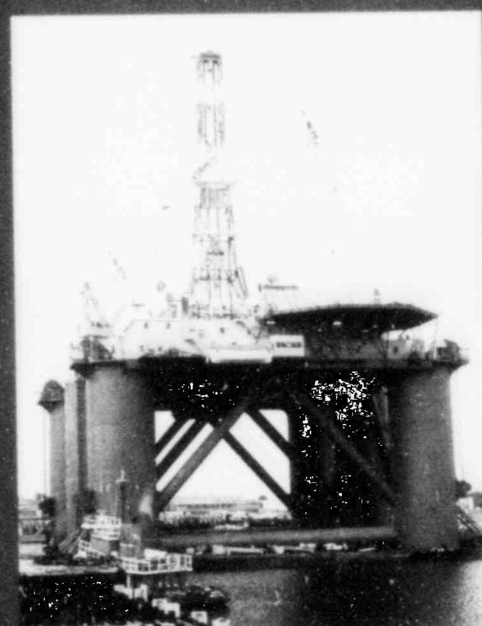
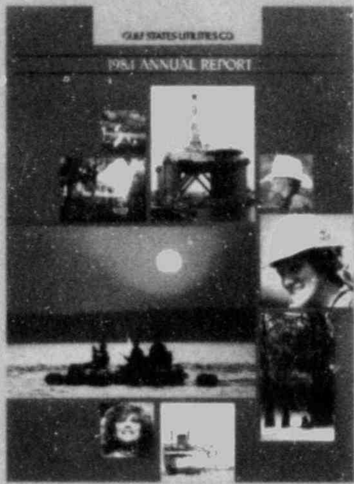
GULF STATES UTILITIES CO.

1984 ANNUAL REPORT





About the Cover

A public utility, more than any other business, has very real ties to its communities. It knows the lay of the land, the neighborhoods, livelihoods — virtually everything about the people, places and quality of life. Gulf States Utilities' 1984 Annual Report to Stockholders combines a look at our past year of operations with photographs of scenes from day-to-day living in Southeast Texas and South Louisiana.

Description of Business

Gulf States Utilities was incorporated in 1925 and is primarily in the business of generating, transmitting and distributing electricity to 555,000 customers in Southeast Texas and South Louisiana. The service area extends 350 miles westward from Baton Rouge, Louisiana, to a point about 50 miles east of Austin, Texas. The service area includes the northern suburbs of Houston and major cities such as Conroe, Huntsville, Port Arthur, Orange and Beaumont, Texas; Lake Charles and Baton Rouge, Louisiana.

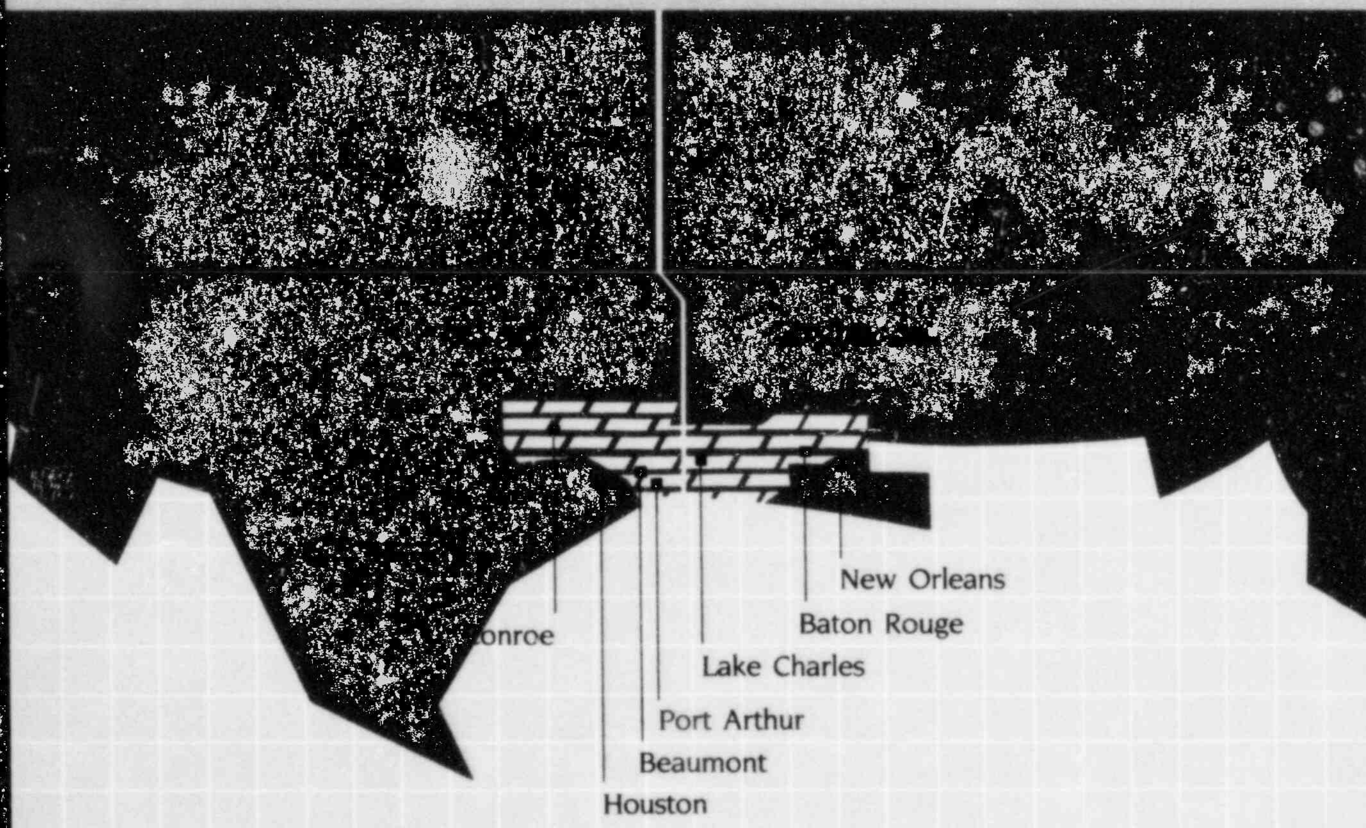
GSU also sells electricity to municipalities and rural electrical cooperatives in both Texas and Louisiana. In Baton Rouge, GSU supplies steam and electricity to industrial customers through a cogeneration facility and the company owns and operates a natural gas retail distribution system serving 86,000 customers.

As a member of the Southwest Power Pool, the company may interchange electricity with the 38 members serving eight states in the South and Southwest. The company had a peak load of 5,475 megawatts in 1984 while it had installed capacity and firm power purchase agreements totaling 6,780 megawatts.

The company has a wholly-owned subsidiary, Prudential Drilling Company, engaged primarily in exploration, development and operation of oil and gas properties.

Contents

Financial Highlights	1984	1983	% Change
Total Operating Revenue (000)	$1,547,041	$1,436,188	7.7
Operating Expenses and Taxes (000)	$1,203,357	$1,122,895	7.2
Net Income (000)	$ 258,171	$ 229,799	12.3
Income Applicable to Common Stock (000)	$ 202,511	$ 180,747	12.0
Earnings per Average Share of Common Stock Outstanding	$2.30	$2.31	(0.4)
Dividends per Share	$1.64	$1.62	1.2
Average Common Shares Outstanding (000)	88,164	78,233	12.7
Number of Electric Customers (end of year)	555,491	543,099	2.3
Total Kilowatt-Hour Sales (000)	31,693,898	29,005,483	9.3
System Peak Load — Kilowatts	5,475,000	5,348,000	2.4



uif States Utilities' Service Area

GULF STATES UTILITIES

Report to Shareholders

Dear Fellow Shareholders:

Last year began a marathon that took Gulf States Utilities from uncertainty, promise and hope to hope rewarded, promise realized and achievement in the face of uncertainty. To be sure, there were disappointments and difficult challenges, but on balance, 1984 was a good year.

Our earnings for the year ended December 31, 1984, were $2.30 per share of common stock, just one cent per share less than in 1983 when there were 11 percent fewer average shares outstanding. This earnings performance represents a significant achievement for a couple of reasons. First, sales were good — more than 9 percent above 1983 and 4 percent better than we had anticipated. Second, and equally important in helping to maintain our earnings, was a continued cost consciousness that pervaded every sector of the company. By controlling costs, our employees reduced our operations and maintenance expenses more than $6 million below budgeted amounts.

Our annual dividend paid in 1984 was $1.64 per share of common stock compared to $1.62 paid per share in 1983.

Last year saw GSU's capitalization exceed $4 billion for the first time in the company's history. This was a 13 percent increase over 1983. To put this growth into perspective, Gulf States' capitalization in 1979 was $1.9 billion and has more than doubled in five short years.

Those five years brought tremendous change for this company — change that challenged and strengthened our management talents and creativity. We have drawn on those strengths through some tough times, and 1984 was one of the tough ones. It also brought out the best in our people and we came through it with solid success.

A more detailed discussion of the events of 1984 will be found later in this report, but here are some of the highlights:

- Construction work at GSU's River Bend nuclear plant site in Louisiana was virtually completed by year's end and the critical start-up and test stage is progressing smoothly.
- The high-voltage transmission line to link Gulf States to the coal-produced power from The Southern Company was completed in May.
- Expiration of the 20-year-old, low-cost Exxon gas contract touched virtually every employee and customer. New pipelines, new contracts, new suppliers and a whole new strategy for buying gas were put into place. All 555,000 customers were contacted by mail and every regulator was informed in preparation. In the end, the transition from 1964-priced gas to 1984-priced gas went smoothly.
- We negotiated and signed a very favorable 10-year agreement with Kansas City Southern and Burlington Northern rail systems to transport coal from the Powder River Basin to our Nelson Station in Lake Charles, Louisiana.
- Our return to marketing after almost a decade met with success and led to the development of a strategic marketing plan to best use our existing facilities.
- We received modest rate increases from the Public Utility Commission of Texas and the Federal Energy Regulatory Commission in 1984.
- Donations to Project CARE approached the half-million dollar mark, but more importantly, more than 6,000 elderly families were helped with paying their energy bills during the year.

It was an impressive year.

Two areas will capture the focus of much of our attention during 1985 — the prompt completion of River Bend and its successful inclusion in the rate base and the best utilization possible of our facilities through aggressively marketing our product wherever customers need energy.

Manpower and budget are centered on achieving the early 1985 fuel-loading of River Bend, with commercial operation scheduled for the end of 1985. Since its beginning in August 1979, River Bend has been on an aggressive schedule. Throughout its construction history, the plant has made better than average progress when compared to other nuclear plants of similar size and design. If we are able to complete this ambitious, 68-month schedule, it will be the fastest construction time for a nuclear plant in the United States since 1972.

Not only is River Bend being built quickly and efficiently, it is setting standards of construction, labor-management relationships and safety for the rest of the industry.

The mistaken notion that somehow marketing electricity is incompatible with conservation has no place in GSU's marketing strategy. Our marketing objective is simple, to sell as much of our product as we can in order to make full use of our existing generating facilities and yet not be forced into a position of having to build new generation. An active, value-driven, customer-oriented marketing plan will help us compete in the changing residential, commercial and industrial arenas.

Gulf States' leadership role in promoting economic development in the areas we serve has been one of helping existing customers grow and new customers relocate in Southeast Texas and South Louisiana. We plan to retain existing customers and recruit new business wherever we can. And we will in 1985 through a revitalized marketing and economic development program.

Norman Lee, who joined GSU as an engineer 35 years ago and has served as the company's president and chief operating officer since 1973, was elected to the additional position of vice chairman of the board of directors in early September.

Two new members joined the board of directors since last year's report. Gen. Robert H. Barrow, former commandant of the U.S. Marine Corps, was elected to the board in May. In January 1985, Charles W. McCoy, president and chief executive officer of Louisiana Bancshares Inc. and chairman of Louisiana National Bank of Baton Rouge, became the newest member of the board. Our company is fortunate to have these two men put their talents and abilities to work for us.

Also in January, Dr. E. Linn Draper Jr. was promoted from senior vice president to executive vice president of external affairs and production.

On a sad note, the year witnessed the assing of two men who provided GSU ith extraordinary leadership in very ifficult times. Former chairman and hief executive officer, W. Donham rawford, and Thomas H. Burbank, enior vice president — executive pro- cts, died during the year. They will be issed.

Finally, it should be pointed out that a gnificant portion of the 1984 common ock dividends will be return of capital nd therefore not taxable as dividend come. This is primarily a result of the ancellation of River Bend Unit 2 last nuary. The proper income tax forms ave been mailed to all shareholders, ut additional information is provided n page 10.

The kinds of things that were ccomplished in 1984 were people nds of things. They didn't happen advertently. They represent hard, in- nse work and effort by many very pable people at Gulf States Utilities. hose people whose work made last ear a success deserve our thanks and raise for a job well done. If 1984 was a arathon, 1985 will be a dash, with the nish line clearly in sight.

