GULF STATES
UTILITIES CO.

About the cover

Industrial life along the Mississippi River awakens to the sunrise over the petrochemical complex of Baton Rouge, La. The following pages chronicle Gulf States Utilities' role in providing the energy needed to power the area's economy as it recovers from economic recession.

Description of Business

Gulf States Utilities was incorporated in 1925 and is primarily in the business of generating, transmitting, and distributing electricity to 543,000 customers in Southeast Texas and South Louisiana. The service area extends 350 miles westward from Baton Rouge, La., to a point about 50 miles east of Austin, Tx. The service area encompasses the northern suburbs of Houston and major cities such as Conroe, Huntsville, Port Arthur, Orange and Beaumont, Tx.; Lake Charles and Baton Rouge, La.

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 has the ability to interchange electricity between the 38 members serving eight states in the South and Southwest. The company had a peak load of 5,348 megawatts in 1983 while it had installed capacity and firm power purchase agreements totaling 7,152 megawatts.

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

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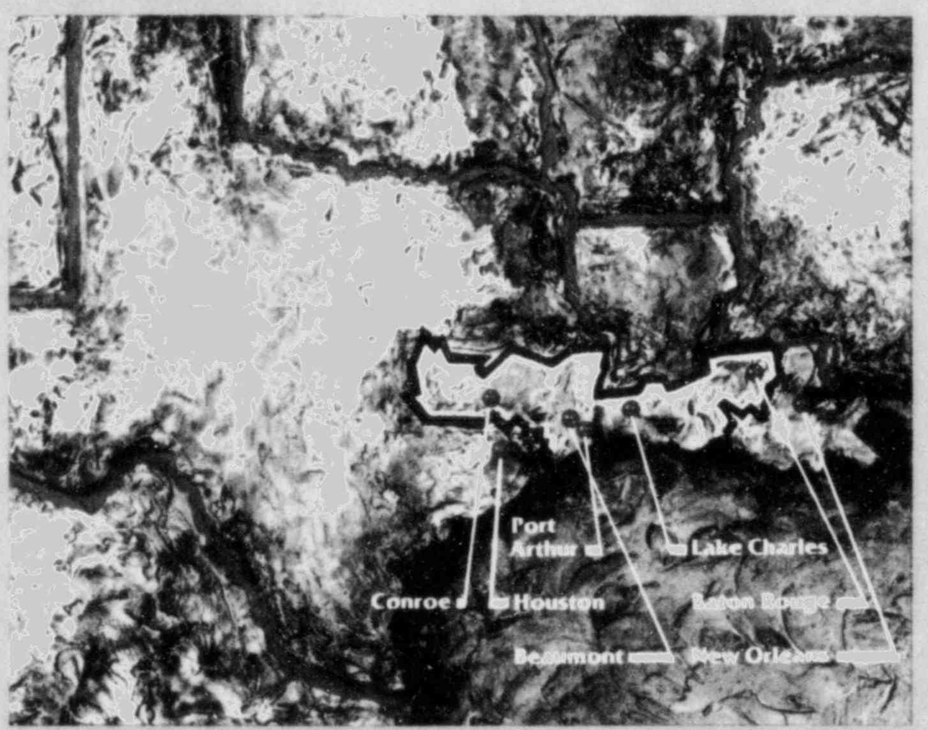


Gulf States Utilities' Service Area

Financial Highlights	**1983**	**1982**	**% Change**
Total Operating Revenue (000)	$1,436,188	$1,307,259	9.9
Operating Expenses and Taxes (000)	$1,122,895	$1,036,850	8.3
Net Income (000)	$ 229,799	$ 165,979	38.5
Income Applicable to Common Stock (000)	$ 180,747	$ 127,030	42.3
Earnings per Average Share of Common Stock Outstanding	$2.31	$1.95	18.5
Dividends per Share	$1.62	$1.56	3.8
Average Common Shares Outstanding (000)	78,233	65,056	20.3
Number of Electric Customers (end of year)	543,099	529,709	2.5
Total Kilowatt-Hour Sales (000)	29,005,483	28,968,502	.1
System Peak Load — Kilowatts	5,348,000	5,164,000	3.6

Report to Shareholders

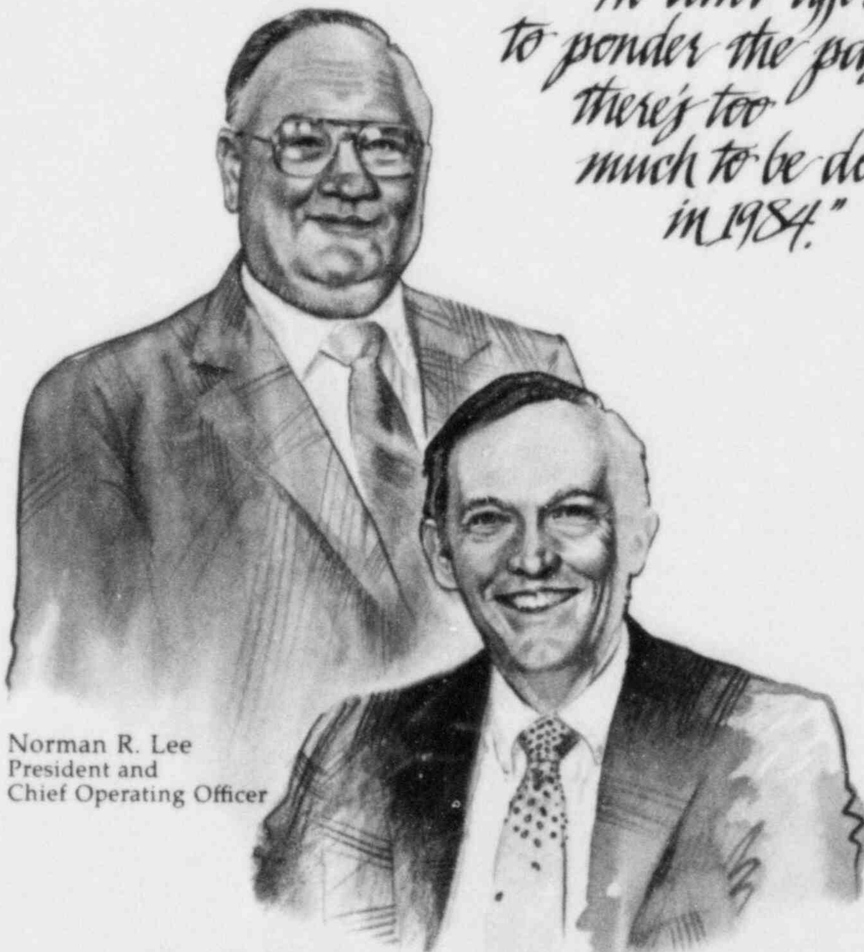
"We can't afford to ponder the past; there's too much to be done in 1984."

