

Note 2 describes regulatory assets of $169 million (net of tax) related to Texas retail deferred River Bend operating and carrying costs which were written off upon the adoption of SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" (SFAS 121), in the first quarter of 1996.

In accordance with the provisions of SFAS 121, Entergy periodically reviews long-lived assets whenever events or changes in circumstances indicate that recoverability of these assets is uncertain. Generally, the determination of recoverability is based on the net cash flows expected to result from such operations and assets. Projected net cash flows depend on the future operating costs associated with the assets, the efficiency and availability of the assets and generating units, and the future market and price for energy over the remaining life of the assets. Based on current estimates of future cash flows, management anticipates that future revenues from such assets and operations of Entergy will fully recover all related costs.

Assets regulated under traditional cost-of-service ratemaking, and thereby subject to SFAS 71 accounting, are generally not subject to impairment, because this form of regulation is designed to assure that all allowed costs are subject to recovery. However, certain deregulated assets and other operations of the domestic utility companies totaling approximately $1.5 billion (pre-tax) could be affected in the future. Those assets include Entergy Arkansas' and Entergy Louisiana's retained shares of Grand Gulf 1, Entergy Gulf States' Louisiana deregulated asset plan, the Texas jurisdiction abeyed portion of the River Bend plant, and wholesale jurisdiction and steam department operations.

Change in Accounting for Nuclear Refueling Outage Costs (Entergy Corporation, Entergy Arkansas, and System Energy)

In December 1995, at the recommendation of FERC, Entergy Arkansas changed its method of accounting for nuclear refueling outage costs. The change, effective January 1, 1995, results in Entergy Arkansas deferring incremental maintenance costs incurred during an outage and amortizing those costs over the operating period immediately following the nuclear refueling outage, which is the period when the charges are billed to customers. Previously, estimated costs of refueling outages were accrued over the period (generally 18 months) preceding each scheduled outage. The effect of the change for the year ended December 31, 1995, was to decrease net income by $5.1 million (net of income taxes of $3.3 million) or $.02 per share. The cumulative effect of the change was to increase net income $35.4 million (net of income taxes of $22.9 million) or $.15 per share.

System Energy filed a rate increase request with FERC in May 1995 (see Note 2), which, among other things, proposed a change in the accounting recognition of nuclear refueling outage costs from that of expensing those costs as incurred to the deferral and amortization method described above with respect to Entergy Arkansas. As described in Note 2, the FERC ALJ issued an initial decision in this proceeding in July 1996, agreeing to the change in recognition of outage costs proposed by System Energy. Accordingly, System Energy deferred the refueling outage costs incurred in the fourth quarter of 1996. As of December 31, 1996, System Energy's current assets included $24.0 million in deferred nuclear refueling outage costs which are being amortized over the next fuel cycle (approximately 18 months). Amortization of these costs in the fourth quarter of 1996 and in 1997 amounted to $1.2 million and $16.4 million, respectively, and the deferred outage costs amounted to $7.8 million as of December 31, 1997. This change has no impact on the net income of either Entergy or System Energy because System Energy will recover the refueling outage costs from Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans, and these companies, in turn, will recover these costs from their ratepayers.

Derivative Financial Instruments

Entergy uses a variety of derivative financial instruments, including interest rate and foreign currency swaps, natural gas and electricity futures, natural gas and electricity options, and energy trading swaps and contracts for differences, as a part of its overall risk management strategy. Entergy accounts for its derivative financial

instruments in accordance with SFAS No. 80, "Accounting for Futures Contracts," SFAS No. 52, "Foreign Currency Translation," and various EITF pronouncements. If the interest rate swaps were to be sold or terminated, any gain or loss would be deferred and amortized over the remaining life of the debt instrument being hedged by the interest rate swap. If the debt instrument being hedged by the interest rate swaps were to be extinguished, any gain or loss attributable to the swap would be recognized in the period of the transaction.

Entergy uses energy trading swaps and contracts for differences primarily to hedge its UK and Australian supply businesses against the price risk of electricity purchases. Use of these instruments is carried out within the framework of Entergy's purchasing strategy and hedging guidelines. Risk of loss is monitored through establishment of approved counterparties and maximum counterparty limits and minimum credit ratings. Entergy recognizes gains or losses on these instruments when settlement is made on a basis consistent with the treatment of the underlying energy customer contract being hedged.

Entergy's domestic energy and natural gas marketing business enters into sales and purchases of electricity and natural gas for delivery up to 12 months in the future. To hedge price risk on such transactions, this business utilizes natural gas and electricity futures and option contracts. Gains or losses are recognized on such instruments when settlement is made on a basis consistent with treatment of the underlying sales and purchases of electricity and natural gas.

See Notes 6, 7, and 9 for additional information concerning Entergy's derivative instruments outstanding as of December 31, 1997.

Fair Value Disclosures

The estimated fair value of financial instruments was determined using bid prices reported by dealer markets and by nationally recognized investment banking firms. The estimated fair value of derivative financial instruments is based on market quotes of the applicable interest or foreign currency exchange rates, or a survey of foreign Electricity Pool forward prices. Considerable judgment is required in developing the estimates of fair value. Therefore, estimates are not necessarily indicative of the amounts that Entergy could realize in a current market exchange. In addition, gains or losses realized on financial instruments held by regulated businesses may be reflected in future rates and therefore not accrue to the benefit or detriment of stockholders.

Entergy considers the carrying amounts of financial instruments classified as current assets and liabilities to be a reasonable estimate of their fair value because of the short maturity of these instruments. In addition, Entergy does not expect that performance of its obligations will be required in connection with certain off-balance sheet commitments and guarantees considered financial instruments. For these reasons, and because of the related-party nature of these commitments and guarantees, determination of fair value is not considered practicable. See Notes 5, 7, and 9 for additional disclosure.

NOTE 2. RATE AND REGULATORY MATTERS

River Bend (Entergy Corporation and Entergy Gulf States)

In 1988 the PUCT granted Entergy Gulf States a permanent increase in annual revenues of $59.9 million resulting from the inclusion in rate base of approximately $1.6 billion of company-wide River Bend plant investment and approximately $182 million of related Texas retail jurisdiction deferred River Bend costs (Allowed Deferrals). At the same time, the PUCT disallowed as imprudent $63.5 million of company-wide River Bend plant costs and placed in abeyance, with no finding as to prudence, approximately $1.4 billion of company-wide River Bend plant investment and approximately $157 million of Texas retail jurisdiction deferred River Bend operating and carrying costs (Abeyed Deferrals). As a result of the application of the company's long-lived asset impairment policy, Entergy Gulf States wrote off Abeyed Deferrals of $169 million, net of tax, effective January 1, 1996.

The PUCT's order has been the subject of several appellate proceedings, culminating in an appeal to the Texas Supreme Court (Supreme Court). On January 31, 1997, the Supreme Court issued an opinion reversing the PUCT's order and remanding the case to the PUCT for further proceedings.

On January 14, 1998, the commissioners of the PUCT voted by a 2 to 1 majority to disallow recovery of $1.4 billion of company-wide abeyed plant costs. The Texas share of these costs, which is not currently in rates, is approximately $624 million, based on 1988 costs and the jurisdictional allocation included in current rates. The PUCT is expected to enter an order pursuant to its vote, but has not yet done so. As of December 31, 1997, the River Bend plant costs disallowed for retail ratemaking purposes in Texas and the River Bend plant costs held in abeyance totaled (net of taxes and depreciation) approximately $12 million and $252 million, respectively. See "**Filings with the PUCT and Texas Cities**" below for information related to additional rulings by the PUCT and other retail rate proceedings as well as the proposed agreement in principle between the parties to the Entergy Gulf States rate proceedings in Texas.

Retail Rate Proceedings

Filings with the APSC (Entergy Corporation and Entergy Arkansas)

On December 12, 1997, the APSC resolved the rate application that Entergy Arkansas filed in October 1996 by approving the settlement agreement among Entergy Arkansas and four other parties that was filed with the APSC on October 9, 1997. The settlement agreement as approved provides for accelerated amortization of Entergy Arkansas' Grand Gulf purchased power obligation in an amount totaling $165.3 million over the period January 1, 1999 through June 30, 2004, and the establishment of a transition cost account to collect earnings in excess of 11% return on equity through a streamlined annual earnings review for offset against stranded costs when retail access is implemented. Rates will be frozen for at least a three-year period. As of December 31, 1997, Entergy Arkansas established an estimated reserve of $16.6 million in the transition cost account. This estimated reserve will be trued up once the APSC has determined, in a mid-year streamlined earnings review procedure, the actual amount of 1997 overearnings that should go towards the transition cost account. The APSC's Order also established four generic dockets to address competition and transition issues that must be resolved prior to retail access. Finally, the APSC Order approved the rate decreases agreed to in the settlement agreement totaling $200 million over the two-year period 1998-1999, most involving the ending of the Grand Gulf deferrals and other mechanisms, such that the net income effect from these reductions is only approximately $22 million. In management's opinion, Entergy Arkansas continues to meet each of the criteria required for the application of SFAS 71. Refer to "Application of SFAS 71" in Note 1 for a discussion of SFAS 71 and 101, as well as EITF 97-4.