Norman R. Lee

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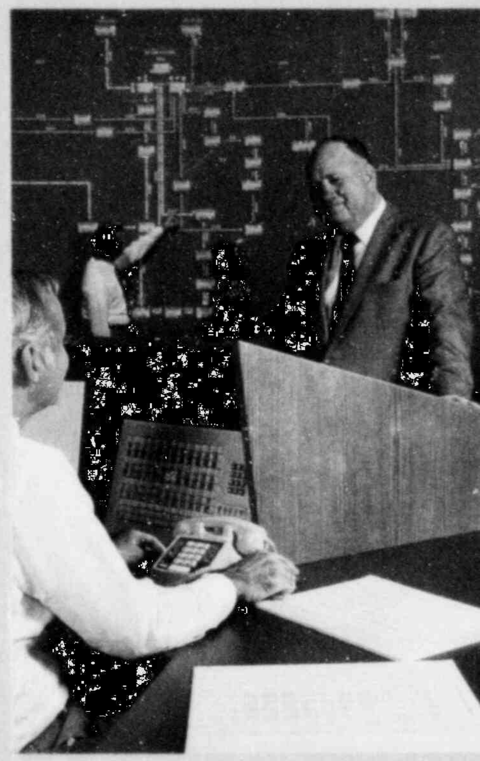
ce Chairman of the Board,
esident and
ief Operating Officer

Paul W. Murrill

aul W. Murrill
airman of the Board
d Chief Executive Officer

Paul W. Murrill



Norman R. Lee






Sales

Electricity sales to every customer class — residential, commercial and industrial — increased during 1984. Overall kilowatt-hour sales grew by 9.3 percent over 1983, an increase of 2.7 billion kwh for the year.

The economic recovery that began to make itself felt in Southeast Texas and South Louisiana in mid-1983 continued to show strength during 1984.

It was reflected in GSU's industrial load, which began the year strong and continued its momentum during the year.

Sales to industrial customers accounted for 41 percent of GSU's annual electric revenues and showed the largest sales increase of any customer class, a substantial 12 percent growth during 1984. A portion of this is a result of improved

This is the life. It doesn't take long to get comfortable living in Southeast Texas and South Louisiana. The best part is all the days and ways you can enjoy being outside — from discovering backroads and an old general store or fishing holes, to tending a garden or attending a crawfish boil. There is ample land, schools and opportunities ... a future as well as a glorious past.

Construction

economic conditions experienced by some of GSU's large industrial customers. Some of the sales increase, however, reflected the fact that a number of customers who have generation capabilities of their own opted to take power from Gulf States because of the advantages offered by innovative rates and cheaper costs.

If rates increase as they are expected to during 1985, it is anticipated that many of these customers will return to the use of their own facilities.

The highly weather-sensitive residential and commercial sectors both experienced impressive growth in sales during 1984. The intense cold weather that gripped the GSU service area during January and February set an all-time winter peak demand and drove residential sales upward. However, a cooler than normal summer during the air conditioning season tended to moderate overall sales for the year. Kilowatt-hour sales to residential customers still ended 1984 with an impressive 9 percent increase.

The number of GSU's new commercial customers grew by 5 percent last year, which accounted substantially for the 9 percent increase in sales to commercial customers.

During the year GSU added more than 12,000 new customers, increasing the total number receiving electric service to 555,491 at the end of 1984.

Gulf States ended 1984 with earnings of $2.30 per share of common stock compared to $2.31 per share in 1983, when there were 11 percent fewer average shares outstanding. The common stock dividend paid in 1984 was $1.64 per share compared to $1.62 paid per share in 1983. Operating revenues were $1.5 billion in 1984 and $1.4 billion in 1983.

The Public Utility Commission of Texas (PUCT) and the Federal Energy Regulatory Commission (FERC) both granted modest rate increases above the cost of fuel to GSU during the year. Additional factors that influenced 1984 earnings included a solid achievement in sales and cost containment efforts which reduced operation and maintenance expenses more than $6 million below budgeted amounts.

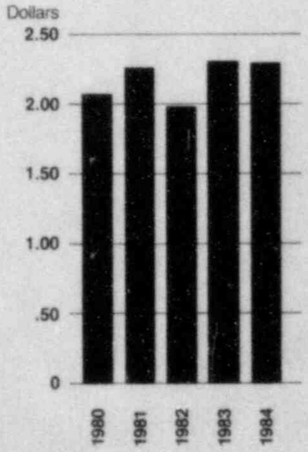
Construction

For the past decade Gulf States' construction program has been aimed at moving the company away from its heavy dependence on natural gas as a boiler fuel and toward a greater diversification of fuel sources and supplies. Great strides were witnessed in this area in 1984.

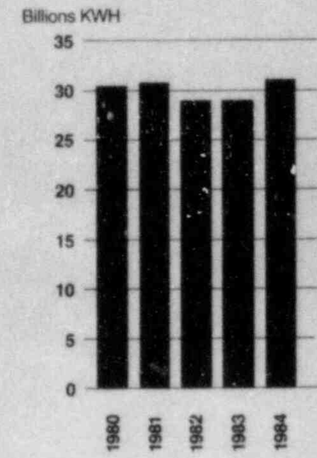
One major construction project to bring "coal by wire" into the Gulf States system was completed, while another to add nuclear power to the generation mix neared completion.

On May 17, GSU and The Southern Company — a group of utilities in Alabama, Georgia, Mississippi and Florida — placed

Total Earnings Per Share



Electric Sales



into operation a 500-kilovolt transmission line linking the two systems for the first time. The 150-mile line, which runs from near Baton Rouge, Louisiana, to near Pascagoula, Mississippi, began delivering coal-fired power after more than two years of planning and construction. GSU's 70-mile portion of the line includes more than 360 transmission towers and was built using helicopters, frogmen and marsh buggies to overcome the unusually heavy rains and high water during much of the construction.

The new line will allow GSU to receive up to 1,500 megawatts of power, while giving the company a more diversified fuel mix and providing an opportunity to exchange power with additional utilities.

As 1984 ended, River Bend Station, GSU's 940-megawatt nuclear facility being built north of Baton Rouge, was almost 95 percent complete. Manpower and budget were shifted by mid-year to focus on achieving the spring 1985 fuel-loading date, with commercial operation scheduled for the end of 1985. The start-up schedule was almost 60 percent completed by the end of the year.

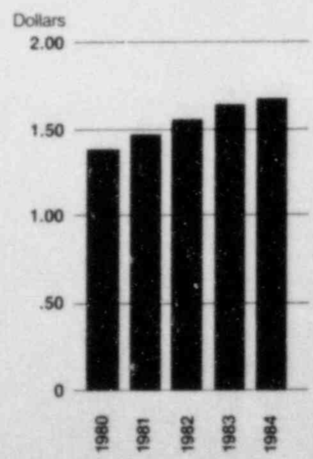
In mid-November, Gulf States and Stone & Webster Corp., general contractor on the project, reaffirmed the construction schedule established in 1981. The projected cost of putting River Bend into commercial service was increased at that time to $2.72 billion. The previous project estimate of $2.5 billion had been established in 1981.

Estimated construction costs do not include carrying costs during construction or capital expenditures to be paid after the plant goes into operation. Most of the project's increase in costs is related to maintaining schedule and assuring safety of operation of the plant. Greater than expected expenses associated with testing and start-up and additional staffing for the plant once it is operational have also been identified as contributing to the cost increase.

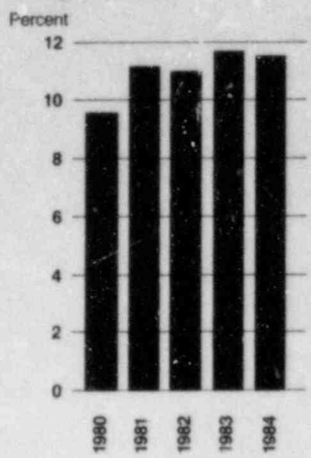
The company recognizes that River Bend is on an aggressive, ambitious schedule. However, throughout its construction history, River Bend has made above-average progress when compared with other nuclear projects of its size and design. A number of systems that would not have had roles to play until the plant was ready to actually produce electricity were resequenced last year to enable management to focus manpower and budget on achieving the spring fuel-loading date. Finally, GSU has been successful in attracting some of the most experienced people in the nuclear industry to staff the start-up program at River Bend.

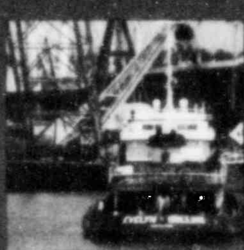
The Nuclear Regulatory Commission (NRC) Caseload Forecast Panel in the past had indicated that it did not feel that GSU could achieve its 68-month River Bend construction schedule, but the NRC is working to support the schedule.

Dividends Per Share



Return On Average Capitalization

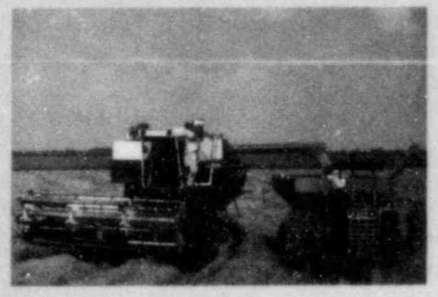




River Bend Developments

The Advisory Committee on Reactor Safeguards, which conducts highly technical safety reviews for the NRC, recommended to the commission that GSU be granted a temporary low-power operating license when it is ready for testing. Low-power operation means that the reactor runs at only 5 percent capacity while the various systems and components are tested.

As part of the licensing procedure for River Bend, the NRC requires GSU to have an emergency



preparedness plan in place. GSU employees, plus representatives of the states of Louisiana and Mississippi and the five parishes near the plant, began training last fall to prepare for an emergency in the unlikely event of an accident at the site. On January 16, 1985, GSU personnel working with state and parish officials conducted a simulated emergency drill at River Bend under the direction of the NRC. An NRC spokesman observing

Working toward diversity. While petrochemical and agriculture remain top industries, our economy is becoming more competitive and diversified. Cooperation and planning between people, companies, cities and states are paying off in a highly trained workforce and policies to attract new business.

Financing

the drill noted that the exercise was successful and that the NRC considered it an adequate performance. Successful completion of an emergency drill exercise is one requirement for approval of River Bend's operating license.

Also in January 1985 the NRC Office of Nuclear Material Safety and Safeguards issued GSU a license that allows the company to receive and store fuel for River Bend. The first shipments of nuclear fuel began arriving at the plant site in early February 1985 in preparation for this spring's scheduled fuel loading. The fuel bundles will be kept in a storage pool inside the fuel building until the NRC grants a low-power license and GSU is ready to load fuel.

Hearings scheduled for early October 1984 were canceled when intervenors in the operating licensing proceedings said they were satisfied with GSU's plans for dealing with their three areas of concern and decided against raising the issues in formal hearings.

As one of its first acts of 1984, the board of directors of GSU formally canceled River Bend Unit 2, the twin of the unit now under construction. It was a case of recognition following fact.
The net book loss, after taxes, as a result of the cancellation amounts to approximately $82 million.

The Public Utility Commission of Texas conducted hearings on River Bend Unit 2 and the hearing examiner reached two conclusions: first, the decision to build River Bend Unit 2 was prudent, and second, the decision to cancel the unit also was prudent.

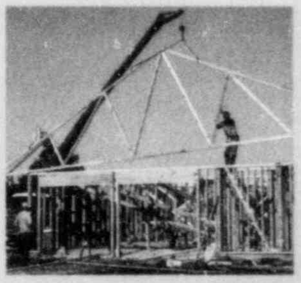
As a result of the cancellation of River Bend Unit 2, a portion of the 1984 common stock dividend will be treated as return of capital for federal tax purposes. The company anticipates that 72.27 percent of the third quarter common stock dividend and 76.41 percent of the fourth quarter common stock dividend will not be taxable for federal income tax purposes as dividend income. Return of capital reduces the tax cost basis of the shares on which the dividends are paid. The first and second quarter common stock dividends, as well as all preference and preferred stock dividends, are 100 percent taxable as ordinary dividends.

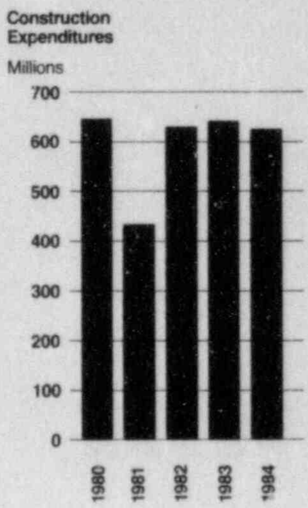
Financing

To finance the company's construction program, GSU issued securities totaling $462 million, or more than a million dollars a day. GSU's goal is to finance each year's demands as it goes along. To achieve the "pay as you go" goal, in 1984 the company sold $296 million in long term debt, $45 million of preferred stock and $121 million in common stock.

About $196 million, or two-thirds of GSU's debt financing, was in the form of tax-exempt pollution control bonds. Nearly $64 million of these pollution control financings are being held in construction trust accounts to be spent during 1985 to pay for the cost of building pollution control facilities for River Bend.

In July 1984, 81 U.S. and foreign banks completed approval of an extension of GSU's $800 million revolving credit agreement. The credit agreement was primarily ar-





ranged to provide a back-up source of funds for construction of River Bend, in the event that funds were not available from public markets. The agreement is extended until September 1988, with payback of any balance to be made over three years, ending September 1991.