Dear Fellow Shareholders:

Measured by virtually any standard, 1983 was a year of solid achievement and progress for Gulf States Utilities, its shareholders, employees and customers.

Earnings for the year ended December 31, 1983, were $2.31 per share of common stock compared to $1.95 per share in 1982 when there were 17 percent fewer average shares outstanding. The regular quarterly dividend was raised during the second quarter of the year to 41 cents from 39 cents, which represents an annual rate of $1.64 per share of common. Return on average common equity was 14.78 percent, compared to 12.32 percent just one year ago.

In addition to these favorable financial indicators, several positive events took place. Without being overly optimistic, we see indications that our service area and Gulf States are beginning to move in a more positive direction.



Norman R. Lee
President and
Chief Operating Officer

Paul W. Murrill
Chairman of the Board
and Chief Executive Officer

On the plus side:

■ Construction work at the River Bend nuclear plant site made good progress, finishing the year ahead of schedule, on budget and meriting high marks for management control from the Nuclear Regulatory Commission ■ Replacement gas was obtained for the still needed portion of the 20-year-old, low-cost Exxon gas contract that expires in January 1985 ■ A new pipeline to provide additional gas to Nelson Station was completed ■ The high-voltage transmission tie to import coal produced power from the Southern Companies is more than 63 percent complete ■ Our long-standing lawsuit against United Gas Pipeline Co. was settled, much to our customers' benefit ■ Big Cajun 2, Unit 3, of which GSU owns a 42 percent share, went into commercial operation ■ An automated materials management system became fully operational — saving time and money ■ Project CARE helped more than 3,100 elderly people pay their energy bills during its first year of existence ■ Employees faced a series of weather-related challenges — May tornadoes, an August hurricane and frigid winter storms — and continued to provide reliable service to our customers ■ And our overall kilowatt-hour sales showed a modest increase, from 28.97 billion kwh in 1982 to 29.01 billion kwh in 1983.

Each of these highlights of 1983 will be discussed in more detail elsewhere in this report.

There were also other, less positive notes in 1983. Most disconcerting of these was the Louisiana Public Service Commission's decision denying the company's $119.4 million rate increase request and ordering a $1.1 million rate reduction. This was a disappointing, unacceptable decision which GSU has appealed to a state district court. We plan to file again in Louisiana soon and we will probably seek interim rate relief.

One immediate result of the Louisiana Commission's action came in January, when Moody's, citing among other things the unfavorable Louisiana rate decision, downgraded the company's first mortgage bonds, commercial paper and unsecured debt.

In early January 1984, Gulf States filed a two-step rate case with the Public Utility Commission of Texas. The company is requesting $161.2 million in additional revenues later in 1984 and an additional $264.6 million at the beginning of 1985, most of which is to cover increased fuel and purchased power costs resulting from the Exxon contract expiration.

GSU took significant steps during the year in its fuel diversification strategy. We need the broadest possible array of generating fuels to cope with any unexpected developments that might make a particular fuel unavailable. River Bend is a critical element in that strategy.

We are proud of the progress at River Bend. The 940-megawatt River Bend Unit 1 was 82.1 percent complete as 1983 ended. The December 1985 in-service date remains on target and the current construction schedule and cost estimate of two and one-half billion dollars, which were established in 1981, were recently reaffirmed. We still believe the current schedule can be met. Given today's national nuclear environment, this is truly remarkable progress.

It should be recognized, however, that our schedule is an ambitious one and that we are now entering the toughest stages of the project.

The company originally planned to build River Bend Unit 2 as a twin to the facility now under construction. That project was put on hold several years ago when the company's load growth began slowing. The board of directors concluded Unit 2's 940 megawatts of capacity would not be needed in the foreseeable future and formally canceled the unit in January 1984. The company will ask the regulatory authorities for permission to amortize and recover through rates our net investment.

We launched Project CARE last year to provide financial assistance to elderly customers who have problems paying their energy bills. The company has numerous programs to help our customers, ranging from low-cost do-it-yourself conservation information, to special billing arrangements for those in financial straits. We can't promise them lower bills, but we can show them we are concerned and are making every effort to help.

GSU people do have a genuine concern for the people we serve. Employees showed themselves to be tough and persevering after storms devastated our area last year. At one time during Hurricane Alicia, more than 100,000 of our 265,000 Texas customers lost electric power. The men and women of GSU worked long hours, often under difficult and dangerous conditions, to restore service. That kind of dedication does not come from just doing a job. It comes from true concern and caring.

Two new officers were named by the board last year — George T. McCollough Jr., vice president - fuels and materials, and Albert H. Newton, vice president. Mr. Newton was also elected in August to be president and chief operating officer of GSU's Prudential Drilling Co. subsidiary.

We regret to report that the Gulf States board of directors will lose the services of one of its members to retirement. Dr. Lorene L. Rogers, president emeritus of the University of Texas, joined the GSU board in

"Nobody ever said it would be easy, but it's not going to be impossible."

1976 and materially aided in establishing this company's course for the 1980s. She will be both personally and professionally missed. The name of Gen. Robert H. Barrow has been placed in nomination for election by the shareholders. Gen. Barrow retired last July as commandant of the U.S. Marine Corps. He is a resident of West Feliciana Parish, Louisiana, where River Bend is located, and has been retained by the company as a consultant on the off-site emergency plan for River Bend.

We cannot afford to ponder the past too long; there is too much to be done in 1984. We have a tough job ahead — a job that will call for mustering every bit of our creativity to confront the challenges. Nobody ever said it was going to be easy. But it's not going to be impossible.