Filings with the PUCT and Texas Cities (Entergy Corporation and Entergy Gulf States)

In March 1994, the Texas Office of Public Utility Counsel and certain cities served by Entergy Gulf States instituted an investigation of the reasonableness of Entergy Gulf States' rates. On March 20, 1995, the PUCT ordered a retroactive annual base rate reduction of $52.9 million, which was amended to an annual level of $36.5 million. The PUCT's action was based, in part, upon a Texas Supreme Court decision not to require a utility to use the prospective tax benefits generated by disallowed expenses to reduce rates. The May 26, 1995, amended order no longer required Entergy Gulf States to pass such prospective tax benefits on to its customers. The rate refund ordered by the PUCT in its March 20, 1995, order, retroactive to March 31, 1994, was approximately $61.8 million (including interest) and was refunded to customers in September, October, and November 1995. Entergy Gulf States and other parties have appealed the PUCT order, but no assurance can be given as to the timing or outcome of the appeal.

In December 1995, Entergy Gulf States filed a petition with the PUCT for reconciliation of fuel and purchased power expenses for the period January 1, 1994 through June 30, 1995. Entergy Gulf States believes that there was an under-recovered fuel balance, including interest, of $22.4 million as of June 1995. Hearings were

concluded in October 1996, and in April 1997 the PUCT issued an order which approved recovery of approximately $18.8 million of the under-recovered fuel balance, including interest. In June 1997, the PUCT issued a subsequent order based on a rehearing, which reduced the approved recovery to $18.5 million. Entergy Gulf States has appealed portions of the PUCT's order to the Texas District Court. No assurance can be given as to the timing or outcome of these appeals.

In accordance with the Merger agreement, Entergy Gulf States filed a rate proceeding with the PUCT in November 1996. In April 1996, certain cities served by Entergy Gulf States (Cities) instituted investigations of the reasonableness of Entergy Gulf States' rates. In May 1996, the Cities agreed to forego their pending investigation based on the assurance that any rate decrease ordered in the November 1996 filing would be retroactive to June 1, 1996, with accrued interest until refunded. The agreement further provides that no base rate increase will be retroactive. Subsequent to the November 1996 filing, the Cities passed ordinances reducing Entergy Gulf States' rates by $43.6 million. Entergy Gulf States has appealed these ordinances to the PUCT, and these appeals have been consolidated in the pending rate proceeding. Included in the November 1996 filing was a proposal to achieve an orderly transition to retail electric competition in Texas, similar to the filing described below that Entergy Gulf States made with the LPSC. This filing with the PUCT was litigated in four phases as follows: (i) fuel factor/fuel reconciliation phase, of which Entergy Gulf States believes there was an under-recovered fuel balance of $41.4 million, including interest, for the period July 1, 1995 through June 30, 1996; (ii) revenue requirement phase; (iii) cost allocation/rate design phase; and (iv) competitive issues phase. Hearings on all of the phases have been completed. A supplemental filing with respect to the fourth phase was made with the PUCT on April 4, 1997, outlining a comprehensive market reform proposal calling for the establishment of retail competition, service quality standards, a regional power exchange, and an independent system operator. Entergy Gulf States requested from the PUCT a reciprocal commitment to provide an opportunity for the full recovery of prudently incurred investments previously approved by regulators. The rebuttal testimony of Entergy Gulf States in the competition phase of the case modified its position to include elements from the 1997 proposed Texas legislation addressing retail access. Most notable were the provisions calling for a transition period through the year 2001 and rate reductions for residential and most commercial customers. The PUCT has not issued an order with respect to the completed phases.

In addition to the January 14, 1998 ruling discussed above in "**River Bend**," the PUCT upheld an ALJ's ruling disallowing recovery of approximately $40 million of Entergy Services' affiliate costs allocated to Entergy Gulf States in Texas. Entergy Services is responsible for managing Entergy Gulf States' fossil generating plants and transmission and distribution systems, as well as providing human resources, accounting, and other necessary services to Entergy Gulf States and Entergy Corporation's other electric utility subsidiaries. In another matter, the PUCT also issued an order establishing service quality standards and rate of return adjustments for Entergy Gulf States and its Texas retail service territory. A portion of the adjustments will be retroactive and a portion will be prospective. The PUCT will evaluate Entergy Gulf States' future performance based on several criteria including feeder reliability, billing error rates, customer call center performance, service installation performance, line extension performance and street light replacements.

In March 1998, the parties to the Entergy Gulf States rate proceedings in Texas reached an agreement in principle, subject to approval by the PUCT and the Cities, which would resolve all of the pending rate issues. The proposed agreement in principle would include a base rate reduction of $40 million on an annual basis, with a refund retroactive to June 1, 1996; additionally it would provide for a recovery of $25 million of deferred fuel costs; the base rates would remain at the same level for the next four years after the reduction; a total service quality credit of $9 million retroactive to June 1996; and the recovery of a portion of the abeyed portion of River Bend such that at the end of the four year rate freeze there will remain $125 million of net plant related to that abeyed portion. Entergy Gulf States has established reserves for the probable effects of this agreement in principle based on management's estimates of the terms thereof. These reserves of approximately $381 million (or $227 million net of taxes) were recorded in the fourth quarter of 1997. The results of operations of Entergy Gulf States for the year ended December 31, 1997, reflect corresponding charges to operating revenues and other income (deductions) of $70 million and $311 million, respectively. The parties are working to finalize a definitive agreement. Entergy Gulf States has agreed to

implement the refunds and rate reductions, subject to final approval of the agreement in principle. Final approval of the agreement in principle would resolve all regulatory issues discussed above.

Filings with the LPSC

(Entergy Corporation and Entergy Gulf States)

Annual Earnings Reviews

On May 31, 1995, Entergy Gulf States filed its second required post-Merger earnings analysis with the LPSC. Hearings on this review were held in December 1995. On October 4, 1996, the LPSC issued an order requiring a $33.3 million annual base rate reduction and a $9.6 million refund. One component of the rate reduction removes from base rates approximately $13.4 million annually of costs that will be recovered in the future through the fuel adjustment clause. On October 23, 1996, Entergy Gulf States appealed the LPSC's order and obtained an injunction to stay the order, except insofar as it requires the $13.4 million reduction, which Entergy Gulf States implemented in November 1996. In addition, pursuant to an October 1996 settlement with the LPSC, Entergy Gulf States will be allowed to recover $8.1 million annually related to certain gas transportation and storage facilities costs. This amount will be applied as an offset against any refund that may be required by a final judgment in Entergy Gulf States' appeal of the second post-Merger earnings review order.

On May 31, 1996, Entergy Gulf States filed its third required post-Merger earnings analysis with the LPSC. Based on this earnings filing, on June 1, 1996, Entergy Gulf States implemented a $5.3 million annual rate reduction. Hearings on this filing concluded in March 1997. An additional rate reduction may be required upon the issuance by the LPSC of a final rate order, which is expected in early 1998.

On May 30, 1997, Entergy Gulf States filed its fourth post-Merger earnings analysis with the LPSC. This filing showed a revenue deficiency such that no rate reduction is warranted. Entergy Gulf States' filing will be subject to further review by the LPSC. Hearings are scheduled to begin in March 1998.

LPSC Fuel Cost Review

In September 1996, the LPSC completed the second phase of its review of Entergy Gulf States' fuel costs, which covered the period October 1991 through December 1994 (Phase II). On October 7, 1996, the LPSC issued an order requiring a $34.2 million refund. The ordered refund includes a disallowance of $14.3 million of capital costs (including interest) related to certain gas transportation and storage facilities, which were recovered through the fuel clause, and which have been refunded pursuant to the October 1996 LPSC Settlement. Entergy Gulf States will be permitted to recover these costs in the future through base rates. On October 23, 1996, Entergy Gulf States appealed and received an injunction to stay this order, except insofar as the order requires the $14.3 million refund. On September 19, 1997, the 19th Judicial District Court of Louisiana reversed the LPSC's order with respect to several disallowances associated with the operation of River Bend, affirmed the LPSC's order with respect to the remainder of the ordered disallowances, and ordered a refund of $8.8 million, plus interest from December 31, 1995 until payment to the ratepayers. Pleadings seeking appeals to the Louisiana Supreme Court have been filed.

(Entergy Corporation, Entergy Gulf States, and Entergy Louisiana)

In September 1996, Entergy Gulf States and Entergy Louisiana filed proposals with the LPSC designed to achieve an orderly transition to retail electric competition in Louisiana, while protecting certain classes of ratepayers from bearing the burden of cost shifting. The proposals do not increase rates for any customer class. However, these proposals do provide for a universal service charge for customers that remain connected to Entergy Gulf States' or Entergy Louisiana's electric facilities but choose to purchase their electricity from another source. In addition, the proposals include a base rate freeze, which would be put into effect for seven years in the Louisiana areas serviced by Entergy Gulf States and Entergy Louisiana. Although these proposals allow for the complete recovery, over a seven-

year period, of the remaining plant investment associated with River Bend and Waterford 3 as of December 31, 1995, the NRC operating licenses for these plants permit continued operation until the years 2025 and 2024, respectively. Hearings on these proposals have been delayed until 1998.

In February 1997, the LPSC identified certain issues embodied in the Entergy Gulf States and Entergy Louisiana proposals that will be addressed in those companies' existing rate dockets, and other issues that will be addressed in an ongoing generic regulatory proceeding examining electric utility industry restructuring.

(Entergy Corporation and Entergy Louisiana)

On April 15, 1996, Entergy Louisiana made its first annual performance-based formula rate plan filing based on the 1995 test year. On June 19, 1996, the LPSC approved a $12 million annual reduction in base rates effective July 1, 1996. This reduction was based upon the 1995 test year results under the formula rate plan and reflected the expiration of the Waterford 3 phase-in plan discussed below, which was partially offset by the recovery of the property taxes on Waterford 3 and the related deferral discussed below. Subsequently, additional issues were resolved by means of a settlement conference, increasing the base rate reduction from $12 million to $16.5 million. Hearings have been conducted to review Entergy Louisiana's allowed return on equity and to address certain other disputed issues. This may result in an additional rate reduction, which would be prospective only.