In summary, the 1984 financing program was as follows:

- In January the company sold 900,000 Depository Preferred Shares each representing 1/2 share of Adjustable Rate Cumulative Preferred Stock, Series B. The $100 par value shares sold at an initial dividend rate of 12.5 percent.
- In March GSU completed the sale of $100 million of 10-year first mortgage bonds with a coupon rate of 13.75 percent.
- In April GSU filed shelf registration statements relating to proposed offerings of up to 6 million shares of common stock, 3 million shares of preference stock and $100 million in first mortgage bonds.
- In May the company guaranteed $102 million of pollution control revenue bonds, sold at 100 percent of the principal amount plus accrued interest to help finance pollution control facilities at River Bend.
- In August the company raised $66 million through the sale of 6 million shares of common stock.
- In September GSU filed a shelf registration statement related to proposed offering of up to 750,000 shares of new preferred stock — $100 par value.
- In December GSU closed on $94 million of 30-year pollution control bonds for River Bend. The interest rate is adjusted daily.

GSU shareholders, primarily individual and small institutional investors, have exhibited support for the company by participating in the Dividend Reinvestment Plan. At the present, some 43 percent of GSU's common stock shareholders are reinvesting their dividends. This represents investment of 20 percent of common stock dividends.

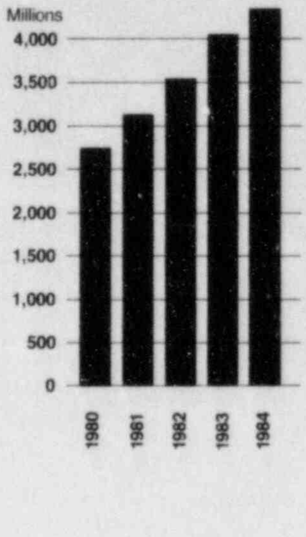
Rates & Regulation

Much of the rates and regulatory activities that took place in 1984 centered on GSU's actions to recover the costs of fuel through rates. Nearly 50 percent of the fuel GSU used to make electricity for the past 20 years has been purchased through a single contract at about 23 cents per thousand cubic feet. Expiration of this contract on January 1, 1985, forced GSU to ask for higher rates to recover the increase in fuel costs.

In early January 1984 the company filed a two-step rate case with the Public Utility Commission of Texas (PUCT). The request consisted of $161.2 million in additional revenues later in 1984 and $264.6 million at the beginning of 1985 to cover increased fuel expenses.

In its first decision under new state laws governing utilities, the PUCT voted in early July to grant GSU a modest rate increase. Of the $161.2 million originally requested in January, the company received

Total Utility Plant

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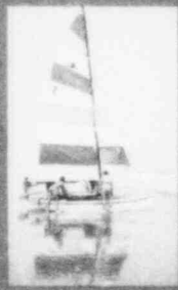
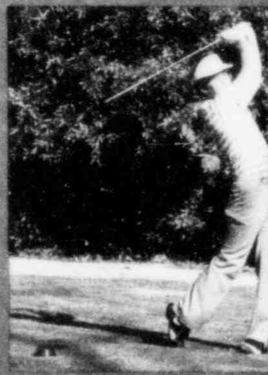




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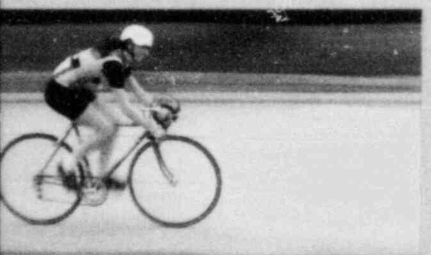
Rates & Regulation

approximately $27.5 million. The new rates were put into effect under bond the next day in all unincorporated areas of the company's Texas service area and became effective in the cities a short time later.

As the market price of natural gas continued to go down during the year, the company reduced its fuel rate request to $191.2 million in September and then to $166 million in December. The short-term gas price reflected the lower costs in



fuel contracts GSU signed after the PUCT finished its hearings. Finally, on December 20, the Texas commission approved approximately $166 million to cover expected fuel cost increases. GSU was allowed to begin billing at the new rates on and after January 1, 1985.

Fuel cost recovery is regulated differently in Louisiana. In December the Louisiana Public Service Commission (LPSC) approved a plan for the recovery of fuel costs resulting from the

Recreation. We work hard at it. Whether it's just to unwind or to enjoy some beautiful obsession, people have countless recreational opportunities in our section of the Sunbelt. On water or wheels. Collegiate sports or the sport of kings. We enjoy an active and attractive lifestyle.

General Operations

expiration and replacement of the low-cost Exxon gas contract. The plan calls for increases in rates over a five-month period starting in January with complete fuel cost recovery by May 1985.

In other Louisiana rate activity, GSU's appeal of a $119.4 million electric rate increase request of December 1982 spent the entire year waiting action in a state district court. The LPSC had denied the original request in December 1983 and ordered a $1.1 million reduction in electric rates stayed by the court. GSU appealed the decision in court, and the court remanded the case to the commission for further consideration. The LPSC reconsidered the case, but did not change its previous decision. The case was then returned to the district court. The date of any action cannot be predicted.

Things were better at the federal level. In September the Federal Energy Regulatory Commission (FERC) ruled that new wholesale rates requested in July could be put into effect after a one-day suspension. This allowed the full $29.6 million proposed increase to become effective at the end of September, subject to refund after full hearings. The rate increase was later lowered to $29.3 million. GSU serves 11 communities and three rural cooperatives affected by the increase.

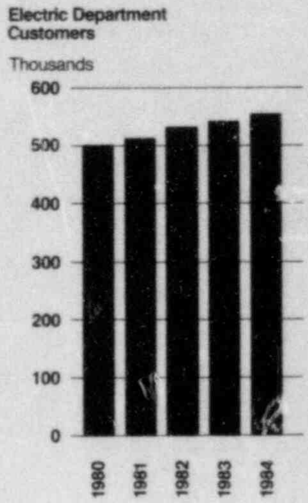
General Operations

One event that has commanded the attention and activities of Gulf States since the beginning of the 1980s has been the expiration of the Exxon gas contract on January 1, 1985. This single event touched literally every customer and employee. Through a single source of supply, GSU was able to secure about one-half of the company's boiler fuel for the past 20 years at a low, fixed price of 23 cents per thousand cubic feet. Over the years, the contract had saved GSU customers nearly $2 billion. But all good things come to an end.

Even though 20-year-old prices could not be kept from rising to today's level, GSU began taking steps several years ago to minimize the impact on customers. Prime among them was the shift from increasingly expensive natural gas to such cheaper fuels as coal, nuclear and coal-based purchases.

As late as 1981, Gulf States was virtually a 100 percent gas-burning utility. By next year, it is projected that gas usage will fall to around 42 percent of the needs, with coal and purchased power making up about 45 percent and River Bend accounting for the final 13 percent. This is a dramatic, but necessary transition.

Adding multiple gas suppliers has increased fuel flexibility. Instead of a single pipeline to a plant, now multiple pipelines from different gas systems serve each plant. This allows a choice from among several natural gas suppliers rather than being locked into a single supplier. This diversity of suppliers, contracts and pipeline connections provides GSU with the flexibility and reliability to take full advantage of today's natural gas market — all to the benefit of customers.



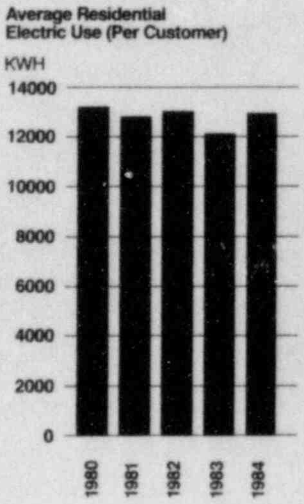
During the past year, communications programs were intensified to inform customers of impending price increases expected to result from expiration of the Exxon contract. Besides using mass media to provide this information to customers, individual letters were mailed to all customers explaining the situation. An opinion survey taken in December showed that the vast majority of customers realized that fuel prices would cause their electric bills to increase during 1985 and that Gulf States was working to hold these increases down.

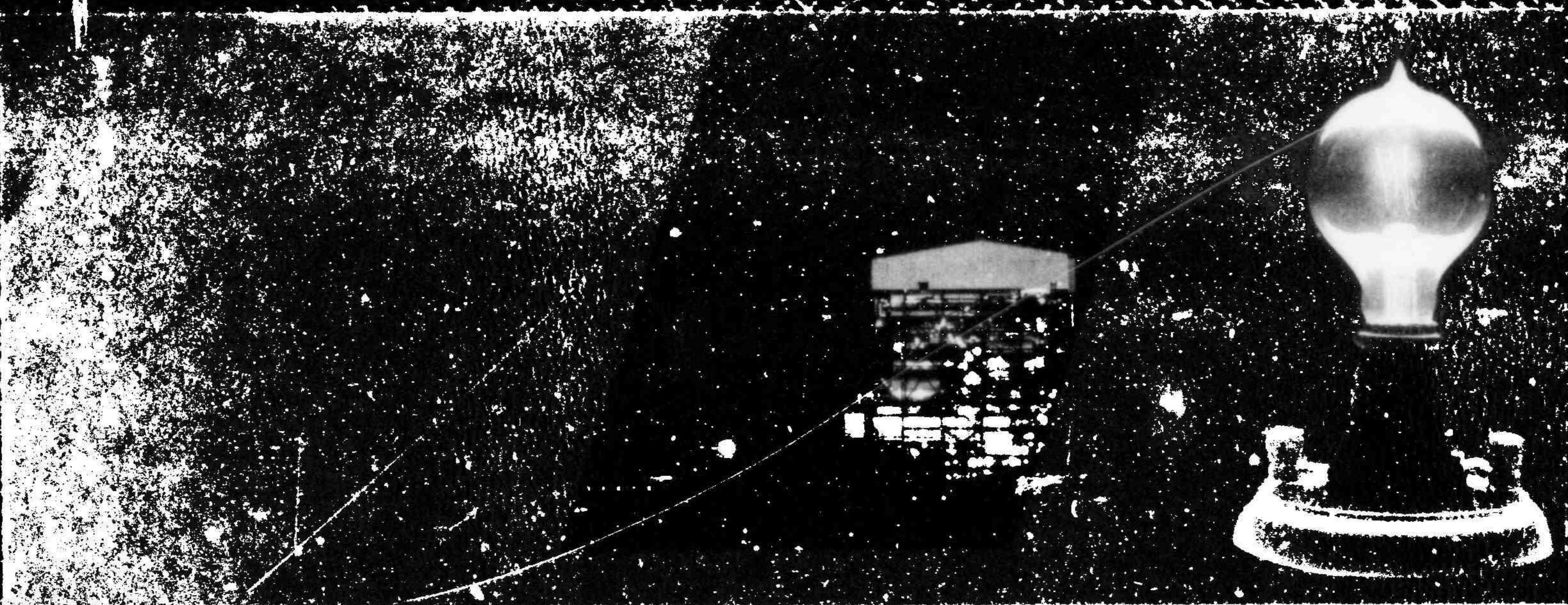
Project CARE — Community Assistance Relating to Energy — GSU's program to aid elderly customers in meeting energy emergencies, gained public support during 1984. As the year ended, contributions from GSU customers, shareholders and employees topped the half-million dollar mark. In human terms, more than 6,000 elderly people have been helped by Project CARE to pay electricity, gas, propane and butane bills since the program began in early 1983. Direct assistance is administered by social service agencies in Texas and Louisiana.

Another program aimed at helping customers deal with higher energy costs was carried out last spring by Gulf States and Texas Governor Mark White's office. The three month Residential Cost Controller Program was created to show electric customers how they could have greater control of their energy use and thus, control their costs. More than 12,000 customers were directly contacted through the program which included air conditioning tune up, water heater wrap up and energy audit check up activities. The positive achievements of this effort have prompted Gulf States to extend the program to Louisiana and to repeat the activities in Texas during the spring of 1985.

In June the company and Local 2286, International Brotherhood of Electrical Workers, AFL-CIO, signed a new two-year labor contract, which calls for a 4 percent wage increase each year, along with improvements in various employee benefits. Of GSU's 5,100 regular employees as of the end of 1984, approximately 3,150 operating and clerical personnel are represented by IBEW. GSU's employment practices are guided by the principles of equal opportunity for all employees and applicants. Implementation of Affirmative Action Programs has helped Gulf States obtain skilled personnel from all community sectors, and fair employment policies are one way the company develops its human resources to more effectively serve customers.

During 1984, Prudential Drilling Company, GSU's wholly-owned subsidiary, spent $17.8 million for exploration, completion and development of oil and gas reserves in the Texas and Louisiana Gulf Coast region. This included $3 million in joint ventures with independent operators. At year's end, Prudential's proved reserves were estimated by the company to be in the range of 22.1 million mcf of gas and 1.5 million barrels of oil or condensate. For exploration, completion and development in 1985, Prudential has planned and budgeted expenditures totalling $14 million.





New Times, New Marketing S

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ctivities. Our staff acts as a matchaker between potential customers nd potential locations using our omputer Analysis of Building and tes (CABS). Community profiles at include a multitude of useful ata are supplied to prospects with e CABS report.