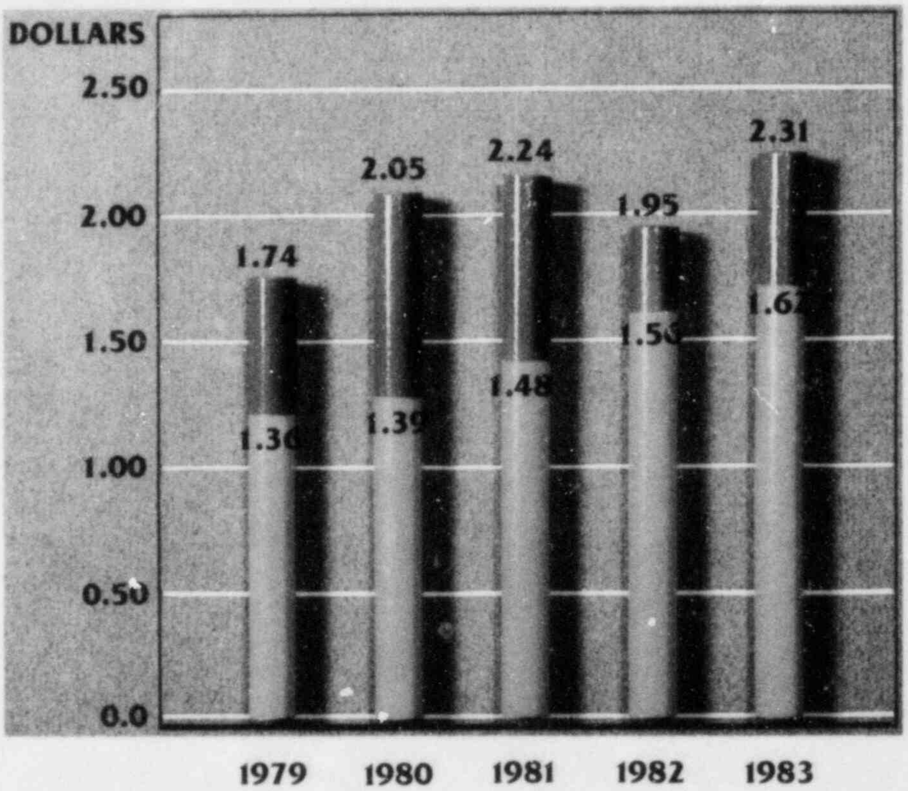
Sincerely,

Norman R. Lee
President and
Chief Operating Officer

Paul W. Murrill
Chairman of the Board
and Chief Executive Officer

Sales

EARNINGS AND DIVIDENDS PER SHARE



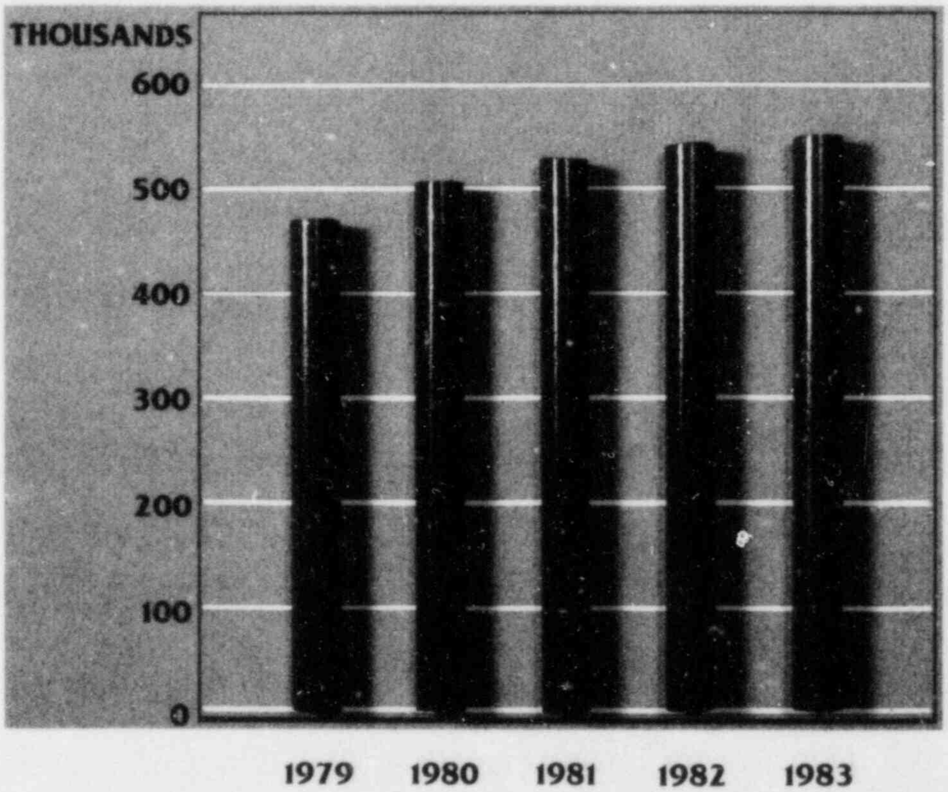
Sales

The economic recession that hit our area of the Sunbelt with full force in 1982 dampened the economic climate in 1983 and caused a slump in electric sales that continued during the first half of the year. Kilowatt-hour sales to industrial customers picked up by midyear, however, and began an upward trend that continued through the end of the year.

The comeback began in June with increased sales to a major chlorine manufacturer under terms of an interruptible rate tariff. This was an important load increase and continued for the rest of the year. Disregarding this increase, however, the last two months of the year showed increases in sales over the corresponding periods in 1982. Industrial sales ended the year four percent higher than they did in 1982. Overall kilowatt-hour sales showed a modest increase of 37 million kwh.

While this is good news, it may be still too early to say that this is a trend that signals an improvement in the overall economic health of our service

ELECTRIC DEPARTMENT CUSTOMERS



area. Even though we moved ahead of last year's electric sales, 1982 sales were some six percent below those of 1981. So, while we are making progress, we still have not fully recovered from the economic buffeting we received in 1982. The industrial load, which accounted for 41 percent of the total electric revenues for the year, remains an important part of GSU's customer mix and is widely considered an economic barometer. We are viewing these improvements with cautious optimism.

Sales for the weather-sensitive residential sector were five percent below last year, in spite of a two percent increase in new residential customers at year's end. The generally mild weather the area experienced is primarily responsible for this decrease. It was not until the last two weeks of December that weather played a notable part in both electric and gas sales, when unseasonably frigid weather drove winter demand to new peaks.

During the year, GSU added some 13,000 new electric cus-

tomers, increasing the total receiving electric service to 543,000 at the end of 1983.

Gulf States ended 1983 with earnings per share of common stock increasing to $2.31 from $1.95 per share in 1982, when there were 17 percent fewer average shares outstanding. The common stock dividend reached $1.62 per share for 1983, up from the $1.56 per share paid in 1982. The regular quarterly dividend was raised during the second quarter of the year to 41 cents from 39 cents, which represents an annual rate of $1.64 per share of common. Operating revenues were $1.4 billion in 1983 and $1.3 billion in 1982. Return on average common equity was 14.78 percent, compared to 12.32 percent just one year ago. Another financial indication of moderate improvement was the fact that our fixed charge coverage ratio increased to 2.4 times in 1983, up from 2.1 times in 1982.

The earnings increase is primarily attributable to rate increases granted for Texas and Louisiana retail customers and higher wholesale rates authorized by the Federal Energy Regulatory Commission (FERC), all during the second half of 1982. Another factor that contributed to GSU's progress during 1983 was a continued cost consciousness on the part of management and employees. Through effective cost containment, operations and maintenance expenses were reduced more than $6 million below budgeted amounts.