On May 30, 1997, Entergy Louisiana made its annual formula rate plan filing with the LPSC for the 1996 test year. This filing showed the necessity to reduce rates by approximately $27.8 million. Additionally, in order to reflect certain Waterford 3 related items (property tax and termination of the phase-in plan) that are addressed outside the formula rate plan, the filing showed the necessity to reduce rates further by approximately $26.7 million. These two reductions produced a total reduction of approximately $54.5 million, which was implemented beginning in the first filing cycle of July 1997. The May 30 filing is the final filing in the two-year period of the formula rate plan. There has been no determination to date by the LPSC as to whether the formula rate plan should be extended, modified, or terminated. On January 21, 1998, the LPSC approved a $4 million refund to reflect lower rates effective July 1, 1997, as well as an $8 million prospective annual rate reduction.

Filings with the MPSC (Entergy Corporation and Entergy Mississippi)

On March 15, 1997, Entergy Mississippi filed its annual earnings review with the MPSC under its formula rate plan for the 1996 test year. In April 1997, the MPSC issued an order approving a prospective rate reduction of $11.2 million. This rate reduction went into effect May 1, 1997.

Entergy Mississippi initiated discussions with the MPSC regarding an orderly transition to a more competitive market for electricity. In August 1996, Entergy Mississippi filed a proposal with the MPSC for a rate rider to assure recovery of all Grand Gulf costs incurred to serve customers. The rider would maintain current rates for electric service provided by Entergy Mississippi and would apply to customers within Entergy Mississippi's service area who obtain electricity in the future from a source other than Entergy Mississippi. Entergy Mississippi designed this rider to assure that commitments made under the current system of regulation are honored and that cost burdens are not unfairly transferred from departing customers to those who remain on the Entergy Mississippi system. On August 22, 1996, the MPSC remanded this proposal and established a generic docket to consider competition for retail electric service. Hearings on this docket concluded in April 1997. In early July 1997 the MPSC issued an order directing the Mississippi Public Utilities Staff to submit a report outlining a plan for restructuring the electric utility industry in Mississippi. On November 3, 1997, the Mississippi Public Utilities Staff submitted to the MPSC a proposed transition plan for retail competition in the electric industry in Mississippi. The plan represents the staff's current position on how retail competition can be implemented in Mississippi and includes an implementation schedule in which retail competition would begin on January 1, 2001. The plan assumes the passage of necessary enabling legislation in 1999. The plan also provides for a transition period, from January 1, 2001, through December 31, 2004, for the recovery of any allowed stranded costs through a non-bypassable charge.

Parties filed comments on the plan during January and February of 1998 and a hearing is scheduled to be conducted by the MPSC in April 1998.

Filings with the Council (Entergy Corporation and Entergy New Orleans)

In March 1997, the Council established new dockets regarding electric and gas utility service competition in the City of New Orleans. The dockets will address competitive issues, including competition, stranded costs, consumer savings, cost shifting, and potential conflicts among federal, state, and local regulators, as such issues relate to electric and gas service. Comments were filed by interested parties in April 1997. Public hearings on these issues were held in May, July, and October of 1997.

The Council issued a resolution in February 1997 indicating that it will conduct an investigation of Entergy New Orleans' allowed rate of return, base rates, and adjustment clauses. The Council conducted hearings in April 1997 on the issue of rate of return, and directed Entergy New Orleans to make a cost of service and revenue requirement filing on May 1, 1997. That filing was later deferred until September 1997. In July 1997, Entergy New Orleans and the Council agreed to implement an $18 million annual reduction in base rates effective May 1, 1997, even though an allowed rate of return had not yet been determined by the Council.

Entergy New Orleans made its cost of service and revenue requirement filing in conjunction with its transition to competition plan on September 17, 1997. On November 6, 1997, the Council severed the traditional ratemaking issues from the transition filings and established a procedural schedule for the second phase of the rate proceeding, pursuant to which hearings will be conducted in July 1998. Additionally, the Council ordered Entergy New Orleans to file unbundled gas rates, in preparation for an investigation of issues relating to gas industry competition. The electric transition to competition filing is generally similar to those filed for the other domestic utility companies. It includes a rate cap coupled with a continuing right of the Council to conduct reviews of Entergy New Orleans' earnings, an offer to seek authority from FERC for accelerated recovery of Grand Gulf purchased power obligations, and implementation of a non-bypassable universal service charge for all existing customers, together with functional unbundling of electric rates. Entergy New Orleans' transition filing will be subject to further review by the Council. A procedural schedule on that filing has not been set, although public comment has been requested by the Council.

Deregulated Asset Plan (Entergy Corporation and Entergy Gulf States)

A deregulated asset plan representing an unregulated portion (approximately 25%) of River Bend (plant costs, generation, revenues, and expenses) was established pursuant to a January 1992 LPSC order. The plan allows Entergy Gulf States to sell such generation to Louisiana retail customers at 4.6 cents per KWH or off-system at higher prices, with certain provisions for sharing such incremental revenue above 4.6 cents per KWH between ratepayers and shareholders.

River Bend Cost Deferrals (Entergy Corporation and Entergy Gulf States)

Entergy Gulf States deferred approximately $369 million of River Bend operating and purchased power costs, depreciation, and accrued carrying charges, pursuant to a 1986 PUCT accounting order. Approximately $182 million of these costs are being amortized over a 20-year period, and the remaining $187 million was written off in the first quarter of 1996 in accordance with SFAS 121, as discussed above. As of December 31, 1997, the unamortized balance of the remaining costs was $107 million. Entergy Gulf States deferred approximately $400.4 million of similar costs pursuant to a 1986 LPSC accounting order, which was amortized over a 10-year period ended February 1998. Approximately $5 million was unamortized as of December 31, 1997.

In accordance with a phase-in plan approved by the LPSC, Entergy Gulf States deferred $294 million of its River Bend costs related to the period February 1988 through February 1991. Entergy Gulf States has amortized $286 million through December 31, 1997. The remaining $8 million will be recovered in the first quarter of 1998.

In connection with the completion of the phase-in plan, on February 18, 1998, the LPSC approved an annual prospective rate reduction of $87 million.

Grand Gulf 1 and Waterford 3 Deferrals

(Entergy Corporation and Entergy Arkansas)

Under the settlement agreement entered into with the APSC in 1985 and amended in 1988, Entergy Arkansas agreed to retain a portion of its Grand Gulf 1-related costs, recover a portion of such costs currently, and defer a portion of such costs for future recovery. In 1996 and subsequent years, Entergy Arkansas retains 22% of its 36% share (approximately 7.92%) of Grand Gulf 1 costs and recovers the remaining 78%. The deferrals ceased in 1990, and Entergy Arkansas is recovering a portion of the previously deferred costs each year through 1998. As of December 31, 1997, the balance of deferred costs was $75 million. Entergy Arkansas is permitted to recover on a current basis the incremental costs of financing the unrecovered deferrals. In the event Entergy Arkansas is not able to sell its retained share to third parties, it may sell such energy to its retail customers at a price equal to its avoided energy cost, which is currently less than Entergy Arkansas' cost of energy from its retained share.

(Entergy Corporation and Entergy Louisiana)

In a series of LPSC orders, court decisions, and agreements from late 1985 to mid-1988, Entergy Louisiana was granted rate relief with respect to costs associated with Waterford 3 and Entergy Louisiana's share of capacity and energy from Grand Gulf 1, subject to certain terms and conditions. With respect to Waterford 3, Entergy Louisiana was granted an increase aggregating $170.9 million over the period 1985-1988, and agreed to permanently absorb, and not recover from retail ratepayers, $284 million of its investment in the unit and to defer $266 million of its costs related to the years 1985-1988, which was recovered from April 1988 through June 1997.

With respect to Grand Gulf 1, in November 1988, Entergy Louisiana agreed to retain and not recover from retail ratepayers, 18% of its 14% share (approximately 2.52%) of the costs of Grand Gulf 1 capacity and energy. Entergy Louisiana is allowed to recover through the fuel adjustment clause 4.6 cents per KWH for the energy related to its retained portion of these costs. Alternatively, Entergy Louisiana may sell such energy to nonaffiliated parties at prices above the fuel adjustment clause recovery amount, subject to the LPSC's approval.

(Entergy Corporation and Entergy Mississippi)

Entergy Mississippi entered into a plan with the MPSC that provides, among other things, for the recovery by Entergy Mississippi, in equal annual installments over 10 years beginning October 1, 1988, of all Grand Gulf 1-related costs deferred through September 30, 1988, pursuant to a final order by the MPSC. Additionally, the plan provided that Entergy Mississippi would defer, in decreasing amounts, a portion of its Grand Gulf 1-related costs over four years beginning October 1, 1988. These deferrals are being recovered by Entergy Mississippi over a six-year period that began in October 1992 and will end in September 1998. As of December 31, 1997, the uncollected balance of Entergy Mississippi's deferred costs was approximately $127 million. The plan also allows for the current recovery of carrying charges on all deferred amounts.

(Entergy Corporation and Entergy New Orleans)

Under Entergy New Orleans' various rate settlements with the Council in 1986, 1988, and 1991, Entergy New Orleans agreed to absorb and not recover from ratepayers a total of $96.2 million of its Grand Gulf 1 costs. Entergy New Orleans was permitted to implement annual rate increases in decreasing amounts each year through 1995, and to defer certain costs and related carrying charges for recovery on a schedule extending from 1991 through 2001. As of December 31, 1997, the uncollected balance of Entergy New Orleans' deferred costs was $99 million.