GSU is in the second phase of a lot program to revitalize the owntowns within the service area nd better utilize our existing cilities to produce additional les.

A recent study indicated that if uildings currently available in Lake harles and Beaumont were ccupied to 80 percent capacity, SU would gain $3.2 million in dditional revenue.

Cogeneration is going to be a ajor contributor to this region's nergy mix in the future, and Gulf ates will be a part of it. ogenerated power is defined as aking two forms of energy — such as electricity and steam — at the same time. We have generating units available at Louisiana Station, Neches Station and Nelson Station that could be used exclusively as cogenerators for specific companies. This is attractive to GSU for a couple of reasons: we retain load we might otherwise have lost (though we will be serving it in a different manner), and we gain steam load we would not have had.

Our primary goal is for all customers to maintain their service with Gulf States. Not only does this mean selling electricity to those who can well afford it, it means working directly with low-income and elderly customers who are hard pressed to pay higher energy costs. We will continue to offer customer benefit programs like Project CARE for the elderly, energy audits, weatherization services and rate options to meet individual needs. This is a social responsibility we recognize and accept.

As we return to our marketing roots in 1985, our aim will be to provide our customers the product and service they need and expect, in ways that will continue to win their favor.

GULF STATES UTILITIES CO.

Financial Information

FINANCIAL SECTION

Contents

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management is responsible for the preparation, integrity, and objectivity of the financial statements of Gulf States Utilities Company. The statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis, and, in some cases, reflect amounts based on estimates and judgment of management, giving due consideration to materiality.

The Company maintains a system of internal controls designed to help give reasonable assurance that the books and records properly reflect the transactions of the Company and that established policies and procedures are followed. Internal control systems are subject to inherent limits in recognition of the need to balance their costs with the benefits they produce. The Company's management strives to maintain this balance.

Coopers & Lybrand, independent certified public accountants, are engaged to examine, in accordance with generally accepted auditing standards, the financial statements of the Company and issue a report thereon, which appears on page 38. Such auditing standards include a review of internal accounting controls, tests of transactions, and other procedures sufficient to provide reasonable assurance that the financial statements are neither materially misleading nor contain material errors.

The Board of Directors, through its Audit Committee, has general oversight of management's preparation of the financial statements and is responsible for engaging, subject to shareholder approval, the independent accountants. The Audit Committee, comprised entirely of outside directors, reviews with the independent accountants the scope of their audits and the accounting principles applied in financial reporting. The Audit Committee meets regularly, both separately and jointly, with the independent accountants, representatives of management, and the internal auditors, to review activities in connection with financial reporting. The independent accountants have full and free access to meet with the Audit Committee, without management representatives present, to discuss the results of their examination and their opinion on the adequacy of internal accounting controls and the quality of financial reporting.

Selected Financial Data

(in thousands except per share amounts and ratios)

For the Years Ended December 31	1983	1982	1981	1980
Operating Revenue	$1,436,188	$1,307,259	$1,221,714	$1,005,226
Net Income	229,799	165,979	150,931	117,189
Income Applicable to Common Stock	180,747	127,030	120,550	92,309
Earnings Per Average Common Share Outstanding	2.31	1.95	2.24	2.05
Dividends Per Share of Common Stock	1.62	..56	1.48	1.39
Return on Average Common Equity	14.78%	12.32%	14.21%	12.94%
Ratio of Earnings to Fixed Charges	2.43	2.10	2.10	2.38
As of December 31				
Total Assets	$4,349,524	$3,806,111	$3,343,419	$2,925,701
Long-Term Debt and Preferred Stock Subject to Mandatory Redemption	2,040,295	1,771,078	1,642,894	1,444,505
Book Value Per Share	15.73	15.25	15.41	15.60
Capitalization Ratios:				
Common Shareholders' Equity	36.6%	36.0%	34.4%	32.6%
Preferred and Preference Stock	12.3	13.1	11.5	13.3
Long-Term Debt	51.1	50.9	54.1	54.1
	100.0%	100.0%	100.0%	100.0%

Common Stock Prices and Cash Dividends Per Share

For the years ended December 31

1984	High	Low	Cash Dividends Paid Per Share
First Quarter	$13⅞	$11⅝	$.41
Second Quarter	12	10¾	.41
Third Quarter	11¼	10	.41
Fourth Quarter	13⅜	11	.41

1983	High	Low	Cash Dividends Paid Per Share
First Quarter	$14⅞	$12⅞	$.39
Second Quarter	15¼	13¾	.41
Third Quarter	15	13½	.41
Fourth Quarter	16¼	12⅜	.41

The Common Stock of the Company is listed on the New York, Midwest and Pacific Stock Exchanges. The approximate number of common shareholders on December 31, 1984, was 115,000.

Financial Information

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

Results of Operations

Net income and income applicable to common stock both increased by 12 percent during 1984, as compared to 1983. Despite these increases, earnings per share of common stock remained virtually unchanged at $2.30 per share as compared to $2.31 per share during 1983, as a result of the dilutive effect of having 13 percent additional average common shares outstanding during 1984. Increased revenues, resulting primarily from increased sales volume, and rate increases granted by the Public Utility Commission of Texas (PUCT) and the Federal Energy Regulatory Commission (FERC), along with higher levels of allowance for funds used during construction (AFUDC), were the primary reasons for the increase in net income experienced during 1984. The inadequate rate relief received during 1983 and 1984, has caused a weakening in the Company's overall financial condition. Unless and until the Company receives adequate rate relief which recognizes increases in both its cost of service and embedded cost of capital, the Company's overall financial condition will continue to be adversely affected.

Operating Revenue

Operating revenue increased 8 percent during 1984, as compared to increases of 10 percent and 7 percent during 1983 and 1982, respectively. The primary causes of these increases are detailed below:

	1984	1983	1982
	(In thousands)		
Rate Increases	$ 17,993	$127,915	$ 93,033
Fuel Cost Recovery	46,856	(7,411)	(5,813)
Sales Volume and Other	46,004	8,425	(1,675)
	$110,853	$128,929	$ 85,545

During July, 1984, the PUCT approved $27.5 million of a requested $161.2 million electric retail rate increase based upon a test year ending June 30, 1983. The PUCT did not include the Company's 42 percent share of Big Cajun 2 Unit 3, a 540 MW coal-fired generating unit, as plant-in-service, although the Company had declared its portion of the unit to be in commercial operation in September, 1983. The PUCT failed to include the unit as plant-in-service because it was declared commercial after the end of the test year. The Company has appealed the rate order to a District Court in Texas. The PUCT had previously approved a $57.5 million rate increase which was placed into effect during October, 1982.

During December, 1983, the Louisiana Public Service Commission (LPSC) denied the Company's request for a $119.4 million electric retail rate increase and ordered a $1.1 million decrease in rates. Concurrently, the LPSC granted the Company $1.5 million of a requested $2.2 million gas rate increase. The Company has filed an appeal with a District Court in Louisiana seeking a reversal of the LPSC's actions and an order to grant the requested increases. During September, 1982, the Company placed into effect a $97.3 million rate increase approved by the LPSC.

During September, 1984, the Company placed into effect a $29.3 million increase in wholesale rates authorized, subject to hearing and refund, by the FERC. The Company cannot predict when a final order will be rendered or the amount of increase, if any, that will ultimately be granted. The FERC approved, and the Company placed into effect, a $28.8 million increase in wholesale rates during July, 1982.

The Company anticipates filing requests with the LPSC and PUCT for increases in its electric retail rates, and with the FERC for an increase in its wholesale and transmission rates during 1985. The primary purpose of these proposed rate increases is to cover the additional costs which the Company expects to incur in connection with the anticipated commercial operation of River Bend Unit 1, a 940 MW nuclear-fueled generating unit, beginning in December, 1985. The Company has no assurances as to the type, timing, or amount of any rate treatment which may be granted in the rate cases.

Kilowatt-hour sales increased 9 percent during 1984, as compared to a sales increase of less than 1 percent during 1983, and a sales decline of 6 percent during 1982. Sales to industrial and commercial customers increased by 12 percent and 9 percent, respectively, during 1984, and reflected the improving economic conditions experienced in the Company's service area since the beginning of the third quarter of 1983. A 9 percent increase in sales to residential customers resulted from the colder than normal weather experienced in the Company's service area during the first quarter of 1984, combined with the warmer weather experienced during the second and fourth quarters of 1984. During 1983, a 4 percent increase in sales to industrial customers was offset by decreases of 5 percent and 8 percent, respectively, in sales to residential and wholesale customers and resulted in sales remaining virtually unchanged during 1983. The increased industrial sales reflected the improving economic conditions in the area, while the decreases in residential and wholesale sales resulted from milder than normal summer weather. Another factor in the decrease in wholesale sales was the transfer during 1983, of certain municipal customers to another supplier. The decrease in total sales during 1982, was primarily attributable to decreases in industrial sales resulting from the economic recession experienced throughout that year.

On January 1, 1985, the Company's long-term contract for the purchase of low-cost natural gas expired. Under the contract, the Company purchased the major portion of the fuel used in its Texas generating stations. As a result of the increased availability of purchased power and other Company-owned generation, the Company has arranged to replace only about 60 percent of the gas supplied under the old contract. While this will lessen the impact of the contract expiration, the Company expects that the higher fuel and purchased power costs may result in fewer kilowatt-hours being sold during 1985.

Operating Expenses and Taxes

The Company's fuel expense has declined during each of the three years from 1982 through 1984. Decreases in fuel expense of 5 percent and 2 percent during 1984 and 1983, respectively, were primarily the result of reductions in the unit price paid for fuel. These reductions reflect a greater availability of lower priced natural gas and the increased utilization of lower priced coal-fired generation in the Company's fuel mix. The average cost per kilowatt-hour of natural gas, the Company's primary source of generation, has decreased from 1.74 cents in 1982, to 1.50 cents in 1984. While the unit price of the Company's coal-fired generation has remained stable during the period from 1982 to 1984, the increased usage of such generation has helped displace more expensive Company-owned generation. The 7 percent decline in fuel expense during 1982, was due to reduced generation requirements caused by lower sales, offset in part by increases in the unit price of fuel. Substantially all fuel and purchased power costs in excess of those included in base rates are deferred or accrued until such costs are approved by regulatory authorities and reflected in customer billings and, thus, have no effect on net income.

Purchased power expense increased by 33 percent during 1984, as compared to increases of 11 percent and 21 percent during 1983 and 1982, respectively. The increase in purchased power expense during 1984, resulted from increased purchases of energy made as a result of higher load requirements, offset in part by a reduction in the unit cost of kilowatt-hours purchased. During the second quarter of 1984, the Company began purchasing coal-fired power under the terms of a long-term interchange agreement with The Southern Company. The 1983 increase is attributable to increased unit prices associated with the Company's buyback of the co-participants share of capacity of Nelson Unit 6, a 540 MW coal-fired generating unit placed in service during May, 1982. The increased unit prices were offset in part by decreased energy purchases. The increase in purchased power expense during 1982, was caused primarily by increases in the unit price paid for energy purchased.

The Company expects that as a result of the expiration of its contract for the purchase of low-cost natural gas, total fuel and purchased power expense will increase significantly during 1985. The Company has received authorization from the PUCT to increase its Texas retail rates by $166 million effective January 1, 1985, to cover these anticipated additional costs. The LPSC has approved a plan under which the Company will phase-in the higher fuel costs through the fuel adjustment clause over a five month period. The Company anticipates that the additional fuel costs attributable to its wholesale customers will be recovered through its wholesale fuel adjustment clause.

Other operating expenses have increased as a result of higher labor and material costs, increases in the cost of gas purchased for resale, and increased administrative and general expenses. Costs associated with the operation of new generating units have also contributed to the increase in other operating expenses. Increased labor and material costs associated with the performance of scheduled and unscheduled maintenance resulted in increases in total maintenance expense during 1984 and 1983. A decrease in the amount of unscheduled maintenance performed during 1982, resulted in a decrease in maintenance expense during that year.

Depreciation expense has increased primarily as a result of placing the Company's portion of Big Cajun 2 Unit 3 into commercial operation. This increase was offset in part by a slight reduction in the Company's composite depreciation rates. Amortization expense increased by $1,559,000, or 40 percent, during 1984, as compared to 1983. During the second half of 1984, the Company began amortizing the wholesale and Texas retail portions of its investment in River Bend Unit 2, a proposed 940 MW nuclear-fueled generating unit, which was cancelled in January, 1984. See Note 10 to the Financial Statements.

Income taxes increased 3 percent during 1984, as compared to increases of 33 percent and 60 percent during 1983 and 1982. The 1983 increase was primarily the result of increased pre-tax income, while the 1982 increase reflected the effects of certain tax adjustments. Other taxes continue to increase primarily as a result of higher franchise and revenue-related taxes.

Financial Information

Non-Operating Items

The increases in AFUDC during 1984, resulted from an increase in the amount of Construction Work in Progress (CWIP) qualifying for AFUDC, offset in part by a decrease in the AFUDC rate. The increase in the amount of CWIP qualifying for AFUDC is due to the Company's ongoing construction program, along with reductions in the amount of CWIP included in the Company's rate base by the LPSC and the PUCT. Increases in AFUDC during 1983 and 1982, were the result of increases in the rate used to compute AFUDC, along with a decrease in the amount of CWIP upon which the Company was allowed to earn a cash return. The increase in the AFUDC rate resulted from increases in the Company's embedded cost of capital.