Construction

During 1983 GSU made major progress in moving away from its historic dependence on natural gas as a boiler fuel. The two alternative fuels — coal and nuclear energy — are both critical elements in the company's fuel diversification.

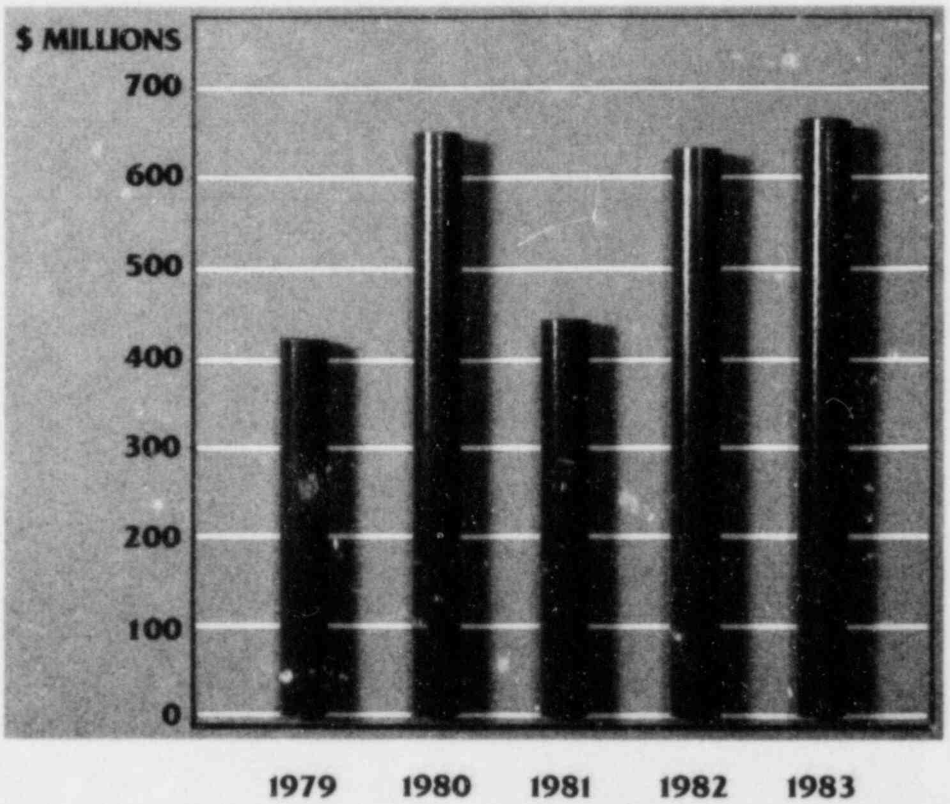
River Bend, GSU's nuclear facility, is the company's most

The people who will be running River Bend will be some of the best trained operators in the nation. In addition to completing an intensive training course and being licensed by the Nuclear Regulatory Commission, GSU operators will get extensive hands-on training using this computerized control room simulator. It duplicates the actual River Bend control room and simulates potential problems.

"The operators will learn to recognize a problem and take the necessary actions to solve it."

Bill Odell
Director of Nuclear Training

CONSTRUCTION EXPENDITURES



important and expensive construction project. River Bend ended 1983 slightly ahead of schedule and within budget.

At year's end, River Bend Unit 1 stood at 82.1 percent complete. The December 1985 in-service date for the 940-megawatt unit being built near Baton Rouge, Louisiana, remains on target. The current construction schedule and the current cost estimate of $2.5 billion were established in 1981 and have been recently reaffirmed. River Bend Unit 1 is the only generating unit GSU has under construction.

In its 1983 annual review of the project, the Nuclear Regulatory Commission (NRC) gave Gulf States the highest ratings possible in the areas of management control and design control. The top category rating means that "licensee management attention and involvement are aggressive and oriented toward nuclear safety." We have consistently received good marks from the NRC and were cited for only one minor violation of federal rules and regulations during all of 1983.

Throughout its construction history, River Bend has made above average progress when compared to 15 other nuclear plants of similar size and design. Using that same yardstick, it had taken River Bend less time to reach four major construction milestones.

For example, the average nuclear construction project takes 50 months to reach the halfway mark. River Bend reached its halfway mark at 34 months. In fact, each of the first 19 construction milestones was reached on or ahead of schedule.

In March, the containment dome was successfully placed inside the reactor building using one of the world's largest cranes. This construction accomplishment was overshadowed the following evening when the crane collapsed as it attempted to lift the structural steel roof. River Bend quickly recovered, however, and plans were drawn up for the erection of a second structural steel roof without delaying the overall construction schedule or compromising safety.

It should be recognized, however, that our schedule is an ambitious one and that we are now entering the toughest stages of the project.

There are six construction milestones remaining, climaxing with fuel loading in April 1985. As construction of the River Bend project draws nearer to completion, preparation for actual start-up of the unit has become more intense. A start-up planning and scheduling group has been formed, staffed by experienced personnel. The top GSU people responsible for managing the start-up program share some 124 man-years of experience in bringing nuclear plants into service. GSU is monitoring the start-up activities of other nuclear plants and is benefiting from their experience.

Our commitment to successfully completing River Bend extends into other areas of company operations. In an economy move, GSU's previously announced construction budget projections for 1984 have been revised downward. However, the portion of the budget designated for River Bend construction remained unchanged. The current 1984 construction budget has been set at $568 million, down from the $600 million originally forecast for 1984. Actual construction expenditures for 1983 were $643 million.

Financial participation in River Bend by Cajun Electric Power Cooperative Inc. (CEPCO) was reconfirmed in late September, when the Rural Electrification Administration

(REA) approved CEPCO's application for an additional long-term loan guarantee. The REA action was designed to permit CEPCO to finance the balance of its share of the currently estimated total costs of the unit. CEPCO owns 30 percent of River Bend, while GSU's ownership portion is 70 percent.

GSU's portion of another major construction project undertaken jointly with CEPCO — Big Cajun 2, Unit 3 — was declared to be in commercial operation during September and has been providing power to our customers since that time. The 540-megawatt coal-fired generating unit is located across the Mississippi River from River Bend. GSU owns a 42 percent share of that unit, which was built and is operated by CEPCO.