Proposed Rate Increase

(System Energy)

System Energy filed an application with FERC on May 12, 1995, for a $65.5 million rate increase. The request seeks changes to System Energy's rate schedule, including increases in the revenue requirement associated with decommissioning costs, the depreciation rate, and the rate of return on common equity. The request also includes a proposed change in the accounting recognition of nuclear refueling outage costs from that of expensing those costs as incurred to the deferral and amortization method described in Note 1 with respect to Entergy Arkansas. On December 12, 1995, System Energy implemented the $65.5 million rate increase, subject to refund for which a portion has been reserved. Hearings on System Energy's request began in January 1996 and were completed in February 1996. On July 11, 1996, the ALJ issued an initial decision in this proceeding that agreed with certain of System Energy's proposals, including the change in accounting for nuclear refueling outage costs, while rejecting a proposed increase in return on common equity and recommending a slight decrease. The ALJ also rejected the proposed change in the decommissioning cost methodology. The decision of the ALJ is preliminary and may be modified in the final decision by FERC. Management is unable to predict the final outcome of the rate increase request or the amount of any refunds in excess of reserves that may be required.

(Entergy Mississippi)

Entergy Mississippi's allocation of the proposed System Energy wholesale rate increase is $21.6 million annually. In July 1995, Entergy Mississippi filed a schedule with the MPSC that defers the retail recovery of the System Energy rate increase. The deferral plan, which was approved by the MPSC, began in December 1995, the effective date of the System Energy rate increase, and will end after the issuance of a final order by FERC. The deferral period ends September 1998, and the deferred amount is to be amortized over 48 months beginning in October 1998.

(Entergy New Orleans)

Entergy New Orleans' allocation of the proposed System Energy wholesale rate increase is $11.1 million annually. In February 1996, Entergy New Orleans filed a plan with the Council to defer 50% of the amount of the System Energy rate increase. The deferral began in February 1996 and will end after the issuance of a final order by FERC.

FERC Settlement (Entergy Corporation and System Energy)

In November 1994, FERC approved an agreement settling a long-standing dispute involving income tax allocation procedures of System Energy. In accordance with the agreement, System Energy will refund a total of approximately $62 million, plus interest, to Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans through June 2004. System Energy also reclassified from utility plant to other deferred debits approximately $81 million of other Grand Gulf 1 costs. Although such costs are excluded from rate base, System Energy is recovering them over a 10-year period. Interest on the $62 million refund and the loss of the return on the $81 million of other Grand Gulf 1 costs will reduce Entergy's and System Energy's net income by approximately $10 million annually until 2004.

Entergy London Regulatory Matters (Entergy Corporation and Entergy London)

Distribution Business

The distribution business of London Electricity is regulated under its PES license, pursuant to which revenue of the distribution business is controlled by the Distribution Price Control Formula (DPCF). The DPCF determines the maximum average price per unit of electricity (expressed in kilowatt hours) that a REC may charge. The

elements used in the DPCF are established for a five-year period and are subject to review by the Regulator at the end of each period and at other times at the discretion of the Regulator. At each review the Regulator can adjust the value of certain elements in the DPCF. Following a review by the Regulator in August 1994, a 14% price reduction was set for London Electricity, effective April 1, 1995. In July 1995, a further review of distribution prices was concluded by the Regulator for fiscal years 1997 to 2000. As a result of this further review, London Electricity's distribution prices were reduced an additional 11% effective April 1, 1996; 3% effective April 1, 1997; and will be reduced by a further 3% on both April 1, 1998 and 1999.

Supply Business

The supply business of London Electricity is also regulated by the Regulator, and prices are established based upon the Supply Price Control Formula (SPCF) which is similar to the DPCF; however, the SPCF currently allows full pass through for all properly incurred costs and is set for a four-year period by the Regulator.

At present, London Electricity has an exclusive right to supply electricity to residential and small industrial and commercial customers in its franchise area with demand of less than 100 KW. In late 1998, this segment of the supply business will become open to competition, subject to a six-month transition period. This means the market will be fully opened with all customers having access to competition by June 1999. Although the advent of competition for all customers will permit all RECs to compete on a national level, London Electricity may be more sensitive to competition from its neighboring RECs due to its high customer concentration. London Electricity is in the process of developing its strategy to meet expanded competition in its supply business, which will focus on active marketing and customer service to defend its residential customer base and expanding product offerings to larger business customers. Such strategy may include the development of strategic alliances in the provision of energy and related services and the increased use of hedging of electricity prices to mitigate the increased risk from the expansion of competition. There can be no assurance that this strategy will be successful in avoiding a significant loss of customers of London Electricity's supply business.

On October 16, 1997, the Regulator published final proposals for new supply price restraints to apply for two years beginning April 1, 1998. The proposals were accepted on November 16, 1997. Among other things, these proposals implement a price reduction for London Electricity's domestic and small business supply customers of 11.8% compared to the supply price tariff in effect in August 1997. A further 3% reduction is proposed to be effective on April 1, 1999. The 11.8% price reduction to be effective on April 1, 1998, would be decreased by the supply tariff reductions announced by London Electricity on September 29, 1997, and effective from October 1, 1997, which will return over-recoveries experienced under the current SPCF. The license modifications which took effect December 31, 1997, discontinued the automatic pass-through of all costs previously passed through to domestic and small business customers, including purchased power costs from the Electricity Pool.

London Electricity expects to incur approximately $49 million (a portion of which is expected to be capitalized) in fiscal year 1998 for re-engineering and technology costs to prepare infrastructure services for full competition in supply beginning September 1998. London Electricity, along with the other PES license-holders, petitioned the Regulator to recover such costs from customers. In the Regulator's supply price restraint proposals published on October 16, 1997, the Regulator proposed, within the SPCF, to provide for an annual allowance of $7.6 million for each PES license-holder over the 5 years ending March 31, 2003, to cover data management services set-up costs plus an annual allowance of $1.6 million plus $1.60 per customer to cover operating costs for the period 1998 through 2000. London Electricity estimates that these proposals will result in an aggregate allowance for London Electricity of approximately $12.6 million per annum for the period 1998 through 2000. On November 16, 1997, London Electricity accepted the Regulator's new SPCF to be applied beginning April 1, 1998. In its fiscal year 1998 (ends March 31, 1998), London Electricity also expects to incur a total of $8.2 million to procure settlement software for the Electricity Pool designed to interface with RECs' data management software. These costs are expected to be recouped through Electricity Pool settlement charges.

The non-franchise supply market, which typically includes larger commercial and industrial customers, was opened to competition for all customers with usage above 1 MW upon privatization of the industry in 1990. The non-franchise supply markets of 100 KW or more were opened to full competition starting in April 1994.

NOTE 3. INCOME TAXES

Entergy and its registrant subsidiaries' income tax expenses for 1997, 1996, and 1995 consist of the following (in thousands):

1997	Entergy	Entergy Arkansas	Entergy Gulf States	Entergy Louisiana	Entergy Mississippi	Entergy New Orleans	System Energy	Entergy London
Current:								
Federal	$ 433,444	$ 113,278	$ 68,881	$ 94,448	$ 49,472	$ 12,003	$ 98,428	$ -
Foreign	237,337	-	-	-	-	-	-	234,080
State	76,905	23,756	6,007	19,974	9,476	2,096	15,596	-
Total	747,686	137,034	74,888	114,422	58,948	14,099	114,024	234,080
Deferred – net	(312,691)	(73,406)	(104,435)	(9,833)	(30,697)	(1,369)	(35,894)	(57,057)
Investment tax credit adjustments – net	36,346	(4,408)	51,949	(5,624)	(1,507)	(588)	(3,476)	-
Recorded income tax expense	$ 471,341	$ 59,220	$ 22,402	$ 98,965	$ 26,744	$ 12,142	$ 74,654	$ 177,023

1996	Entergy	Entergy Arkansas	Entergy Gulf States	Entergy Louisiana	Entergy Mississippi	Entergy New Orleans	System Energy
Current:							
Federal	$ 272,036	$ 108,583	$ 510	$ 78,629	$ 64,358	$ 23,860	$ 19,637
State	72,204	21,888	201	21,122	9,635	4,631	13,508
Total	344,240	130,471	711	99,751	73,993	28,491	33,145
Deferred – net	100,572	(41,261)	106,715	24,656	(29,390)	(11,587)	52,447
Investment tax credit adjustments – net	(23,653)	(4,766)	(5,335)	(5,847)	(3,497)	(687)	(3,471)
Recorded income tax expense	$ 421,159	$ 84,444	$ 102,091	$ 118,560	$ 41,106	$ 16,217	$ 82,121

1995	Entergy	Entergy Arkansas	Entergy Gulf States	Entergy Louisiana	Entergy Mississippi	Entergy New Orleans	System Energy
Current:							
Federal	$ 306,910	$ 87,937	$ 13	$ 93,670	$ 62,436	$ 19,071	$ 108,920
State	60,278	18,027	-	20,994	9,215	3,394	11,910
Total	367,188	105,964	13	114,664	71,651	22,465	120,830
Deferred – net	13,333	(5,363)	67,703	8,148	(35,224)	(1,364)	(41,871)
Investment tax credit adjustments – net	(21,478)	(5,658)	(4,472)	(5,698)	(1,550)	(634)	(3,466)
Recorded income tax expense	$ 359,043	$ 94,943	$ 63,244	$ 117,114	$ 34,877	$ 20,467	$ 75,493
Charged to cumulative effect	$ 22,861	$ 22,861	$ -	$ -	$ -	$ -	$ -