Increased interest on long-term debt resulted from the interest requirements on new borrowings made to refund short and intermediate-term debt incurred in connection with the Company's construction program.

Financings and Capital Resources

During 1984, the Company invested $625 million (including $159 million of AFUDC) in utility and other plant. It is currently estimated that the Company's construction expenditures will total $610 million in 1985, (including $208 million of AFUDC). Assuming that River Bend Unit 1 goes into commercial operation in 1985, the Company anticipates that its 1986 construction expenditures will decline to approximately $250 million (including approximately $21 million of AFUDC). A total of $514 million of the Company's 1984 investment in utility and other plant was attributable to the Company's investment in its 70 percent ownership share of River Bend Unit 1. In addition to funding the construction program, the Company must periodically redeem preferred stock in accordance with sinking fund provisions, retire long-term debt, and pay dividends to the holders of its preferred and preference stock. For information on preferred stock sinking fund requirements and long-term debt maturities, see Notes 7 and 8 to the Financial Statements.

The Company's construction program is funded primarily through the use of short and intermediate-term borrowings, which are subsequently refinanced using proceeds from long-term debt and equity issues. During 1984, 61 percent of the Company's construction expenditures were funded from external sources. Internally generated funds and AFUDC equal the remaining 39 percent of construction costs during 1984, compared to 34 percent during 1983. This increase is primarily attributable to increases in the amount of AFUDC recorded during 1984. It is currently estimated that internally generated funds and AFUDC will total approximately 33 percent of construction costs (including AFUDC) in 1985. Improved internal cash generation will be directly related to adequate and timely rate relief which recognizes increases in the Company's embedded cost of capital and its cost of service and allows the Company to earn a return on the full portion of its investment in River Bend Unit 1 once it is placed in commercial operation.

The Company's ability to adequately fund its construction program continues to be dependent upon its ability to gain access to the capital markets and issue debt and equity securities at reasonable rates, and the continued participation by Cajun Electric Power Cooperative, Inc. in River Bend Unit 1. The Company's ability to obtain the needed financing is affected by credit ratings assigned by rating agencies. If the Company's ratings should be lowered below present levels, certain markets may not be available and the Company may be unable to raise necessary capital. In order to maintain or improve its credit rating, the Company must be allowed to charge rates which are sufficient to provide the necessary levels of debt and preferred stock coverage ratios and common stock equity earnings. During 1984, the Company financed $502 million of its total capital requirements of $642 million through sales of long-term debt ($296 million), common stock ($121 million), preferred stock ($45 million), and net increased borrowings under the revolving credit agreement ($40 million). A total of $196 million of the long-term debt issued during 1984, was in the form of pollution control bonds. Of such total, approximately $64 million is being held by a trustee and will be used during 1985 to fund pollution control expenditures at River Bend Unit 1. During 1984, the Company retired $6.8 million of preferred stock subject to mandatory redemption. Average daily short-term borrowings were approximately $84 million during 1984. For information concerning funds available to the Company under a revolving credit agreement, bank lines of credit, and short-term borrowings, see Notes 8 and 9 to the Financial Statements.

The Company's Mortgage Indenture places limitations on the amount of first mortgage bonds which the Company is allowed to issue. The most restrictive of these is presently that based on the ratio of pre-tax earnings to interest on such bonds. Based on the results of operations for the year ended December 31, 1984, the Company would have been able to issue at year end, $445 million in additional first mortgage bonds (assuming an interest rate of 14 percent for such bonds).

Limitations based on the ratio of after-tax earnings to fixed charges and preferred dividends are imposed by the Company's Restated Articles of Incorporation upon the issuance of additional preferred stock. Based on the results of operations for the year ended December 31, 1984, the Company would have been able to issue at year end, $316 million in additional preferred stock (assuming a 13.5 percent dividend rate for such stock).

Statement of Income

For the years ended December 31
(in thousands except per share amounts)

	1983	1982
Operating Revenue		
Electric	$1,305,449	$1,188,944
Steam	83,646	75,213
Gas	47,093	43,102
	1,436,188	1,307,259
Operating Expenses and Taxes		
Fuel	438,154	446,521
Purchased power	201,325	182,106
Other operations	173,151	151,660
Maintenance	78,971	65,321
Depreciation and amortization	103,251	89,291
Income Taxes		
Federal	70,538	52,847
State	4,236	3,314
Other taxes	53,269	45,790
	1,122,895	1,036,850
Operating Income	313,293	270,409
Other Income and Deductions		
Allowance for equity funds used during construction	88,172	56,141
Nonutility subsidiary operations	(2,228)	(206)
Other—net	(1,172)	2,581
Income Before Interest Charges	398,065	328,925
Interest Charges		
Long-term debt	196,502	181,985
Short-term debt and other	10,577	14,398
Allowance for borrowed funds used during construction	(38,813)	(33,437)
	168,266	162,946
Net Income	229,799	165,979
Dividends on Preferred and Preference Stock	49,052	38,949
Income Applicable to Common Stock	$ 180,747	$ 127,030
Average Shares of Common Stock Outstanding	78,233	65,056
Earnings Per Average Share of Common Stock Outstanding	$ 2.31	$ 1.95
Dividends Per Share of Common Stock	$ 1.62	$ 1.56

The accompanying notes are an integral part of the financial statements.

Financial Information

Statement of Sources of Funds Invested in Utility and Other Plant

For the years ended December 31
(in thousands)

	1984	1983	1982
Provided From Operations			
Net income	$ 258,171	$ 229,799	$ 165,979
Principal income items not requiring current funds			
Depreciation and amortization	112,291	103,251	89,791
Deferred income taxes — net	77,214	37,246	32,684
Investment tax credits—net	(8,911)	24,670	14,020
Equity component of allowance for funds used during construction	(108,029)	(88,172)	(56,141)
Nonutility subsidiary operations	4,329	2,225	206
Total provided from operations	335,065	309,022	246,039
Dividends			
Preferred and preference	(55,660)	(49,052)	(38,949)
Common	(145,663)	(127,263)	(101,223)
Reinvested funds provided from operations	133,742	132,707	105,867
Provided From Financing			
Sales of securities			
Common stock	121,147	136,481	164,820
Preferred stock subject to mandatory redemption	45,000	30,000	—
Preference stock	—	—	100,000
First mortgage bonds (principal amount)	100,000	200,000	167,000
Guaranteed debentures	—	—	60,000
Change in escrow deposit	(3,433)	(11,048)	(24,000)
Pollution control bonds (principal amount)	196,000	17,450	48,285
Change in funds held by trustee	(64,399)	—	—
Net change in short-term borrowings	(38,000)	3,093	52,162
Retirement of first mortgage bonds and convertible debentures	(345)	(11,049)	(26,507)
Retirement of preferred stock subject to mandatory redemption	(6,786)	—	—
Net change in revolving credit agreement	40,000	40,000	(120,000)
Equipment purchase obligations	—	—	(53,691)
Nuclear fuel lease transaction	—	—	108,969
Term loan agreement	—	—	24,000
Total provided from financing	389,184	404,927	501,038
Other Sources and Uses			
Investments in and advances to subsidiary companies	(14,353)	(13,973)	(11,582)
Temporary cash investments	(3,351)	3,219	(1,733)
Other—net (including changes in working capital)	11,573	28,034	(20,237)
Total other sources and uses	(6,131)	17,280	(33,552)
Expenditures For Utility and Other Plant	516,795	554,914	573,353
Equity component of allowance for funds used during construction	108,029	88,172	56,141
Invested in Utility and Other Plant	$ 624,824	$ 643,086	$ 629,494

The accompanying notes are an integral part of the financial statements.

Balance Sheet
December 31
(in thousands)

	1984	1983
Assets		
Utility and Other Plant, at original cost		
Plant in service	$3,267,055	$3,106,834
Less: Accumulated provision for depreciation	994,600	904,919
	2,272,455	2,201,915
Construction work in progress	2,187,287	1,844,163
	4,459,742	4,046,078
Other Property and Investments		
Nonutility subsidiary companies	65,619	55,595
Other	2,853	2,917
	68,472	58,512
Current Assets		
Cash and temporary cash investments	6,547	3,026
Receivables		
Customers	102,655	94,532
Other	17,360	20,780
Fuel inventories	53,331	42,330
Materials and supplies	12,109	13,224
Prepayments and other	7,462	16,574
	199,464	190,466
Deferred Charges		
Unamortized debt expense	20,981	16,777
Unamortized project cancellation costs	113,768	9,594
Accumulated deferred income taxes	15,892	10,831
Other	8,525	17,266
	159,166	54,468
	$4,886,844	$4,349,524
Capitalization and Liabilities		
Capitalization (See Statement of Capitalization)		
Common shareholders' equity	$1,491,798	$1,316,599
Preference stock	100,000	100,000
Preferred stock		
Not subject to mandatory redemption	136,444	136,444
Subject to mandatory redemption	243,767	204,336
Long-term debt	2,103,881	1,835,959
	4,075,890	3,593,338
Current Liabilities		
Preferred stock sinking fund requirements	—	1,217
Bank notes payable	52,000	90,000
Accounts payable		
Trade	105,268	98,955
Subsidiaries	3,591	3,819
Customer deposits	14,396	12,212
Taxes accrued	14,349	12,011
Interest accrued	70,598	61,695
Other	41,608	49,917
	301,770	329,826
Deferred Credits and Other Liabilities		
Investment tax credits	167,636	176,399
Accumulated deferred income taxes	319,805	239,296
Other	21,743	10,665
	509,184	426,360
Commitments and Contingencies		
	$4,886,844	$4,349,524

The accompanying notes are an integral part of the financial statements.

Financial Information

Statement of Capitalization
December 31
(in thousands)

	Shares Outstanding	Current Redemption Price	1984	1983
Common Shareholders' Equity				
Common stock				
Authorized 200,000,000 shares without par value				
Outstanding 94,465,634 and 83,687,644 shares, respectively			$1,024,753	$ 903,606
Premium and expense on capital stock			(1,641)	3,601
Other paid-in capital			27,642	25,876
Retained earnings			441,044	383,516
			1,491,798	1,316,599
Preference Stock				
Authorized 20,000,000 shares without par value, cumulative				
Outstanding 4,000,000 shares				
Dividend Series	Shares Outstanding	Current Redemption Price		
$4.40	2,000,000	$ 31.90	50,000	50,000
3.85	2,000,000	31.35	50,000	50,000
			100,000	100,000
Preferred Stock				
Authorized 6,000,000 shares, $100 par value, cumulative				
Outstanding 3,802,111 and 3,419,970 shares, respectively				
Dividend Series	Shares Outstanding at December 31, 1984	Current Redemption Price		
Not subject to mandatory redemption				
$4.40	51,173	$108.00	5,117	5,117
4.50	5,830	105.00	583	583
4.40-1949	1,655	103.00	166	166
4.20	9,745	102.818	975	975
4.44	14,804	103.75	1,480	1,480
5.00	10,993	104.25	1,099	1,099
5.08	26,845	104.63	2,685	2,685
4.52	10,564	103.57	1,056	1,056
6.08	32,829	103.34	3,283	3,283
7.56	350,000	103.80	35,000	35,000
8.52	500,000	106.43	50,000	50,000
9.96	350,000	106.64	35,000	35,000
			136,444	136,444
Subject to mandatory redemption				
8.80	335,029	105.00	33,503	37,183
9.75	31,544	105.00	3,154	3,370
8.64	321,100	105.00	32,110	35,000
11.48	500,000	111.48	50,000	50,000
13.64	500,000	113.64	50,000	50,000
Adjustable Rate-Series A	300,000	108.10	30,000	30,000
Adjustable Rate-Series B	450,000	112.50	45,000	—
			243,767	205,553
Preferred stock sinking fund requirements			—	(1,217)
			243,767	204,336

(Statement continued on following page)

	1983
Long-Term Debt	
First mortgage bonds	
Maturing 1985 through 1989—	
4-¼% due September 1, 1986	15,000
14-¾% due March 1, 1987	100,000
4-⅞% due October 1, 1987	17,000
4% due May 1, 1988	20,000
4-¾% due January 1, 1989	10,000
5-¼% due December 1, 1989	16,000
Maturing 1990 through 1994—4-⅜% through 17-½%	269,000
Maturing 1995 through 1999—5% through 8-⅛%	170,000
Maturing 2000 through 2004—7-½% through 8-⅝%	205,000
Maturing 2005 through 2009—8-⅜% through 12.3%	310,000
Maturing 2010 through 2013—11-¾% through 15%	375,000
	1,507,000
Pollution control and industrial development bonds	
7% due 2006	25,000
5.9% due 2007	23,000
10-⅜% due 2012	48,285
9-½% due 2013	17,450
10-⅞% due 2014	—
12% due 2014	—
Variable rates (6.875% at December 31, 1984) due 2014	—
Pollution control funds held by trustee	(3,874)
Debentures	
Guaranteed debentures	
17-½% due 1988	60,000
16% due 1990	60,000
Escrow deposit	(35,048)
Convertible debentures—7-¼% due 1992	2,927
Term loan agreement	
Variable rates (13.1875% at December 31, 1984) due 1987	24,000
Revolving credit agreement	110,000
	1,838,740
Unamortized premium and discount on debt—net	(2,781)
	1,835,959
	$3,593,338

The accompanying notes are an integral part of the financial statements.