The final major construction project in which GSU is involved is the 140-mile-long 500-kilovolt transmission line linking Gulf States with the Southern Companies. About 70 miles of the line are being built in Louisiana north of Lake Pontchartrain, with the remaining 70 miles being constructed in Mississippi by subsidiaries of the Southern Companies. GSU's portion of the line was more than 63 percent complete by the end of the year, with more than 200 transmission structures erected and wire-stringing underway. The line is scheduled for completion in May 1984 and will allow GSU to receive 1,000 megawatts of coal-generated power through 1992 at an advantageous price from the Southern system, which includes companies in Mississippi, Alabama, Georgia and Florida.

River Bend Unit 2 Canceled

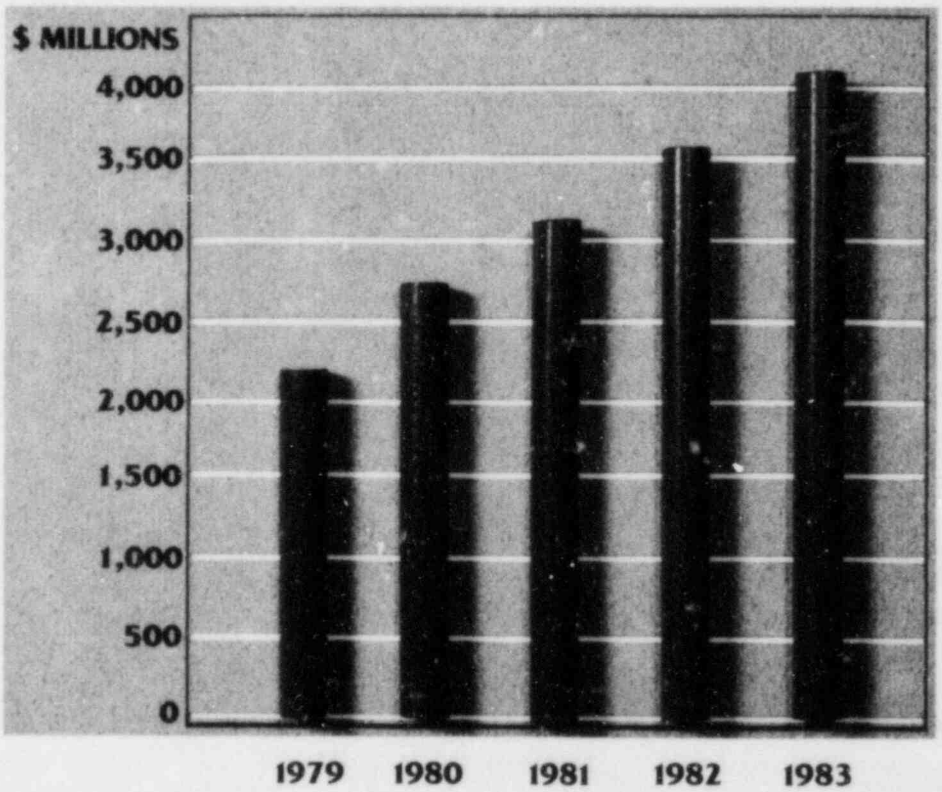
On January 5, 1984, the board of directors formally canceled River Bend Unit 2, the twin to the unit now under construction. That project was put on hold several years ago when the company's load growth began slowing. Sufficient data are now available to show that capacity

"Coal by wire" is one way to describe the electricity this high-voltage line will carry when completed later this year. It will link GSU to the coal-based electricity generated by the Southern Companies and help slow the rising cost of energy. The 70-mile stretch of line in Louisiana crosses some difficult and hostile terrain.

"We're not just building a power line here; we're helping keep electricity prices down."

Mike LaBorde
Superintendent —
Transmission Construction

TOTAL UTILITY PLANT



from Unit 2 will not be needed in the foreseeable future. Actual construction was less than one percent complete. Some $120 million are attributable to engineering work, equipment orders, financing charges and estimated costs associated with the cancellation. The net book loss as a result of the cancellation amounts to approximately $82 million. GSU is asking its regulatory authorities to amortize and recover through rates this amount over a five-year period.

It now appears that the cancellation of River Bend Unit 2 and its resultant tax benefit could result in a portion of the 1984 dividends paid to common shareholders being treated as a return of capital for federal tax purposes. Current estimates are that about 50 percent of GSU's 1984 dividend may qualify as return of capital. However, such events as the level of sales and rate relief granted during 1984 will influence the return of capital position. No change is expected in the amount of dividends paid to shareholders as a result of this treatment. Return

of capital, if it does occur, can offer shareholders some attractive tax benefits.

Rates and Regulatory Matters

There were significant developments in all three of GSU's rate jurisdictions during the year.

In October the FERC approved a $28.75 million rate increase settlement negotiated by the company and its wholesale customers. This was less than the $32.6 million increase the FERC approved in July 1982 for billing subject to refund. A refund of approximately $7.8 million was made during November 1983. This had no impact on earnings because the overbilling was recorded in a reserve account in anticipation of the refund.

The Louisiana Public Service Commission (LPSC), in a disappointing decision on December 12, denied the company's request for a $119.4 million electric rate increase and ordered a $1.1 million reduction in GSU's Louisiana revenues. The original request had been made a full year earlier on December 10, 1982. The rate order provides for a 14.5 percent return on common equity (reduced from 16.25 percent) with no cash earnings on Construction Work in Progress (CWIP). The decision allowed the Big Cajun coal unit to be placed in the company's rate base. In a separate rate decision issued the same day, the LPSC granted $1.5 million of the requested $2.2 million natural gas rate increase.

This was clearly an unacceptable decision and GSU has appealed it to a state district court in Louisiana. We plan to file another rate case in Louisiana soon and will probably seek interim rate relief.