Entergy and its registrant subsidiaries' total income taxes differ from the amounts computed by applying the statutory income tax rate to income before taxes. The reasons for the differences for the years 1997, 1996, and 1995 are (amounts in thousands):

1997	Entergy	Entergy Arkansas	Entergy Gulf States	Entergy Louisiana	Entergy Mississippi	Entergy New Orleans	System Energy	Entergy London
Computed at statutory rate (35%) (31% for Entergy London)	$ 270,284	$ 64,470	$ 28,833	$ 84,253	$ 32,691	$ 9,658	$ 61,932	$ 9,196
Increases (reductions) in tax resulting from:								
State income taxes net of federal income tax effect	33,272	8,382	1,274	12,106	3,110	1,191	7,209	-
Depreciation	25,471	(2,784)	(3,670)	13,162	964	2,236	15,563	-
Rate deferrals - net	3,484	1,543	5,575	(526)	(3,504)	396	-	-
Amortization of investment tax credits	(19,592)	(4,404)	(3,981)	(5,627)	(1,512)	(589)	(3,479)	-
Flow-through/permanent differences	(6,537)	(308)	(6,133)	47	(78)	(65)	-	-
UK windfall profits tax	234,080	-	-	-	-	-	-	234,080
Change in UK statutory rate	(64,670)	-	-	-	-	-	-	(64,670)
Non-deductible franchise fees	17,234							
Interest on perpetual instruments	(9,094)							
Benefit of Entergy Corporation expenses	-	(4,920)	-	(4,788)	(2,704)	(831)	(4,037)	-
Other -- net	(12,591)	(2,759)	504	338	(2,223)	146	(2,534)	(1,583)
Total income taxes	$ 471,341	$ 59,220	$ 22,402	$ 98,965	$ 26,744	$ 12,142	$ 74,654	$ 177,023
Effective Income Tax Rate	61.0%	31.6%	27.2%	41.1%	28.6%	44.0%	42.2%	596.8%

1996	Entergy	Entergy Arkansas	Entergy Gulf States	Entergy Louisiana	Entergy Mississippi	Entergy New Orleans	System Energy
Computed at statutory rate (35%)	$ 319,103	$ 84,785	$ 34,371	$ 108,262	$ 42,111	$ 15,048	$ 63,626
Increases (reductions) in tax resulting from:							
State income taxes net of federal income tax effect	54,801	10,796	19,389	11,535	4,188	1,449	7,444
Depreciation	15,829	(2,102)	(6,305)	6,722	1,604	402	15,508
Rate deferrals - net	1,973	1,115	5,537	(1,829)	(3,430)	580	-
Amortization of investment tax credits	(20,349)	(4,608)	(4,380)	(5,664)	(1,582)	(635)	(3,480)
Flow-through/permanent differences	1,059	(845)	2,792	(449)	(275)	(164)	-
SFAS 121 write-off	48,265	-	48,265	-	-	-	-
Other -- net	478	(4,697)	2,422	(17)	(1,510)	(463)	(977)
Total income taxes	$ 421,159	$ 84,444	$ 102,091	$ 118,560	$ 41,106	$ 16,217	$ 82,121
Effective Income Tax Rate	46.2%	34.9%	104.0%	38.3%	34.2%	37.7%	45.4%

1995	Entergy	Entergy Arkansas	Entergy Gulf States	Entergy Louisiana	Entergy Mississippi	Entergy New Orleans	System Energy
Computed at statutory rate (35%)	$ 334,944	$ 93,458	$ 65,157	$ 111,528	$ 36,240	$ 19,198	$ 58,986
Increases (reductions) in tax resulting from:							
State income taxes net of federal income tax effect	42,599	11,551	8,375	11,532	3,344	1,971	7,036
Depreciation	1,670	(1,510)	(13,073)	2,693	739	(661)	13,482
Rate deferrals - net	1,699	975	6,240	(2,626)	(3,465)	575	-
Amortization of investment tax credits	(20,549)	(5,658)	(4,475)	(5,711)	(1,548)	(634)	(3,480)
Other – net	(1,320)	(3,873)	1,020	(302)	(433)	18	(531)
Total income taxes	$ 359,043	$ 94,943	$ 63,244	$ 117,114	$ 34,877	$ 20,467	$ 75,493
Effective Income Tax Rate	37.5%	35.5%	34.0%	36.7%	33.7%	37.3%	44.8%

Significant components of Entergy and its registrant subsidiaries' net deferred tax liabilities as of December 31, 1997 and 1996, are as follows (in thousands):

1997	Entergy	Entergy Arkansas	Entergy Gulf States	Entergy Louisiana	Entergy Mississippi	Entergy New Orleans	System Energy	Entergy London
Deferred Tax Liabilities:								
Net regulatory assets/(liabilities)	$ (1,378,858)	$ (293,433)	$ (437,397)	$ (329,903)	$ (32,140)	$ (4,642)	$ (281,343)	$ -
Plant-related basis differences	(3,574,260)	(475,950)	(991,253)	(716,512)	(192,402)	(52,295)	(494,564)	(572,896)
Rate deferrals	(177,609)	(26,164)	(33,665)	-	(74,427)	(43,353)	-	-
Pension-related items	(74,777)							(74,777)
Distribution License	(411,467)	-	-	-	-	-	-	(411,467)
Other	(181,306)	(53,666)	(66,995)	(32,101)	(7,494)	(4,336)	(16,714)	-
Total	$ (5,798,277)	$ (849,213)	$ (1,529,310)	$ (1,078,516)	$ (306,463)	$ (104,626)	$ (792,621)	$ (1,059,140)
Deferred Tax Assets:								
Accumulated deferred investment tax credit	204,414	40,721	61,122	51,669	9,147	3,440	38,315	-
Investment tax credit carryforwards	83,080	-	83,080	-	-	-	-	-
NOL carryforwards	2,137	-	2,137	-	-	-	-	-
Foreign tax credits (including foreign tax on unremitted earnings)	248,897	-	-	-	-	-	-	-
Alternative minimum tax credit	40,658	-	40,658	-	-	-	-	-
Sale and leaseback	235,668	-	-	108,944	-	-	126,724	-
Removal cost	105,477	1,198	27,027	63,759	2,590	10,903	-	-
Unbilled revenues	45,505	-	23,848	16,970	(1,195)	5,882	-	-
Pension-related items	33,724	-	12,897	9,653	1,801	6,097	3,276	-
Rate refund	195,484	6,504	154,153	-	-	-	34,827	-
FERC Settlement	17,193	-	-	-	-	-	17,193	-
Other	211,361	9,062	21,837	24,767	5,379	5,760	10,235	75,676
Valuation Allowance	(248,897)	-	-	-	-	-	-	-
Total	$ 1,174,701	$ 57,485	$ 426,759	$ 275,762	$ 17,722	$ 32,082	$ 230,570	$ 75,676
Net deferred tax liability	$ (4,623,576)	$ (791,728)	$ (1,102,551)	$ (802,754)	$ (288,741)	$ (72,544)	$ (562,051)	$ (983,464)

1996	Entergy	Entergy Arkansas	Entergy Gulf States	Entergy Louisiana	Entergy Mississippi	Entergy New Orleans	System Energy
Deferred Tax Liabilities:							
Net regulatory assets/(liabilities)	$ (1,406,921)	$ (287,217)	$ (434,380)	$ (349,667)	$ (21,537)	$ (9,717)	$ (304,403)
Plant-related basis differences	(2,976,724)	(476,364)	(1,006,347)	(716,974)	(185,038)	(50,435)	(512,519)
Rate deferrals	(322,530)	(84,826)	(68,282)	(2,839)	(113,669)	(52,914)	-
Other	(143,792)	(59,592)	(9,243)	(31,433)	(7,604)	(6,193)	(24,917)
Total	$ (4,849,967)	$ (907,999)	$ (1,518,252)	$ (1,100,913)	$ (327,848)	$ (119,259)	$ (841,839)
Deferred Tax Assets:							
Accumulated deferred investment tax credit	210,879	42,450	61,563	53,831	9,724	3,666	39,645
Investment tax credit carryforwards	138,779	-	138,779	-	-	-	-
NOL carryforwards	24,990	-	24,990	-	-	-	-
Alternative minimum tax credit	40,658	-	40,658	-	-	-	-
Sale and leaseback	233,823	-	-	108,390	-	-	125,433
Removal cost	102,268	-	27,391	61,716	2,454	10,707	-
Unbilled revenues	37,692	-	17,824	14,965	(343)	5,246	-
Pension-related items	30,869	-	11,291	8,838	2,008	5,987	2,745
Rate refund	25,409	-	-	-	-	7,077	18,332
FERC Settlement	19,079	-	-	-	-	-	19,079
Other	147,020	9,049	61,804	23,545	5,849	8,097	12,585
Total	$ 1,011,466	$ 51,499	$ 384,300	$ 271,285	$ 19,692	$ 40,780	$ 217,819
Net deferred tax liability	$ (3,838,501)	$ (856,500)	$ (1,133,952)	$ (829,628)	$ (308,156)	$ (78,479)	$ (624,020)

As of December 31, 1997, Entergy has investment tax credit (ITC) carryforward of $83.1 million and state net operating loss carryforward of $26.7 million, all related to Entergy Gulf States operations. The ITC carryforwards include the 35% reduction required by the Tax Reform Act of 1986 and may be applied solely against federal income tax liability of Entergy Gulf States and, if not utilized, will expire between 1998 and 2002. The alternative minimum tax (AMT) credit carryforwards as of December 31, 1997 were $40.7 million, all related to Entergy Gulf States operations. This AMT credit can be carried forward indefinitely and may be applied solely against the federal income tax liability of Entergy Gulf States.