Financial Information

Statement of Changes in Capital Stock and Retained Earnings

For the years ended December 31
(in thousands)

	Preferred Stock Subject to Mandatory Redemption	Preference Stock	Common Stock	Premium (Less Expense)	Other Paid-In Capital	Retained Earnings
Balance: January 1, 1982	$ 175,553	$ —	$ 602,305	$ (2,088)	$ 25,876	$ 307,290
Net income—1982						165,979
Preference stock sold (4,000,000 shares)		100,000		5,840		
Common stock sold:						
Public offerings (10,000,000 shares)			121,250			
Conversion of debentures (1,245,746 shares)			16,291			
Dividend reinvestment and stock purchase plan (1,636,481 shares)			20,056			
Employee benefit plans (592,817 shares)			7,223			
Dividends declared:						
Preferred and preference						(38,949
Common						(101,223
Capital stock expense				749		(1,608
Balance: December 31, 1982	175,553	100,000	767,125	4,501	25,876	331,489
Net income—1983						229,799
Preferred stock sold (300,000 shares)	30,000					
Preferred stock sinking fund requirements	(1,217)					
Common stock sold:						
Public offerings (6,000,000 shares)			85,500			
Conversion of debentures (79,141 shares)			1,036			
Dividend reinvestment and stock purchase plan (2,534,689 shares)			35,025			
Employee benefit plans (1,023,893 shares)			14,920			
Dividends declared:						
Preferred and preference						(49,052
Common						(127,263
Capital stock expense				(900)		(1,457
Balance: December 31, 1983	204,336	100,000	903,606	3,601	25,876	383,516
Net income—1984						258,171
Preferred stock sold (450,000 shares)	45,000					
Retirement of preferred stock	(5,569)				1,766	
Common stock sold:						
Public offerings (6,000,000 shares)			66,000			
Conversion of debentures (26,026 shares)			340			
Dividend reinvestment and stock purchase plan (3,662,855 shares)			42,130			
Employee benefit plans (1,089,109 shares)			12,677			
Dividends declared:						
Preferred and preference						(55,660
Common						(145,663
Capital stock expense				(5,242)		680
Balance: December 31, 1984	$ 243,767	$ 100,000	$ 1,024,753	$ (1,641)	$ 27,642	$ 441,044

The accompanying notes are an integral part of the financial statements.

Notes to the Financial Statements

1. Summary of Significant Accounting Policies

System of Accounts. The accounting records of the Company are maintained in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission (FERC) and adopted by the Louisiana Public Service Commission (LPSC) and the Public Utility Commission of Texas (PUCT).

Utility Plant and Depreciation. Utility and other plant is stated at original cost when first dedicated to public service, and the amounts shown do not represent reproduction costs or current values. Costs of repairs and minor replacements are charged to expense as incurred. The original cost of depreciable utility plant retired and cost of removal, less salvage, are charged to accumulated provision for depreciation. The provision for depreciation is computed using the straight-line method at rates which will amortize the unrecovered cost of depreciable plant over the estimated remaining service life.

Composite depreciation rates were as follows:

	1984	1983	1982
Electric	3.52%	3.60%	3.66%
Steam	2.38	2.34	2.44
Gas	3.53	3.52	3.51
Total Company	3.50	3.58	3.63

Allowance for Funds Used During Construction and Capitalization of Interest. Allowance for funds used during construction (AFUDC) is a utility accounting practice calculated under guidelines prescribed by the FERC and capitalized as part of the cost of utility plant representing the cost of servicing the capital invested in construction work in progress. Such AFUDC has been segregated into two component parts — borrowed and equity funds. That portion allocated to borrowed funds is reflected as an adjustment to interest charges, while that portion applicable to equity funds is shown as a source of other income. Both the equity and the borrowed portions of AFUDC are noncash items which have the effect of increasing the Company's reported net income by their full amounts. However, subject to regulatory approval, when the related utility plant is placed in service, a return on and recovery of these costs is permitted in determining the rates charged for utility service. The Company computed AFUDC at the following net of tax rates compounded semi-annually:

January 1, 1982 — September 30, 1982	9.50%
October 1, 1982 — December 31, 1983	10.25
January 1, 1984 — December 31, 1984	10.00

Revenue, Fuel, and Purchased Power. The Company records revenue as billed to its customers on a cycle billing basis. Revenue is not recorded for energy delivered and unbilled at the end of each fiscal period. The Company's wholesale and Louisiana retail rate schedules provide for adjustments to substantially all rates for increases or decreases in the costs of fuel for generation, purchased power, and gas distributed. The Company's Texas retail rate schedules include a fixed fuel factor approved by the PUCT. Such factor remains the same until the Company files for a general rate increase or until the PUCT orders a reconciliation for any over or under collections of fuel cost. Fuel and purchased power costs in excess of those included in base rates or recovered through fuel adjustment clauses are deferred (or accrued) until such costs are billed (or credited) to customers.

Inventories. The Company's fuel inventories are comprised of fuel oil, valued at weighted average cost, and coal, valued at last-in, first-out (LIFO) cost. Materials and supplies are valued at weighted average cost.

Income Taxes. The Company and its subsidiaries file a consolidated federal income tax return. Income taxes are allocated to the individual companies based on their respective taxable income or loss and investment tax credits.

Financial Information

The Company follows a policy of comprehensive interperiod income tax allocation where such treatment is permitted for ratemaking purposes by regulatory bodies. Deferred income taxes result from timing differences in the recognition of revenue and expenses for tax and accounting purposes. These deferred income taxes are charged or credited to income and recorded as deferred debits or credits.

Investment tax credits have been deferred and are being amortized ratably over the useful lives of the related property.

Nonutility Subsidiary Companies. The Company has made investments in and advances to its wholly-owned nonutility subsidiary companies, Prudential Drilling Company (Prudential) and Varibus Corporation (Varibus), and accounts for its investments on the equity basis. Prudential is engaged primarily in the exploration for, development, production and marketing of oil and gas properties. Varibus operates pipelines and holds lignite reserves for possible use by the Company or sale to others.

Retirement Plan and Other Post Employment Benefits. The Company has a non-contributory pension plan, which covers all employees meeting certain age and service requirements. The Company's policy is to fund the accrued pension cost annually. Past and prior service costs are being funded and amortized by the Company over periods of up to forty years.

In addition to the pension plan, the Company provides retired employees with life and health care insurance benefits. All of the Company's employees may become eligible for these benefits upon reaching normal retirement age. The cost of such benefits, which is currently not material, is recognized as claims are actually paid.

Reclassification of Prior Year Financial Statements. Prior year financial statements have been reclassified in order to be consistent with current year presentation with no effect on net income.

2. Federal Income Taxes

The provisions for federal income taxes were less than the amounts computed by applying the statutory federal income tax rate to net income before federal income taxes. The reasons for these differences are as follows:

	1984	1983	1982
	(In thousands except percentages)		
Net income before federal income taxes	$333,305	$304,330	$221,526
Federal income taxes at statutory tax rate	$153,320	$139,992	$101,902
Reductions in federal income taxes resulting from:			
Exclusion from taxable income of AFUDC	(73,079)	(58,413)	(40,875)
Items capitalized for book purposes but expensed for tax purposes	(8,865)	(8,068)	(7,189)
Non-deferred depreciation differences	5,502	5,236	6,825
Adjustment for prior years taxes and other regulatory adjustments	(2,366)	(4,056)	(1,172)
Equity in earnings of nonutility subsidiaries	1,991	1,025	95
Amortization of investment tax credit	(5,103)	(4,708)	(3,848)
Other items	3,734	3,523	(191)
Total federal income taxes	$ 75,134	$ 74,531	$ 55,547
Effective federal income tax rate	22.5%	24.5%	25.1%

The components of federal income taxes are as follows:

	1984	1983	1982
	(In thousands)		
Charged to operating expenses:			
Current federal income tax provision	$ 8,522	$ 9,276	$ 7,317
Deferred federal income taxes — net:			
Tax depreciation	34,933	30,477	21,468
Capitalized construction costs	9,120	8,686	2,751
Amortized nuclear unit cancellation costs	(2,023)	(1,629)	(1,629)
Nuclear unit cancellation costs	30,958	—	—
Fuel and purchased power costs deferred	141	339	4,554
Book expenses deferred for tax purposes	263	(1,441)	2,300
Other	(744)	160	2,066
Total deferred federal income taxes — net	72,648	36,592	31,510
Investment tax credits — net	(8,911)	24,670	14,020
Total federal income taxes charged to operating expenses	72,259	70,538	52,847
Charged to other income — net	2,875	3,993	2,700
Total federal income taxes	$ 75,134	$ 74,531	$ 55,547

Currently, timing differences exist for which deferred taxes have not been provided and, therefore, have not been recovered through rates. The cumulative amount of timing differences for which no deferred taxes have been provided was approximately $110 million at December 31, 1984.

The Company was able to reduce its income tax liability for the years 1984, 1983, and 1982, by utilizing investment tax credits. At December 31, 1984, the Company had accumulated carryforwards of investment tax credits of $153.3 million. The investment tax credit carryforwards expire through 1999, and will be used to reduce income taxes in future years.

3. Retirement Plan

The total costs of the Company's pension plan for the years ended December 31, 1984, 1983, and 1982, were $8,721,000, $8,213,000, and $3,698,000, respectively.

Of such amounts, $5,703,000, $5,343,000, and $2,472,000, respectively, were charged to income with the balance of such costs for each period charged to construction and other accounts.

The valuation date of the latest pension information is January 1 of the subsequent year for each plan year ended December 31. The information for the plan years 1983 and 1982, is shown below. Such valuation information is not yet available with respect to plan year 1984.

	1983	1982
	(In thousands except percentages)	
Actuarial present value of accumulated plan benefits:		
Vested	$ 63,043	$ 56,508
Nonvested	5,034	4,003
Present value of accumulated plan benefits	$ 68,077	$ 60,511
Net assets available for benefits	$118,578	$ 95,474
Assumed rate of return in determining actuarial present values of plan benefits	9%	9%

4. Leases

The Company has existing agreements for the leasing of certain vehicles, coal rail cars and other equipment, and buildings. Lease rental payments were $16,404,000, $13,867,000, and $12,799,000 during 1984, 1983, and 1982, respectively. Of such amounts, $12,912,000, $12,064,000, and $10,395,000, respectively, were charged to income, with the remainder charged to construction and other accounts.

Future minimum lease payments under noncancellable capital and operating leases, (excluding those payments to be due under the nuclear fuel lease as discussed below) for each of the next five years and in the aggregate at December 31, 1984, are estimated to be (in thousands):

1985	$ 17,777
1986	17,180
1987	16,500
1988	17,146
1989	10,390
Remaining years	217,328
	$296,321

The Company has a nuclear fuel financing agreement with a non-affiliated third party fuel corporation (the Lessor). The agreement provides for the Lessor to finance up to $300 million of nuclear fuel for future use at River Bend Unit 1, a 940 MW nuclear-fueled generating unit. Once River Bend Unit 1 is placed into commercial operation, the Company will make quarterly payments to the Lessor for the cost (including capitalized interest) of fuel consumed during the previous quarter. The Lessor's investment in nuclear fuel was approximately $174 million and $142 million (including accumulated carrying charges) at December 31, 1984 and 1983, respectively.

In accordance with the ratemaking treatments afforded its leases, the Company currently does not capitalize those leases which meet the criteria of capital leases as defined by Statement of Financial Accounting Standards (SFAS) No. 13. Under the provisions of SFAS No. 71, beginning in 1987, the Company will be required to record all of its capital leases as assets and related liabilities. Had such leases currently been accounted for as capital leases, the balance sheet would have included leased assets and related liabilities of approximately $198.3 million and $168.5 million at December 31, 1984 and 1983, respectively.

5. Jointly-Owned Facilities

As of December 31, 1984, the Company owns undivided interests in three jointly-owned electric generating facilities as detailed below (dollars in thousands):

	Roy S. Nelson Unit 6	Big Cajun -2 Unit 3	River Bend Unit 1
Plant in service	$412,194	$212,948	$ —
Accumulated depreciation	34,794	9,210	—
Construction work in progress	—	—	2,191,389
Plant capacity	540 MW	540 MW	940 MW
Fuel source	Coal	Coal	Nuclear
Ownership share	70%	42%	70%

The Company's share of operations and maintenance expense related to the jointly-owned units is included in operating expenses.

The Company has agreements with the participants in Nelson Unit 6 to purchase all or a portion of their share of the unit's capacity for periods ranging from seven to fourteen years. The variable costs associated with such buybacks are composed of fuel costs and operations and maintenance expenses. For the years ended December 31, 1984, 1983, and 1982, variable costs applicable to the buybacks were $24,070,000, $25,878,000, and $12,816,000, respectively.

The fixed costs applicable to the buybacks of power are based on gross plant investment and other factors and are not currently determinable for periods subsequent to 1984. For the years ended December 31, 1984, 1983, and 1982, the fixed costs associated with the buybacks were $32,851,000, $37,346,000, and $22,302,000, respectively.