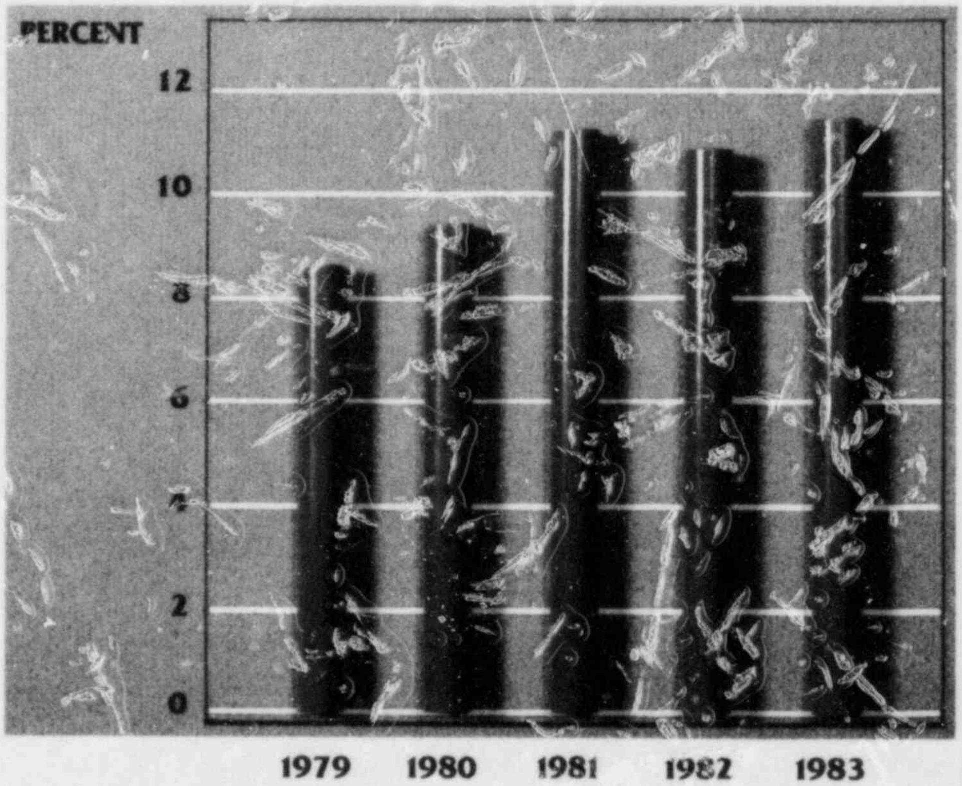
It is too early to tell what effect the new makeup of the Public Utility Commission of Texas (PUCT) and the new laws governing utility operation in the state will have on GSU. On January 6, 1984, the company filed its first Texas rate request since May 1982 and the first it has filed with the PUCT under the revamped state laws and regulations. In this two-step rate case, the company has requested $161 million in additional revenues later in 1984 and an additional $265 million at the beginning of 1985 to cover increased fuel and purchased power costs.

The first-step request includes the Big Cajun coal unit and known increases in cost of service, as well as the River Bend Unit 2 cancellation charges. This request seeks a 17.5 percent return on equity and a cash return on $594 million of CWIP.

The second step of the rate case was necessary because of

Financing

RETURN ON AVERAGE CAPITALIZATION



changes in the law governing the operation of the PUCT, which were enacted last year by the state legislature. Fuel cost charges are no longer automatically passed on to customers through the fuel adjustment clause. The commission will now hold hearings on changes in fuel costs and issue an order before the new costs may be billed to customer bills. The second-step increase is virtually all for additional fuel and purchased power costs that will result from the expiration of an inexpensive natural gas contract on January 1, 1985. The PUCT has scheduled hearings to begin on the GSU case in April.

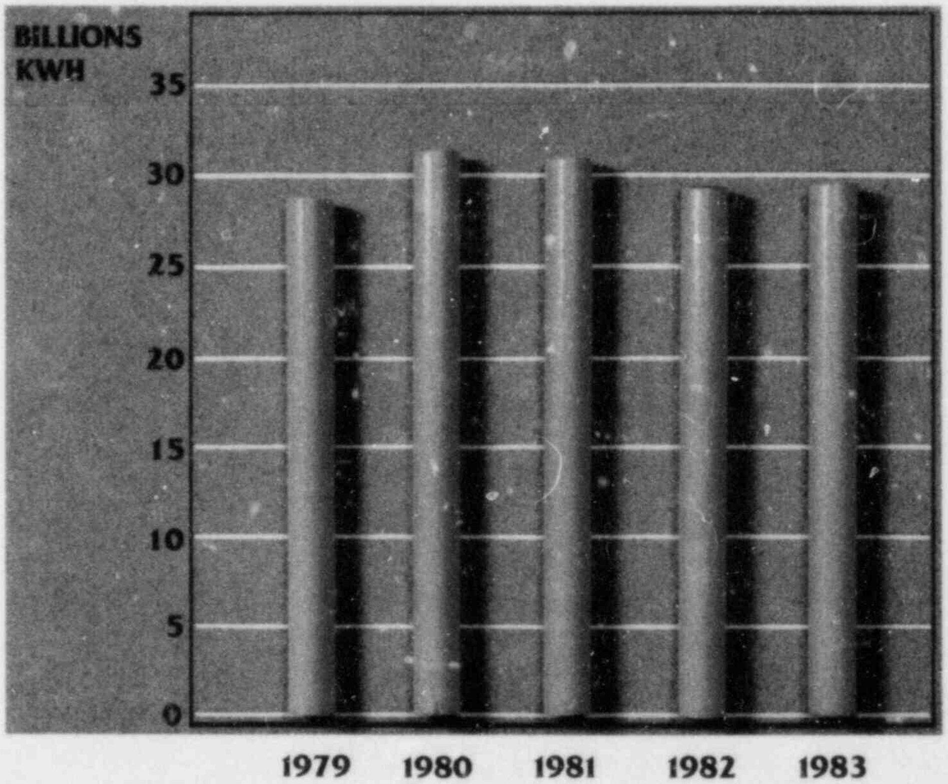
Financing

To finance the company's construction costs, we issued more than $382 million of securities in 1983.

In summary, the 1983 financing program was as follows:

- In March, the company sold $100 million of 30-year first mortgage bonds at 13⅛ percent.
- In April, GSU guaranteed the payment of principal and interest on $17.45 million of tax exempt pollution control

ELECTRIC SALES



revenue bonds issued at 9.5 percent to help finance the company's portion of pollution control facilities at Big Cajun 2, Unit 3.

■ In May, the company sold 300,000 shares of adjustable rate cumulative preferred stock. The $100 par value shares sold at an initial dividend yield of 11.5 percent.

■ In July, six million shares of common stock were sold with net proceeds to the company of $83.67 million.

■ In November, GSU sold $100 million of 30-year first mortgage bonds at 13½ percent.

■ During the year, $50 million of common stock were issued through company plans — Employees Thrift Plan, Employee Stock Ownership Plan, and Dividend Reinvestment and Stock Purchase Plan.

The use of traditional securities markets continues to be backed by an $800 million revolving credit agreement between GSU and more than 100 U.S. and international banks. This agreement is designed to backstop the company's normal debt financing through the completion of River Bend.

General Operations

Financing construction expenditures for this year will be a virtual replay of 1983. We will need some $385 million from securities sales — about a million dollars a day — to keep construction financing on a pay-as-you-go-basis. We expect to issue about $200 million in long-term debt, some of which may be pollution control bonds associated with River Bend. We will also issue more preferred and common stock during the year.