The valuation allowance is provided primarily against foreign tax credit carryforwards and foreign tax credits on unremitted earnings which can be utilized against future taxable income in the United States.

NOTE 4. LINES OF CREDIT AND RELATED SHORT-TERM BORROWINGS (Entergy Corporation, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, System Energy, and Entergy London)

In November 1996, SEC authorization was received by Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and System Energy increasing short-term borrowing limits to $235 million, $340 million, $225 million, $103 million, $35 million, and $140 million, respectively (for a total of $1.078 billion). These authorizations are effective through November 30, 2001. Of these companies, only Entergy Mississippi had borrowings outstanding as of December 31, 1997. Entergy Mississippi had $47.2 million of borrowings outstanding under the money pool, an inter-company borrowing arrangement designed to reduce the domestic utility companies' dependence on external short-term borrowings. Entergy Arkansas, Entergy Louisiana, and Entergy Mississippi had undrawn lines of credit as of December 31, 1997, of $18 million, $64.2 million, and $24 million, respectively.

In July 1995, Entergy Corporation obtained a $300 million bank credit facility. Thereafter, a three-year credit agreement was signed with a group of banks in October 1995 to provide up to $300 million of loans to Entergy Corporation. As of December 31, 1997, $75 million was outstanding against this facility. In January 1997, the SEC

authorized an increase in borrowings under Entergy's bank credit facilities from $300 million to a maximum of $500 million.

On September 13, 1996 Entergy Corporation and ETHC obtained a three-year $100 million bank line of credit which was increased to $250 million in 1997, and that can be drawn by either Entergy Corporation or ETHC (with a guarantee from Entergy Corporation). The proceeds are to be used exclusively for exempt telecommunication investments. As of December 31, 1997, $111 million borrowed by Entergy Corporation was outstanding under this facility.

Other Entergy companies have SEC authorization to borrow through the money pool, from Entergy Corporation, and from commercial banks in the aggregate principal amounts up to $265 million, of which $98.2 million was outstanding as of December 31, 1997. Some of these borrowings are restricted as to use, and are secured by certain assets.

In total, Entergy had short-term commitments in the amount of $1,029.7 million as of December 31, 1997, of which $745.2 million was unused. The weighted-average interest rate on the outstanding borrowings of Entergy as of December 31, 1997 and 1996, was 7.09% and 6.10%, respectively. Included in these short-term commitments is $452.5 million of London Electricity's commitments, which had an outstanding balance of $82.3 million of short-term borrowings through committed facilities as of December 31, 1997. The weighted average interest rate incurred on Entergy London's short-term borrowings was 7.64% for the period from February 1, 1997 to December 31, 1997. Commitment fees on the lines of credit for Entergy Arkansas, Entergy Louisiana, and Entergy Mississippi are .125% of the undrawn amounts. The commitment fees for Entergy Corporation's $300 million credit facility and ETHC's $250 million credit facility are currently .17%, but can fluctuate depending on the senior debt ratings of the domestic utility companies. The commitment fees for Entergy London's $452.5 million credit facility range from .03% to .125% of the undrawn balance. See Note 7 for a discussion of commitments for long-term financing arrangements.

NOTE 5. PREFERRED, PREFERENCE, AND COMMON STOCK (Entergy Corporation, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans)

The number of shares, authorized and outstanding, and dollar value of preferred and preference stock for Entergy Corporation, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans as of December 31, 1997, and 1996 were:

	Shares Authorized and Outstanding		Total Dollar Value		Call Price Per Share as of December 31,
	1997	1996	1997	1996	1997
			(Dollars in Thousands)		
Entergy Arkansas Preferred Stock					
Without sinking fund:					
Cumulative, $100 par value:					
4.32% Series	70,000	70,000	$7,000	$7,000	$103.65
4.72% Series	93,500	93,500	9,350	9,350	$107.00
4.56% Series	75,000	75,000	7,500	7,500	$102.83
4.56% 1965 Series	75,000	75,000	7,500	7,500	$102.50
6.08% Series	100,000	100,000	10,000	10,000	$102.83
7.32% Series	100,000	100,000	10,000	10,000	$103.17
7.80% Series	150,000	150,000	15,000	15,000	$103.25
7.40% Series	200,000	200,000	20,000	20,000	$102.80
7.88% Series	150,000	150,000	15,000	15,000	$103.00
Cumulative, $0.01 par value:					
$1.96 Series (a)(b)	600,000	600,000	15,000	15,000	-
Total without sinking fund	1,613,500	1,613,500	$116,350	$116,350	
With sinking fund:					
Cumulative, $100 par value:					
8.52% Series	250,000	300,000	$25,000	$30,000	$104.26
Cumulative, $25 par value:					
9.92% Series	241,085	401,085	6,027	10,027	$26.32
Total with sinking fund	491,085	701,085	$31,027	$40,027	
Fair Value of Preferred Stock with sinking fund (d)			$32,018	$41,835	

	Shares Authorized and Outstanding		Total Dollar Value		Call Price Per Share as of December 31, 1997
	1997	1996	1997	1996	
			(Dollars in Thousands)		
Entergy Gulf States Preferred and Preference Stock					
Preference Stock					
Cumulative, without par value					
7% Series (a) (b)	6,000,000	6,000,000	$150,000	$150,000	-
Preferred Stock					
Authorized 6,000,000, $100 par value, cumulative					
Without sinking fund:					
4.40% Series	51,173	51,173	$5,117	$5,117	$108.00
4.50% Series	5,830	5,830	583	583	$105.00
4.40% - 1949 Series	1,655	1,655	166	166	$103.00
4.20% Series	9,745	9,745	975	975	$102.82
4.44% Series	14,804	14,804	1,480	1,480	$103.75
5.00% Series	10,993	10,993	1,099	1,099	$104.25
5.08% Series	26,845	26,845	2,685	2,685	$104.63
4.52% Series	10,564	10,564	1,056	1,056	$103.57
6.08% Series	32,829	32,829	3,283	3,283	$103.34
7.56% Series	350,000	350,000	35,000	35,000	$101.80
8.52% Series	-	500,000	-	50,000	-
9.96% Series	-	350,000	-	35,000	-
Total without sinking fund	514,438	1,364,438	$51,444	$136,444	
With sinking fund:					
8.80% Series	162,283	184,595	$16,228	$18,459	$100.00
8.64% Series	112,000	140,000	11,200	14,000	$101.00
Adjustable Rate - A, 7.42% (c)	168,000	180,000	16,800	18,000	$100.00
Adjustable Rate - B, 7.47% (c)	247,500	270,000	24,750	27,000	$100.00
Total with sinking fund	689,783	774,595	$68,978	$77,459	
Fair Value of Preference Stock and Preferred Stock with sinking fund (d)			$220,413	$214,475	

	Shares Authorized and Outstanding		Total Dollar Value		Call Price Per Share as of December 31, 1997
	1997	1996	1997	1996	
Entergy Louisiana Preferred Stock			(Dollars in Thousands)		
Without sinking fund:					
Cumulative, $100 par value:					
4.96% Series	60,000	60,000	$6,000	$6,000	$104.25
4.16% Series	70,000	70,000	7,000	7,000	$104.21
4.44% Series	70,000	70,000	7,000	7,000	$104.06
5.16% Series	75,000	75,000	7,500	7,500	$104.18
5.40% Series	80,000	80,000	8,000	8,000	$103.00
6.44% Series	80,000	80,000	8,000	8,000	$102.92
7.84% Series	100,000	100,000	10,000	10,000	$103.78
7.36% Series	100,000	100,000	10,000	10,000	$103.36
Cumulative, $25 par value:					
8.00% Series (b)	1,480,000	1,480,000	37,000	37,000	-
Total without sinking fund	2,115,000	2,115,000	$100,500	$100,500	
With sinking fund:					
Cumulative, $100 par value:					
7.00% Series (b)	500,000	500,000	$50,000	$50,000	-
8.00% Series (b)	350,000	350,000	35,000	35,000	-
Cumulative, $25 par value:					
12.64% Series	-	300,000	-	7,500	-
Total with sinking fund	850,000	1,150,000	$85,000	$92,500	
Fair Value of Preferred Stock with sinking fund (d)			$87,288	$93,825	
Entergy Mississippi Preferred Stock					
Without sinking fund:					
Cumulative, $100 par value:					
4.36% Series	59,920	59,920	$5,992	$5,992	$103.86
4.56% Series	43,888	43,888	4,389	4,389	$107.00
4.92% Series	100,000	100,000	10,000	10,000	$102.88
7.44% Series	100,000	100,000	10,000	10,000	$102.81
8.36% Series (b)	200,000	200,000	20,000	20,000	-
9.16% Series	-	75,000	-	7,500	-
Total without sinking fund	503,808	578,808	$50,381	$57,881	
With sinking fund:					
Cumulative, $100 par value:					
9.76% Series	-	70,000	-	$7,000	-
Total with sinking fund	-	70,000	-	$7,000	
Fair Value of Preferred Stock with sinking fund (d)				$7,000	

	Shares Authorized and Outstanding		Total Dollar Value		Call Price Per Share as of December 31,
	1997	1996	1997	1996	1997
Entergy New Orleans Preferred Stock			(Dollars in Thousands)		
Without sinking fund:					
Cumulative, $100 par value:					
4.75% Series	77,798	77,798	$7,780	$7,780	$105.00
4.36% Series	60,000	60,000	6,000	6,000	$104.57
5.56% Series	60,000	60,000	6,000	6,000	$102.59
Total without sinking fund	197,798	197,798	$19,780	$19,780	
Entergy Corporation					
Subsidiary's Preference Stock (a)(b):	6,000,000	6,000,000	$150,000	$150,000	
Subsidiaries' Preferred Stock:					
Without sinking fund	4,944,544	5,869,544	$338,455	$430,955	
With sinking fund	2,030,868	2,695,680	$185,005	$216,986	
Fair Value of Preference Stock and Preferred Stock with sinking fund (d)			$339,719	$357,135	

(a) The total dollar value represents the involuntary liquidation value of $25 per share.
(b) These series are not redeemable as of December 31, 1997.
(c) Represents weighted-average annualized rates for 1997.
(d) Fair values were determined using bid prices reported by dealer markets and by nationally recognized investment banking firms. See Note 1 for additional disclosure of fair value of financial instruments.