River Bend Unit 1 is jointly owned by the Company and Cajun Electric Power Cooperative, Inc. (CEPCO). The Company has an agreement with CEPCO whereby, after River Bend Unit 1 goes into commercial operation, the Company will be obligated to purchase 100 percent of CEPCO's share of the unit's capacity for one year. Thereafter, the Company is obligated to purchase declining amounts for two years. The fixed costs applicable to the buybacks of power are based in part on final unit costs and other factors and are not determinable at this time. The variable costs associated with such buybacks will be composed of fuel costs and operations and maintenance expenses.

6. Capital Stock and Retained Earnings

The Company offers its common, preference, and preferred shareholders the opportunity to reinvest their dividends and to make additional cash payments to acquire shares of the Company's common stock through its Dividend Reinvestment and Stock Purchase Plan (DRIP). The Company also offers all employees meeting designated service requirements the option to participate in benefit plans which provide an opportunity to obtain common shares of the Company. At December 31, 1984, the Company had reserved 7,608,253 shares of common stock to be issued in connection with its DRIP and employee benefit plans.

At the Company's option, all or part of its preferred and preference stock may be redeemed at stated prices. Certain issues are subject to restrictions which prohibit redemption for a period of time, directly or indirectly out of the proceeds of or in anticipation of borrowings or issuance of additional stock of equal or prior rank having a lower interest cost or dividend rate.

At December 31, 1984, the Company had authorized 10,000,000 shares of preferred stock without par value (none issued). Limitations based on the ratio of after-tax earnings to fixed charges and preferred dividends are imposed by the Company's Restated Articles of Incorporation upon the issuance of additional preferred stock. For information with respect to the additional amount of preferred stock which the Company would have been able to issue at year end, see "Management's Discussion and Analysis of Results of Operations and Financial Condition."

Certain limitations on the payment of cash dividends on common stock are contained in the Company's Restated Articles of Incorporation, as amended, and indentures. The most restrictive limitation is contained in the Trust Indenture, dated as of September 1, 1977. Based on such limitations, the retained earnings available for payment of dividends as of December 31, 1984 and 1983, amounted to approximately $342 million and $289 million, respectively (see Note 7 for restrictions on the payment of dividends on common stock under the sinking fund provisions for preferred stock).

Payment of dividends on preference stock is subordinate to payment of dividends on preferred stock and preferred stock sinking fund obligations, but has priority to payment of dividends on common stock. There are no limitations in the Company's Restated Articles of Incorporation, as amended, on the issuance of preference stock.

7. Preferred Stock Subject to Mandatory Redemption

The dividend rate on the Adjustable Rate Cumulative Preferred Stock (ARPS) Series A and Series B is adjusted quarterly based upon certain applicable U.S. Treasury rates. In no event will the dividend rate be less than 7 percent nor greater than 13 percent for Series A and less than 7 percent nor greater than 13-1/2 percent for Series B. At December 31, 1984, the dividend rates on the ARPS Series A and ARPS Series B were 12.20 percent per annum and 12.25 percent per annum, respectively.

The preferred stock subject to mandatory redemption is entitled to a sinking fund which provides for the annual redemption of shares at $100 per share commencing on the dates indicated:

Series	Number of Shares to be Redeemed	Date of Initial Sinking Fund Requirement
$ 8.80	11,155	December 15, 1984
$ 9.75	1,011	December 15, 1984
$ 8.64	14,000	September 15, 1985
$11.48	20,000	December 15, 1986
$13.64	20,000	November 15, 1986
ARPS Series A	12,000	September 15, 1989
ARPS Series B	18,000	March 15, 1990

During 1984, the Company purchased in the open market, shares of the applicable series of preferred stock in excess of the amount needed to satisfy the 1984 and 1985 sinking fund requirements. At December 31, 1984, assuming that the additional shares purchased during 1984 are used to satisfy future sinking fund requirements, minimum redemption requirements amount to $4,088,000, $6,193,000, $6,617,000, and $7,817,000 during the years 1986 through 1989, respectively. Preferred stock sinking fund provisions restrict the payment of dividends on common and preference stock and the purchase of such stock by the Company unless the sinking fund requirements are met.

8. Long-Term Debt

The Company's Mortgage Indenture contains sinking fund provisions which require, generally, that the Company make annual cash deposits equal to 1.2 percent of the greatest aggregate principal amount of first mortgage bonds outstanding or, in lieu thereof, to apply property additions or reacquired first mortgage bonds for that purpose. The Company has satisfied the mortgage requirements in past years and plans to meet current and future requirements by certifying "available net additions" to the trustee. Those series of the Company's first mortgage bonds which were privately placed require cash sinking funds beginning in 1987. First mortgage bond sinking fund requirements, along with long-term maturities, for each of the next five years are detailed below (in thousands):

	Sinking Fund Requirements		Long-Term
	Cash	Property Additions	Debt Maturities
1985	$ —	$15,264	$ —
1986	—	15,084	15,000
1987	8,570	14,880	141,000
1988	27,320	14,640	80,000
1989	27,320	14,328	20,000

The Company's Mortgage Indenture contains an interest coverage covenant which limits the amount of first mortgage bonds which the Company may issue. For information with respect to the additional amount of first mortgage bonds which the Company is currently able to issue under this limitation, see "Management's Discussion and Analysis of Results of Operations and Financial Condition."

During 1984, the Company amended its $800 million revolving credit agreement in order to extend the availability of credit from September 12, 1986, to September 12, 1988, with the amount outstanding at that date being repayable over a three-year period, with the first payment due on September 12, 1989. Borrowings made until September 12, 1986, bear interest based on the Prime Rate as determined by Irving Trust Company, the London Interbank Offering Rate (LIBOR) plus 5/8 of 1 percent or the Certificate of Deposit rate plus 5/8 of 1 percent. Thereafter, borrowings will bear interest at Prime plus 1/4 of 1 percent as determined by Irving Trust Company, LIBOR plus 3/4 of 1 percent or the Certificate of Deposit rate plus 3/4 of 1 percent. At December 31, 1984, the amount outstanding under the revolving credit agreement consisted of $70 million bearing an interest rate of 10-3/8 percent and $80 million at 11-5/8 percent.

9. Notes Payable

As of December 31, 1984, the Company had agreements with banks and banking institutions which provided for short-term lines of credit totaling approximately $196 million. Interest rates associated with these lines are based on the LIBOR, prime or certificate of deposit rate or other mutually agreeable rate to be determined at the time of borrowing. Commitment fees range from 3/8 of 1 percent to 1/2 of 1 percent of amount of available credit. In lieu of commitment fees, certain banks require a non-restricted cash balance be maintained equal to 4.5 percent to 10 percent of the commitment.

Information regarding short-term debt outstanding is detailed below:

	1984	1983	1982
	(In thousands except percentages)		
Maximum amount outstanding during year			
Bank notes	$145,000	$146,000	$141,750
Commercial paper	53,000	120,000	121,585
Average daily amount outstanding			
Bank notes	72,710	56,265	43,661
Commercial paper	11,764	39,470	47,795
Weighted average interest rate for amount outstanding at year end			
Bank notes	8.91%	10.01%	9.58%
Commercial paper	-	-	9.61
Weighted average annual interest rate(a)			
Bank notes	10.75	9.56	12.53
Commercial paper	10.30	9.32	15.18

(a) Calculated by dividing the sum of the effective interest for the year by the average daily short-term debt outstanding.

10. Commitments and Contingencies

Construction. The 1985 construction program is currently estimated to be $610 million, including approximately $208 million of AFUDC. In connection with the construction program, the Company has incurred substantial expenditures and commitments prior to receipt of all required governmental permits or licenses, including the license required to commence commercial operation of River Bend Unit 1. No provision is made in the financial statements for possible losses which could occur if such permits or licenses should not be obtained.

The estimate of the cost of River Bend Unit 1 through December, 1985 (the scheduled date for commercial operation) has been increased to $2.72 billion (excluding AFUDC) from the previously estimated $2.5 billion. Estimates of costs to complete the unit after commercial operation are not finalized but will exceed $100 million. The Company has previously reported that if the cost of the project should exceed the $2.5 billion estimate, CEPCO has indicated it may discontinue payment of its share of the construction costs. If CEPCO does not pay its share, the Company would have to obtain funds through external financings to pay the additional completion costs. No assurances can be given that the Company will be allowed to earn a return on or recover its total investment in the plant once it is placed into commercial operation.

Cancelled Nuclear Unit. The Company previously reported that it has cancelled construction of River Bend Unit 2, a proposed 940 MW nuclear-fueled generating unit. The Company has received authorization from the PUCT to recover all allocated costs associated with River Bend Unit 2 incurred before December 31, 1983, (approximately $41.3 million) through amortization over a 15-year period, with no return on the investment. The PUCT did not consider recovery of estimated concellation costs on the project. Therefore, the Company intends to request the recovery of these additional costs at a later date.

The Company requested authorization from the FERC to amortize that portion of the cost of River Bend Unit 2 allocable to the Company's wholesale operations over a five year period with no return on the unamortized balance. During September, 1984, the Company began recovering through rates that portion of the loss applicable to its wholesale operations subject to hearing and refund. The Company also intends to seek recovery through rates from the LPSC. The Company cannot presently predict the amount of such costs, if any, which the LPSC and FERC will ultimately allow to be recovered through rates or the amount of additional costs, if any, which the PUCT will allow to be recovered. At December 31, 1984, the unamortized balance of the Company's investment in River Bend Unit 2 totaled $107,722,000.

Purchase Power Agreement. The Company and The Southern Company have entered into an interchange agreement which provides for the Company to purchase capacity and energy from coal-fired units in amounts ranging from 400 MW in 1985, to 700 MW from 1988 through 1992. The agreement also provides for purchases of long-term power expected to be lower in cost than the unit power (phasing from 650 MW in 1984, to 300 MW from 1988 through 1992). In accordance with the agreement, the Company completed a 500 kilovolt line in 1984, that tied the Company's system with that of The Southern Company.

The fixed costs applicable to the purchased power from The Southern Company are based on costs of existing and future generating units and other factors. For the year ended December 31, 1984, the fixed costs associated with the purchased power totaled approximately $50,562,000. The variable costs associated with such purchases are composed of fuel costs and operations and maintenance expenses. For the year ended December 31, 1984, the variable costs associated with such purchases totaled approximately $109,279,000.

11. Subsequent Events (Unaudited)

During March, 1985, the Company issued $75 million principal amount of 13 percent debentures due 1992. The proceeds from the sale were used to repay short-term debt incurred primarily in connection with the Company's construction program.

12. Quarterly Financial Information (Unaudited)

(in thousands except per share amounts)

1983				
First Quarter	$340,070	$ 65,804	$45,332	$.45
Second Quarter	328,662	73,492	52,935	.54
Third Quarter	420,560	99,151	80,933	.85
Fourth Quarter	346,896	74,846	50,599	.46

* The individual quarters do not add to the yearly totals since the per share amounts are based upon the average number of shares outstanding during each quarter.

13. Supplemental Information on Changing Prices (Unaudited)

In past years, inflation has had serious effects on the utility industry. High rates of inflation affect the Company's financial position in several ways: 1) Provisions for depreciation to replace plant and equipment become inadequate as construction costs increase. 2) As construction costs have risen, so have the amounts of capital which must be acquired. The Company, therefore, is financing larger amounts. 3) In addition to the rise in construction costs, the cost of providing capital to build and operate the business continues to rise. 4) Conservation efforts on the part of the consumers, in response to rising utility bills, has slowed the rate of growth in sales.

Generally accepted accounting principles make no provision to account for the effects of changing prices. Under the mandate of SFAS No. 33, subsequently amended by SFAS No. 82, an attempt to measure these effects upon the Company is made using the Current Cost Method.

The Current Cost Method, as applied by the Company, utilizes the Handy-Whitman Index of Public Utility Construction Costs to measure the specific inflationary effect on utility plant, such effect being greater or less than the general rate of inflation.

The amounts presented should not be construed as anything but an estimate of the effects of changing prices on the Company. The application of this method requires subjective assumptions which have affected the statements presented.

(1) Depreciation was computed by applying the Company's depreciation rates to the indexed plant amounts. Under the ratemaking prescribed by the regulatory commissions to which the Company is subject, only the historical cost of plant is recoverable as depreciation.

(2) Taxes — SFAS No. 33, as amended, does not provide for the adjustment of income taxes.

(3) Gain from Decline in Purchasing Power of Net Amounts Owed — In periods of inflation, holders of monetary assets suffer a decline in purchasing power, while holders of monetary liabilities experience a gain. The large amount of long-term debt of the Company, used to invest in plant and equipment, the cost of which is recovered through depreciation, has resulted in an unrealized holding gain because future payment of the debt will be made with inflated dollars. Because present ratemaking limits the recovery of depreciation to historical cost, this gain will not be realized.