Under the best of circumstances this financing plan would be considered challenging. It was made even more so when we received the disappointing news in early January that Moody's had downgraded our first mortgage bonds a notch to Baa3 from Baa2. Citing among other things the unfavorable Louisiana rate decision, Moody's also downgraded our commercial paper to P-3 from P-2 and our unsecured debt to Ba1 from Baa3.

General Operations

A significant event for Gulf States and its customers will occur on January 1, 1985, with the expiration of a low-cost natural gas contract which will have supplied about one-half of the company's boiler fuel for 20 years. In anticipation of the possible impact this could have on customer bills, we began several years ago taking positive actions to lessen the brunt of cost increases and help our customers through this difficult time.

We have arranged to replace the still needed portion of the Exxon gas from multiple suppliers and multiple supply lines. The new contracts have been executed with terms ranging from 5 years to 12 years and provide for purchases generally at prices based upon the market price of gas at the time of purchase. This flexibility allows GSU to take maximum advantage of changes in the

Relocation of new industries, such as International Piping Systems of [illegible] Allen, La., plays a vital role in reshaping the area's economy by providing jobs and opportunities. GSU will continue to remain a factor in attracting and servicing new industries.

natural gas market price. A new pipeline to carry the replacement gas into Sabine Station will be completed this year, adding to this flexibility.

New programs to help customers cope with rising energy costs were also added in 1983. Project CARE, designed to assist elderly customers on fixed incomes, earned marked success in its first year. The program began in March with a $100,000 contribution from GSU shareholders. Through the end of the year, employees and customers had contributed some $174,000 to the program. In human terms, more than 3,100 elderly people have been helped by Project CARE to pay electricity, gas, propane and butane bills. Direct assistance is administered by social services agencies in Texas and Louisiana.

The company also inaugurated a new service to help customers understand the overall energy picture and control their personal energy use. Called "Energy Talks," the program provides callers with tape-recorded messages on a variety of subjects. The topics range from the basics of how to read an electric meter, to conservation measures, to the most economical ways to heat and cool a home. Larger issues such as acid rain and solar energy are included. Energy Talks has been promoted through bill inserts, radio and newspaper advertisements.

Each of the company's five operating divisions has at least one Consumer Affairs Coordinator who works with low-income and other customers with financial hardships to explore the possibility of securing aid from various social service agencies. These employees have been highly successful in helping customers make bill-paying arrangements and thus avoid disconnection of service.

A computerized materials management system was put into full operation last year. This aided GSU storekeepers in reducing inventories in the transmission and distribution storerooms and achieving tangible cost savings. By strengthening management control of inventory and its carrying cost, a savings of $1 million per year has been made.

Another savings was made last year through more efficient disposition of obsolete material and equipment. More than $2.7 million was recovered in 1983 through sales of scrap metals and coal ash and by reclaiming equipment whenever possible.

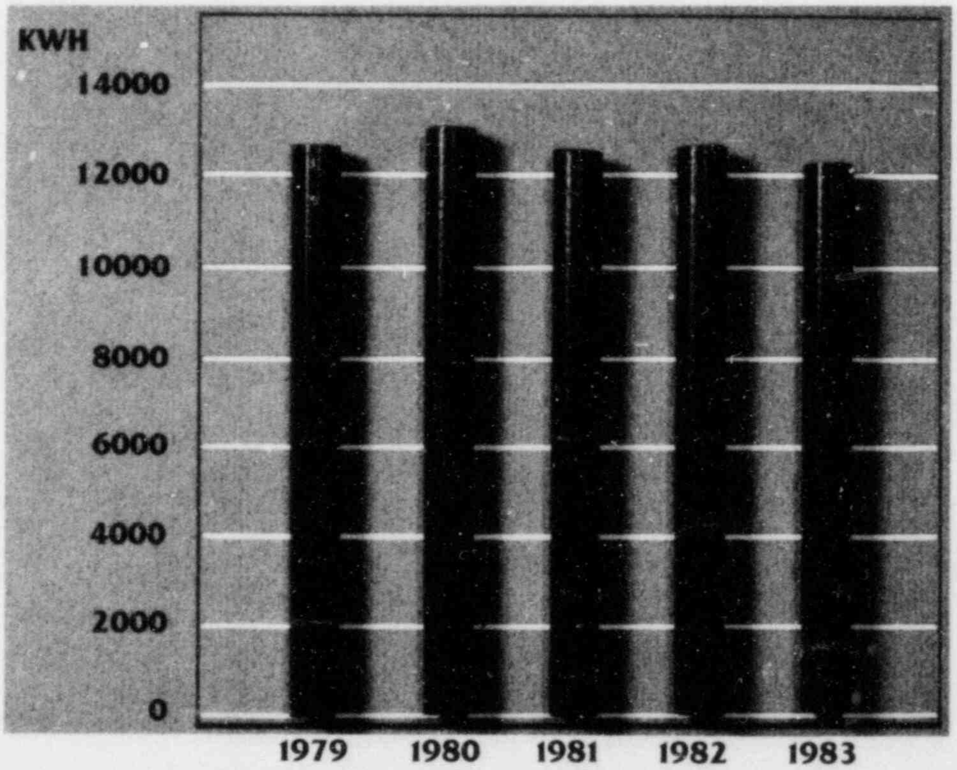
GSU's long-standing litigation on behalf of its customers

Providing assistance to customers in need is an important part of GSU's operations. Specially trained employees in each division work directly with customers and social service agencies to keep the lights on and avoid disconnections. Project CARE provided emergency aid to more than 3,100 elderly people last year.

When people have a problem, they need to know someone cares... so they can keep their self respect and keep the electricity on.

Sue Kendall
Customer Affairs Coordinator

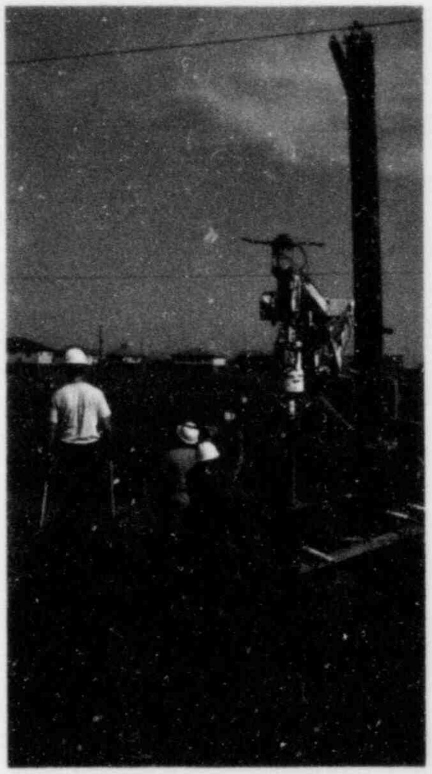
AVERAGE RESIDENTIAL ELECTRIC USE



against United Gas Pipeline was settled in March. Under terms of the settlement, United Gas made a $112 million cash payment, which was placed in an interest-bearing escrow account, with the method of returning the money to customers to be determined by regulatory authorities. A proposal was submitted in January 1984 which, if approved by the PUCT, could lead to the actual return of about $42 million to Texas customers. There are no tentative settlements yet for either Louisiana customers or federally regulated wholesale customers.