Changes in the preferred stock, with and without sinking fund, preference stock, and common stock of Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans during the last three years were:

	Number of Shares		
	1997	1996	1995
Preferred stock retirements			
Entergy Arkansas			
$100 par value	(50,000)	(50,000)	(25,000)
$25 par value	(160,000)	(560,000)	(280,000)
$0.01 par value	-	(2,000,000)	-
Entergy Gulf States			
$100 par value	(934,812)	(101,943)	(72,834)
Entergy Louisiana			
$100 par value	-	(100,000)	-
$25 par value	(300,000)	(2,300,370)	(450,211)
Entergy Mississippi			
$100 par value	(145,000)	(97,700)	(150,000)
Entergy New Orleans			
$100 par value	-	-	(34,495)

Cash sinking fund requirements and mandatory redemptions for the next five years for preferred and preference stock, outstanding as of December 31, 1997, are:

	Entergy	Entergy Arkansas	Entergy Gulf States	Entergy Louisiana
		(In Thousands)		
1998	$14,225	$4,500	$5,966	$3,759
1999	60,466	4,500	5,966	50,000
2000	160,466	4,500	155,966	-
2001	45,466	4,500	5,966	35,000
2002	10,466	4,500	5,966	-

Entergy Arkansas, Entergy Gulf States, and Entergy Louisiana have the annual noncumulative option to redeem, at par, additional amounts of certain series of their outstanding preferred stock.

Entergy Corporation from time to time reissues treasury shares to meet the requirements of the Stock Plan for Outside Directors (Directors' Plan), the Equity Ownership Plan of Entergy Corporation and Subsidiaries (Equity Plan), and certain other stock benefit plans. The Directors' Plan awards to nonemployee directors a portion of their compensation in the form of a fixed number of shares of Entergy Corporation common stock. Shares awarded under the Directors' Plan were 9,104, 6,750, and 9,251 during 1997, 1996, and 1995, respectively.

During 1997, Entergy Corporation issued 1,189,266 shares of its previously repurchased common stock, reducing the amount held as treasury stock by $34.8 million. Included in the foregoing were 813,161 shares of common stock issued at a value of $21.5 million in connection with the acquisition of the security monitoring company, Ranger American, during 1997. Entergy Corporation issued the remaining shares to meet the requirements of its various stock plans. In addition, Entergy Corporation received proceeds of $297 million from the issuance of 11,692,741 shares of common stock under its dividend reinvestment and stock purchase plan during 1997.

The Equity Plan grants stock options, equity awards, and incentive awards to key employees of the domestic utility companies. The costs of awards are charged to income over the period of the grant or restricted period, as appropriate. Amounts charged to compensation expense in 1997 were immaterial. Stock options, which comprise 50% of the shares targeted for distribution under the Equity Plan, are granted at exercise prices not less than market value on the date of grant. The options are generally exercisable six months from the date of grant, with the exception of 250,000 options granted on March 31, 1995, which are not exercisable until March 31, 1998, but not more than 10 years after the date of grant.

Entergy applies APB Opinion 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for stock options. Accordingly, no compensation cost is required to be recognized until such options are exercised because the exercise prices are not less than market price on the date of grant. The impact on Entergy's net income would have been $296,000, $166,000, and $374,000 in 1997, 1996, and 1995, respectively, had compensation cost for the stock options been determined based on the fair value at the grant date for awards under the option plan consistent with the method prescribed by SFAS 123.

In applying the disclosure provisions of SFAS 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with expected stock price volatility of 19% in 1997 and 1996 and 18% in 1995 and additional assumptions for each of those years as follows: risk-free interest rates of 6.3%, 5.4%, and 7.2% in 1997, 1996, and 1995, respectively, average expected lives of five years, and dividends of $1.80 per share.

Nonstatutory stock option transactions are summarized as follows:

	1997		1996		1995	
	Number of Options	Average Option Price	Number of Options	Average Option Price	Number of Options	Average Option Price
Beginning-of-year balance	527,909	$ 26.42	457,909	$ 25.94	170,409	$ 34.86
Options granted	255,000	25.84	82,500	29.38	315,000	21.39
Options exercised	(2,500)	23.38	(7,500)	23.38	(12,500)	23.38
Options forfeited	(107,500)	25.43	(5,000)	35.88	(15,000)	33.79
End-of-year balance	672,909	$ 26.37	527,909	$ 26.42	457,909	$ 25.94
Options exercisable at year-end	422,909		277,909		207,909	
Weighted average fair value of options granted	$ 3.10		$ 3.27		$ 1.93	

The following table summarizes information about stock options outstanding as of December 31, 1997:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	As of 12/31/97	Weighted- Avg Remaining Contractual Life-Yrs.	Weighted-Avg. Exercise Price	As of 12/31/97	Weighted-Avg. Exercise Price
$20 - $30	554,302	7.7	$24.29	304,302	$27.09
$30 - $40	118,607	5.6	$36.10	118,607	$36.10
$20 - $40	672,909	7.3	$26.37	422,909	$29.62

To meet the requirements of the Employee Stock Investment Plan (ESIP), Entergy Corporation was authorized to issue or acquire, through March 31, 1997, up to 2,000,000 shares of its common stock to be held as treasury shares. In February 1997, Entergy received authority from the SEC to extend the ESIP for an additional three years ending on March 31, 2000. Under the extended plan, Entergy Corporation may issue either treasury shares or previously authorized but unissued shares. Under the terms of the ESIP, employees can choose each year to have up to 10% of their regular annual salary (not to exceed $25,000) withheld to purchase the Company's common stock at a purchase price equal to 85% of the lower of the market value on the first or last business day of the plan year. The 1997 plan year runs from April 1, 1997, to March 31, 1998. Under the plan, the number of subscribed shares was 319,457, 327,017, and 247,122 in 1997, 1996, and 1995, respectively.

The fair value of shares granted was estimated on the date of the grant using the Black-Scholes option-pricing model with expected stock price volatility of 19% in 1997 and 1995 and 18% in 1996 and additional assumptions for each of those years as follows: risk-free interest rates of 6.1%, 5.4%, and 6.3% in 1997, 1996, and 1995, respectively, an average expected life of one year, and dividends of $1.80 per share. The weighted-average fair value of those purchase rights granted was $4.75, $5.41, and $4.02, in 1997, 1996, and 1995, respectively. The impact on Entergy's net income would have been $48,000, $894,000, and ($315,000) in 1997, 1996, and 1995,

respectively, had compensation cost for the ESIP been determined based on the fair value at the grant date for awards under the ESIP consistent with the method prescribed by SFAS 123.

Entergy sponsors the Employee Stock Ownership Plan of Entergy Corporation and Subsidiaries (ESOP) and the Savings Plan of Entergy Corporation and Subsidiaries (Savings Plan). Both plans are defined contribution plans covering eligible employees of Entergy and its subsidiaries who have completed certain service requirements. Entergy's subsidiaries' contributions to the ESOP and the Savings Plan, and any income thereon, are invested in shares of Entergy Corporation common stock. The allowed contributions to the ESOP are accrued based on the expected utilization of additional investment tax credits in the applicable federal income tax return of Entergy and its subsidiaries, and on expected voluntary participant contributions. Entergy's subsidiaries contributed $22.8 million to the ESOP for the year ended December 31, 1995. There were no contributions in the years ended December 31, 1996 and 1997.

The Savings Plan provides that the employing Entergy subsidiary may make matching contributions to the plan in an amount equal to 50% of the participant's basic contribution up to 6% of their salary. In 1997, 1996, and 1995, Entergy's subsidiaries contributed $13.2 million annually to the Entergy Savings Plan.

Entergy Gulf States sponsors the Gulf States Utilities Company Employee Stock Ownership Plan (GSU ESOP) and the Gulf States Utilities Company Employees' Thrift Plan (GSU Thrift Plan), which are both defined contribution plans. The GSU ESOP is available to all Entergy Gulf States employees, pre-Merger Entergy Gulf States employees, and post-Merger employees of Entergy Operations, whose primary work location is River Bend, upon completion of certain eligibility requirements. All contributions to the plan are invested in shares of Entergy Corporation common stock. Entergy Gulf States makes contributions to the GSU ESOP based on expected utilization of additional investment tax credits in the Entergy Gulf States federal tax return and on expected participants' contributions. No additional contributions were made to the GSU ESOP during 1997, 1996, and 1995. The GSU Thrift Plan is available to certain Entergy Operations employees whose primary work location is River Bend. Entergy Gulf States makes matching contributions to the GSU Thrift Plan equal to 50% of a participant's basic contribution which may be invested, at the participant's discretion, in shares of Entergy Corporation common stock. Entergy Gulf States' contributions to the GSU Thrift Plan for the years ended December 31, 1997, 1996, and 1995 were $306,000, $300,000, and $1.1 million, respectively.