Statement of Income Adjusted for Changing Prices (Unaudited)
For the year ended December 31, 1984

	Conventional Historical Cost	Current Cost Average 1984 Dollars
	(In thousands)	
Operating revenue	$1,547,041	$1,547,041
Operations and maintenance expense	951,575	951,575
Depreciation and amortization	112,291	237,710
Taxes	139,491	139,491
Other — net	(105,288)	(105,288)
Interest charges	190,801	190,801
	1,288,870	1,414,289
Net Income (excluding adjustment to net recoverable cost)	$ 258,171	$ 132,752
Increase in specific prices (current cost) of utility and other plant held during the year*		$ 182,732
Adjustment to net recoverable cost		29,855
Effect of increase in general price level		(140,151)
Excess of increase in specific prices after adjustment to net recoverable cost over increase in general price level		72,436
Gain from decline in purchasing power of net amounts owed		97,955
Net		$ 170,391

*At December 31, 1984, current cost of utility and other plant, net of accumulated depreciation was $6,353,872 while historical cost or net cost recoverable through depreciation was $4,459,742.

Financial Information

Five Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices (Unaudited)

	Years Ended December 31,				
	1984	1983	1982	1981	1980
	(in thousands of average 1984 dollars)				
Operating revenue	$1,547,041	$1,497,313	$1,406,739	$1,395,283	$1,267,123
Current Cost Information:					
Net income (excluding adjustment to net recoverable cost)	132,752	102,940	37,360	50,782	25,348
Income (Loss) per common share after dividend requirements on preferred and preference stock and excluding adjustment to net recoverable cost	.87	.66	(.07)	.30	(.13)
Excess of increase in general price level over increase in specific prices after adjustment to net recoverable cost	72,436	21,155	(16,561)	(161,314)	(259,656)
Net assets at year-end at net recoverable cost	1,706,303	1,591,933	1,417,897	1,175,252	1,082,668
General Information:					
Gain from decline in purchasing power of net amounts owed	97,955	74,790	100,890	188,055	236,724
Cash dividends declared per common share	1.64	1.69	1.68	1.69	1.75
Market price per common share at year-end	12.83	13.07	14.14	13.13	13.99
Average consumer price index	311.1	298.4	289.1	272.4	246.8

Auditors' Report

To the Shareholders of Gulf States Utilities Company:

We have examined the balance sheet and statement of capitalization of GULF STATES UTILITIES COMPANY as of December 31, 1984 and 1983, and the related statements of income, sources of funds invested in utility and other plant, and changes in capital stock and retained earnings for each of the three years in the period ended December 31, 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of GULF STATES UTILITIES COMPANY as of December 31, 1984 and 1983, and the results of its operations and sources of its funds invested in utility and other plant for each of the three years in the period ended December 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

COOPERS & LYBRAND

Houston, Texas
January 25, 1985

Statistical Summary

For the years ended December 31

	1984	1983	1982	1981	1980
ELECTRIC DEPARTMENT					
Number of customers at year end:					
Residential	485,711	475,782	465,162	455,160	438,560
Commercial	60,372	57,446	55,265	52,955	52,731
Industrial	4,302	4,146	4,165	3,852	3,414
Temporary construction	2,924	3,624	3,132	2,871	3,354
Other	2,182	2,101	1,985	1,974	1,984
Total Customers	555,491	543,099	529,709	516,812	500,043
Sales—Kilowatt-hours (thousands):					
Residential	6,209,347	5,686,436	5,991,578	5,717,715	5,682,016
Commercial	4,745,055	4,341,093	4,359,739	4,178,126	3,969,390
Industrial	15,924,402	14,257,141	13,728,469	15,066,330	14,870,419
Temporary construction	57,354	55,927	48,170	50,306	37,691
Other	2,152,052	2,109,974	2,261,350	2,797,761	3,098,910
Total Sales	29,088,210	26,450,571	26,389,306	27,810,238	27,658,426
Revenues (thousands):					
Residential	$ 434,946	$ 396,026	$ 362,223	$ 315,625	$ 249,603
Commercial	278,155	255,147	226,104	198,676	157,616
Industrial	573,839	534,066	495,461	494,388	413,265
Temporary construction	3,702	3,699	2,786	2,723	1,728
Other	120,059	116,511	102,370	95,110	82,659
Total Revenue	$1,410,701	$1,305,449	$1,188,944	$1,106,522	$ 904,871
Average Annual KWH Use Per Customer					
Residential	12,901	12,097	13,015	12,786	13,173
Commercial	80,264	77,138	80,814	79,558	76,529
Industrial	3,725,006	3,431,322	3,451,098	4,095,224	4,340,461
Revenue Per KWH—(cents):					
Residential	7.01	6.96	6.05	5.52	4.39
Commercial	5.86	5.88	5.19	4.76	3.97
Industrial	3.60	3.75	3.61	3.28	2.78
Electric Energy Output—Thousands of KWH					
Net Generated	26,218,067	25,846,238	25,523,512	28,115,700	27,775,374
Net Purchased and Interchanged	6,953,777	4,987,292	5,160,731	4,411,795	4,507,245
	33,171,844	30,833,530	30,684,243	32,527,495	32,282,619
System Peak Load—Including Interruptible Load—Megawatts	5,475	5,348	5,164	5,542	5,604
Total Capability, Including Contract Purchases at Time of System Peak Load (MW)	6,780	7,152	7,208	6,745	6,602
Load Factor	69.0%	65.8%	67.8%	67.0%	65.2%
STEAM PRODUCTS DEPARTMENT					
Steam Revenue (thousands)	$ 83,165	$ 83,646	$ 75,213	$ 77,624	$ 69,346
Steam Sales—KWH (millions)	2,606	2,555	2,579	2,887	2,927
Steam Sales—millions of pounds	8,466	8,559	9,447	12,209	14,906
GAS DEPARTMENT					
Gas Revenue (thousands)	$ 53,175	$ 47,093	$ 43,102	$ 37,568	$ 31,009
Number of Customers	85,665	85,737	85,394	85,664	85,218
Output—MM cu. ft. of natural gas purchased	8,252	9,149	8,229	8,738	9,148
Sales—MM cu. ft.	9,140	8,498	8,535	8,599	9,097
WEATHER DATA:					
Cooling degree days (Normal 2,732)	2,615	2,418	2,901	2,775	2,910
Percentage change from normal	(4.3)	(11.5)	6.2	1.6	6.5
Heating degree days (Normal 1,570)	1,860	1,647	1,587	1,620	1,637
Percentage change from normal	18.5	4.9	1.1	3.2	4.3

Officers

Chairman

Paul W. Murrill (2) 50
Chairman of the Board
and Chief Executive Officer

President

Norman R. Lee (35) 60
Vice Chairman of the Board, President
and Chief Operating Officer

Executive Vice Presidents

Joseph E. Bondurant (27) 55
Executive Vice President — Administrative
and Technical Services

Joseph L. Donnelly (5) 55
Executive Vice President — Finance

E. Linn Draper (5) 42
Executive Vice President — External
Affairs and Production

Edward M. Loggins (26) 54
Executive Vice President — Operations

Senior Vice President

William J. Cahill, Jr. (4) 61
Senior Vice President
River Bend Nuclear Group

Vice Presidents

James R. Aldridge (4) 54
Vice President — Human Resources

William E. Barksdale (27) 53
Vice President — Engineering
and Technical Services

James C. Deddens (1) 56
Vice President —
River Bend Nuclear Group

Anthony F. Gabrielle (4) 57
Vice President — Computer Applications

Charles D. Glass (35) 56
Vice President — Texas Operations

Calvin J. Hebert (22) 50
Vice President — Financial Services

William J. Jefferson (4) 55
Vice President — Rates and
Regulatory Affairs

George T. McCollough (4) 62
Vice President — Fuels, Materials
and Executive Projects

Albert H. Newton, II (1) 48
Vice President

Fred C. Repper (6) 57
Vice President — Public Affairs

Edward J. Serwan (6) 63
Vice President — Production

Aubrey D. Sprawls (35) 56
Vice President — Marketing and
Consumer Services

Summa L. Stelly (36) 58
Vice President — Louisiana Operations

J. Gary Weigand (6) 49
Vice President — Safety and Environment
River Bend Nuclear Group

Jasper F. Worthy (28) 56
Vice President — General Services

Division Vice Presidents

John W. Conley (26) 53
Division Vice President — Western

James E. Moss (26) 48
Division Vice President — Baton Rouge

Arden D. Loughmiller (23) 46
Division Vice President — Beaumont

J. Ted Meinscher (34) 52
Division Vice President — Lake Charles

Ronald M. McKenzie (17) 44
Division Vice President — Port Arthur

Other Officers

Leslie D. Cobb (29) 49
Secretary

Bobby J. Willis (22) 48
Controller

Jack L. Schenck (3) 46
Treasurer

Timothy L. Morris (5) 33
Assistant Secretary

Jon P. Trevelise (3) 39
Assistant Controller

Clyde W. McBride (7) 32
Assistant Treasurer

( ) Years of service
Ages and years of service
as of December 31, 1984

Directors

Directors

Robert W. Barrow
General, Retired Commandant
United States Marine Corps
St. Francisville, La. (1984)

****John W. Barton**
President — C. B. Enterprises, Inc.
Baton Rouge, La. (1970)

Martin Goland
President — Southwest Research Institute
San Antonio, Tx. (1983)

Edwin Hiam
Vice President — Tucker Anthony
Management Corp.
Boston, Mass. (1959)

Frederic A. Holloway
Consultant
Retired Exxon Vice President — Science and Technology
Baton Rouge, La. (1979)

William H. LeBlanc, Jr.
President — Baton Rouge Supply Co., Inc.
Baton Rouge, La. (1974)

***Norman R. Lee**
Vice Chairman, President
and Chief Operating Officer
Beaumont, Tx. (1967)

Charles W. McCoy
President and Chief Executive Officer
Louisiana Bancshares, Inc.
Baton Rouge, La. (1985)

***Paul W. Murrill**
Chairman of the Board and
Chief Executive Officer
Beaumont, Tx. (1978)

Alvin T. Raetzsch, Sr
Retired Assistant to the
Vice President and General
Manager — U. S. Chemical Division
of PPG Industries, Inc.
Lake Charles, La. (1975)

Monroe J. Rathbone, Jr.
Medical doctor and partner
The Surgical Clinic
Baton Rouge, La. (1975)

***Nat S. Rogers**
Chairman of the Board — First City
Bancorporation of Texas, Inc.
Houston, Tx. (1978)

***Bismark A. Steinhagen**
Partner — Steinhagen Oil Co.
Beaumont, Tx. (1974)

James E. Taussig II
Real Estate Development
Lake Charles, La. (1975)

*Executive Committee
**Chairman, Executive Committee
( ) Year Elected

Principal Offices

350 Pine Street
Beaumont, Texas 77701

Divisions

285 Liberty Avenue
Beaumont, Texas 77701

1540 Ninth Avenue
Port Arthur, Texas 77640

Highway 75 North
Conroe, Texas 77301

446 North Boulevard
Baton Rouge, Louisiana 70802

314 Broad Street
Lake Charles, Louisiana 70601

Stockholder Information

Stock Listing
Gulf States Utilities Company's common stock is traded under the symbol GSU on the New York, Midwest and Pacific Stock Exchanges.

Stock Transfer Agents
Gulf States Utilities Company
Beaumont, Texas

Morgan Guaranty Trust Company
New York, New York

First National Bank of Chicago
Chicago, Illinois

Registrars
First City National Bank of Beaumont
Beaumont, Texas

Morgan Guaranty Trust Company
New York, New York

First National Bank of Chicago
Chicago, Illinois

Dividend Reinvestment Plan Agent
Gulf States Utilities Company
P. O. Box 1671
Beaumont, Texas 77704

Form 10-K

The Form 10-K Annual Report to the Securities and Exchange Commission and GSU's 1984 Financial and Statistical Report can be obtained without charge from Leslie D. Cobb, Secretary, P. O. Box 2951, Beaumont, Texas 77704.

Notice of Annual Meeting

The 1985 Annual Meeting of Shareholders will be held at 2 p.m., Thursday, May 2, 1985, in the company's headquarters, 350 Pine Street, Beaumont, Texas. Formal notices of the meeting, proxy statements and proxies will be mailed to the common shareholders on or about March 22, 1985. Shareholders are invited to attend, but if they cannot, they are urged to fill out and return their proxies.

GULF STATES UTILITIES

Gulf States Utilities Co.
P. O. Box 2951
Beaumont, Texas 77704

GULF STATES UTILITIES COMPANY
POST OFFICE BOX 2951 · BEAUMONT, TEXAS 77704
AREA CODE 713 838-6631

March 26, 1985
RBG- 20547
File No. G9.5

Mr. Harold R. Denton
Director, Nuclear Reactor Regulation
U. S. Nuclear Regulatory Commission
Washington, D. C. 20555

Dear Mr. Denton:

River Bend Station Unit 1
Docket No. 50-458
Annual Financial Report

Enclosed are ten (10) copies of the Gulf States Utilities Company 1984 Annual Report. This report is being submitted in accordance with Section 50.71 of Title 10 of the Code of Federal Regulations and U. S. Nuclear Regulatory Commission Regulatory Guide 10.1.

Sincerely,

J. E. Booker

J. E. Booker
Manager-Engineering,
Nuclear Fuels & Licensing
River Bend Nuclear Group

JEB/MWH/lp

Enclosures

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