NOTE 6. COMPANY-OBLIGATED REDEEMABLE PREFERRED SECURITIES

(Entergy Arkansas, Entergy Louisiana, Entergy Gulf States)

Entergy Arkansas Capital I, Entergy Louisiana Capital I, and Entergy Gulf States Capital I (Trusts) were established as financing subsidiaries of Entergy Arkansas, Entergy Louisiana, and Entergy Gulf States, respectively, for the purpose of issuing common and preferred securities. The Trusts issued Cumulative Quarterly Income Preferred Securities (Preferred Securities) to the public and common securities to their respective parent companies and used the proceeds from the sale to purchase, from their respective parent company, junior subordinated deferrable interest debentures (Debentures). The Debentures held by each Trust are its only assets and each Trust will use interest payments received on the Debentures owned by it to make cash distributions on the Preferred Securities.

Trusts	Date Of Issue	Preferred Securities Issued	Common Securities Issued	Interest Rate Securities/ Debentures	Trust's Investment in Debentures	Fair Market Value of Preferred Securities at 12-31-97
		(In Millions)			(In Millions)	
Arkansas Capital I	8-14-96	$ 60.0	$ 1.9	8.50%	$ 61.9	$ 62.0
Louisiana Capital I	7-16-96	$ 70.0	$ 2.2	9.00%	$ 72.2	$ 74.0
Gulf States Capital I	1-28-97	$ 85.0	$ 2.6	8.75%	$ 87.6	$ 88.6

The Preferred Securities of the Trusts of Entergy Arkansas and Entergy Louisiana will mature on September 30, 2045, and will mature on March 31, 2046, for Entergy Gulf States. The Preferred Securities are redeemable at 100% of their principal amount at the option of Entergy Arkansas and Entergy Louisiana beginning in 2001, and at the option of Entergy Gulf States beginning in 2002, or earlier under certain limited circumstances, including the loss of the tax deduction arising out of the interest paid on the Debentures. Entergy Arkansas, Entergy Louisiana, and Entergy Gulf States have, pursuant to certain agreements, fully and unconditionally guaranteed payment of distributions on the Preferred Securities issued by their respective trusts. Entergy Arkansas, Entergy Louisiana, and Entergy Gulf States are the owners of all of the common securities of their individual Trusts, which constitute 3% of each Trust's total capital.

(Entergy London)

Entergy London Capital, L.P. (Entergy London Capital), a limited partnership, was established as a financing subsidiary of Entergy London for the purpose of issuing preferred securities. On November 19, 1997, the limited partnership issued $300 million in aggregate liquidation preference amount of 8.625% Cumulative Quarterly Income Preferred Securities in a public offering. All of the proceeds from the sale of these preferred securities were invested by Entergy London Capital in the Perpetual Junior Subordinated Debentures issued by Entergy London to Entergy London Capital. Entergy London used the net proceeds from such investment, together with other funds available to Entergy London, to repay a portion of indebtedness incurred in connection with the acquisition of London Electricity. These debentures will be payable in U.S. dollars. Management's estimate of the fair value of these preferred securities as of December 31, 1997, was $303 million, based on the New York Stock Exchange closing price.

Entergy London has entered into currency exchange rate swap agreements to hedge the risk associated with exchange rate fluctuations. The exchange rate swap agreements hedging this risk involve the exchange of fixed rate U.S. dollars and BPS interest payments periodically over seven years. Management's estimate of the fair value of the currency swaps outstanding as of December 31, 1997, based on quoted interest and currency exchange rates, is a net asset of approximately $2.0 million.

The preferred securities of the partnership, as well as the debentures, have no stated date of maturity. The preferred securities are redeemable at the option of Entergy London on or after November 19, 2002, at 100% of their principal amount, or earlier under certain limited circumstances, including the loss of the tax deduction arising out of the interest paid on the debentures. Entergy London is the sole General Partner in Entergy London Capital, and has agreed to maintain ownership of 1% of all capital of Entergy London Capital.

NOTE 7. LONG - TERM DEBT (Entergy Corporation, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, System Energy, and Entergy London)

The long-term debt of Entergy Corporation's subsidiaries, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, System Energy, and Entergy London as of December 31, 1997, was:

Maturities		Interest Rates			Entergy	Entergy	Entergy	Entergy	Entergy	System	Entergy
From	To	From	To	Entergy	Arkansas	Gulf States	Louisiana	Mississippi	New Orleans	Energy	London
							(In Thousands)				
First Mortgage Bonds											
1998	1999	6.000%	11.375%	$491,000	$15,000	$211,000	$35,000			$230,000	
2000	2004	6.000%	8.250%	1,435,270	265,000	603,750	361,520			205,000	
2005	2009	6.650%	7.500%	313,000	215,000	98,000					
2010	2019	9.750%		75,000	75,000						
2020	2026	7.000%	10.000%	939,011	289,061	444,950	205,000				
G&R Bonds											
2000	2023	6.625%	8.800%	590,000				$420,000	$170,000		
Governmental Obligations (a)											
1998	2008	5.900%	8.750%	104,617	47,190	45,010	11,532	885			
2009	2026	5.600%	9.875%	1,596,735	286,200	435,735	412,170	46,030		416,600	
Debentures											
1998	2000	7.380%	9.720%	125,000		50,000				75,000	
Eurobonds											
2003	2005	8.000%	8.625%	325,940							$325,940
Loan Notes Due 2003 (b)				33,814							33,814
Revolving Bank Debt Facility:											
Facility A, avg. rate 8.789% due 2002				1,332,774							1,332,774
Facility B (Entergy International Ltd LLC)				117,000							
EPDC Revolving Credit Facility due 2000				70,307							
Saltend Project Senior Credit Facility due 2014				39,610							
Long-Term DOE Obligation (Note 9)				123,506	123,506						
Waterford 3 Lease Obligation 8.09% (Note 10)				353,600			353,600				
Grand Gulf Lease Obligation 7.02% (Note 10)				489,162						489,162	
EP Edegel, Inc. Note Payable, due 2000				67,000							
CitiPower Credit Line, avg. rate 8.31% due 2000				715,330							
Other Long-Term Debt				149,201		9,937					47,382
Unamortized Premium and Discount - Net				(27,878)	(10,447)	(4,773)	(5,058)	(2,739)	(1,047)	(3,814)	
Total Long-Term Debt				9,458,999	1,305,510	1,893,609	1,373,764	464,176	168,953	1,411,948	1,739,910
Less Amount Due Within One Year				390,674	60,650	190,890	35,300	20	-	70,000	33,814
Long-Term Debt Excluding Amount Due Within One Year				$9,068,325	$1,244,860	$1,702,719	$1,338,464	$464,156	$168,953	$1,341,948	$1,706,096
Fair Value of Long-Term Debt (c)				$8,635,583	$1,223,591	$1,990,881	$1,074,053	$488,145	$171,199	$969,724	$1,708,743

The long-term debt of Entergy Corporation's subsidiaries, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and System Energy, as of December 31, 1996, was:

Maturities		Interest Rates			Entergy	Entergy	Entergy	Entergy	Entergy	System
From	To	From	To	Entergy	Arkansas	Gulf States	Louisiana	Mississippi	New Orleans	Energy
							(In Thousands)			
First Mortgage Bonds										
1997	1999	5.375%	11.375%	$687,000	$45,000	$321,000	$69,000		$12,000	$240,000
2000	2004	6.000%	8.250%	1,355,270	180,000	608,750	361,520			205,000
2005	2009	6.650%	7.500%	325,000	215,000	110,000				
2010	2019	9.750%		75,000	75,000					
2020	2026	7.000%	10.000%	1,031,648	376,648	450,000	205,000			
G&R Bonds										
1997	1999	6.950%	11.2%	96,000				$96,000		
2000	2023	6.625%	8.800%	525,000				355,000	170,000	
Governmental Obligations (a)										
1997	2008	5.900%	10.000%	108,267	49,655	45,875	11,837	900		
2009	2026	5.950%	9.875%	1,551,235	240,700	435,735	412,170	46,030		416,600
Debentures										
1997	2000	7.380%	9.720%	175,000		100,000				75,000
Long-Term DOE Obligation (Note 9)				117,270	117,270					
Waterford 3 Lease Obligation 8.76% (Note 10)				353,600			353,600			
Grand Gulf Lease Obligation 7.02% (Note 10)				496,480						496,480
Line of Credit, variable rate, due 1998				65,000						
CitiPower Credit Line, avg. rate 8.31% due 2000				921,553						
Other Long-Term Debt				83,411		9,938				
Unamortized Premium and Discount - Net				(30,310)	(11,420)	(5,087)	(5,619)	(2,861)	(1,112)	(4,211)
Total Long-Term Debt				7,936,424	1,287,853	2,076,211	1,407,508	495,069	180,888	1,428,869
Less Amount Due Within One Year				345,620	32,465	160,865	34,275	96,015	12,000	10,000
Long-Term Debt Excluding Amount Due Within One Year				$7,590,804	$1,255,388	$1,915,346	$1,373,233	$399,054	$168,888	$1,418,869
Fair Value of Long-Term Debt (c)				$7,087,027	$1,160,377	$2,142,389	$1,104,891	$503,461	$175,566	$982,423

(a) Consists of pollution control bonds, certain series of which are secured by non-interest bearing first mortgage bonds.

(b) Loan notes are included as current maturities of long-term debt based on the option of the holders to redeem such notes on March 31 of each year until their final maturity on March 31, 2003.

(c) The fair value excludes lease obligations, long-term DOE obligations, and other long-term debt and includes debt due within one year. It is determined using bid prices reported by dealer markets and by nationally recognized investment banking firms. See Note 1 for additional information.