During 1983, Prudential Drilling Company, GSU's wholly-owned subsidiary, expended $18.2 million for exploration, completion and development of oil and gas reserves in the Texas and Louisiana Gulf Coast region. This included $10.7 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 16.5 million mcf of gas and 1.3 million barrels of oil or condensate. For exploration, completion and development in 1984, Prudential has planned and budgeted expenditures totalling $14.0 million.

GSU Weathers 1983



Line crews from Texas and Louisiana join in the rebuilding effort to replace one of hundreds of transmission and distribution poles in Texas flattened by Hurricane Alicia.

Weather took its toll on Southeast Texas during 1983.

A series of savage wind storms swept across virtually the entire Texas portion of the GSU system May 20 and 21. These were the most devastating tornadoes to strike the area in more than two decades, killing at least 10 people and doing hundreds of millions of dollars in property damage.

At one point, about 65,000 of GSU's 265,000 Texas customers were without electric power. Dozens of line crews from Louisiana and a neighboring Texas utility were called in to help repair the more than $3 million in damage to GSU's lines and facilities. It took four full days to restore power to all customers, and during that time company employees distributed more than 87,000 pounds of dry ice free to customers to help prevent thawing and spoiling of food in freezers.

Just a few months later, Hurricane Alicia slammed into the upper Texas coast with 135 mile per hour winds. After roaring directly through Houston August 18, Alicia raged north into the western portion of GSU's service territory. At the height of the storm, nearly 100,000 — almost half — of GSU's customers in Texas lost their electric service.

GSU employees responded quickly to the emergency. The normal complement of 51 crews in the Western Division was augmented within 24 hours by more than 200 additional line and service crews from other GSU divisions and from neighboring Texas Power & Light and Dallas Power & Light.

Damage to the GSU system has been assessed at $5.9 million, making Alicia more severe than the May storms that hit the same area. However, financial impact to the company was lessened by insurance coverage which allows the company to recoup all losses except for the $1 million deductible for each occurrence.

One final weather assault occurred around Christmas, when unseasonably frigid weather blew into the Texas-Louisiana area and drove winter demand to new peaks. A newly-established winter peak of 4,480 megawatts that was set December 29 was eclipsed on January 20, 1984, when the system reached a new all-time winter peak of 4,651 megawatts. On that same day, the highest single day winter consumption in Gulf States history was also recorded — 103,240 megawatt-hours. This compares to a maximum single day summer consumption for 1983 of 107,781 megawatt-hours.

Gas operations in Baton Rouge set record sales on Christmas day with 120 million cubic feet of natural gas delivered to GSU for resale.

Financial Information

Financial Section

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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 42. 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

For the years ended December 31
(in thousands except per share amounts, ratios, and sales)

	1983	1982	1981	1980	1979
Electric Sales (millions of KWH)	**29,005**	28,969	30,697	30,585	29,742
Operating Revenue	**$1,436,188**	$1,307,259	$1,221,714	$1,005,226	$ 864,338
Net Income	**229,799**	165,979	150,931	117,189	84,181
Income Applicable to Common Stock	**180,747**	127,030	120,550	92,309	68,559
Earnings Per Average Common Share Outstanding	**2.31**	1.95	2.24	2.05	1.74
Dividends Per Share of Common Stock	**1.62**	1.56	1.48	1.39	1.36
Total Assets, end of year	**4,353,398**	3,806,111	3,343,419	2,925,701	2,439,345
Long-Term Debt and Preferred Stock Subject to Mandatory Redemption, end of year	**2,044,169**	1,771,078	1,642,894	1,444,505	1,066,938
Capitalization Ratios:					
Common Shareholders' Equity	**36.6%**	36.0%	34.4%	32.6%	35.6%
Preference Stock	**2.8**	3.2	—	—	—
Preferred Stock					
Not subject to mandatory redemption	**3.8**	4.3	5.0	5.8	7.3
Subject to mandatory redemption	**5.7**	5.6	6.5	7.5	4.0
Long-Term Debt	**51.1**	50.9	54.1	54.1	53.1
Return on Average Common Equity	**14.78%**	12.32%	14.21%	12.94%	10.91%
Book Value Per Share, end of year	**$ 15.73**	$ 15.25	$ 15.41	$ 15.60	$ 15.53
Ratio of Earnings to Fixed Charges	**2.43**	2.10	2.10	2.38	2.42

Common Stock Prices and Cash Dividends Per Share

For the years ended December 31

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

1982	High	Low	Cash Dividends Paid Per Share
Fourth Quarter	$ 14	$ 12	$.39
Third Quarter	13⅛	11¼	.39
Second Quarter	13½	11¼	.39
First Quarter	12½	11⅛	.39

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, 1983, was 111,000.

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 increased by 38 percent and 42 percent, respectively, during 1983, as compared to 1982. Earnings per share of common stock also increased by 18 percent over 1982, when there were 17 percent fewer average shares outstanding. The Company's improved financial performance during 1983 resulted primarily from increases placed into effect during the second half of 1982 in the Company's wholesale and retail rates. The beneficial impact of these rate increases will begin to lessen due to continuing increases in the Company's cost of service and embedded cost of capital. If the Company is to maintain its current financial condition, it must regularly receive rate increases which recognize these increased costs. (See discussion of rate matters under "Operating Revenue.")

Operating Revenue

Operating revenue increased 10 percent during 1983, as compared to increases of 7 percent and 22 percent during 1982 and 1981, respectively. The primary causes of these increases are detailed below:

	1983	1982	1981
	(in thousands)		
Rate Increases	$127,915	$ 93,033	$120,036
Changes in Fuel Cost Recovery	(27,205)	(19,411)	77,519
Fuel Included in Base Rates	19,794	13,598	—
Sales Volume and Other	8,425	(1,675)	18,933
	$128,929	$ 85,545	$216,488

The Public Utility Commission of Texas (PUCT) approved a $63.7 million increase in rates which was placed in effect during October, 1981, and a $57.5 million increase which was placed in effect during October, 1982. The Company currently has pending an application for a two-step rate increase in Texas (see Note 11 to the Financial Statements).

During September, 1982, the Company placed into effect a $97.3 million rate increase approved by the Louisiana Public Service Commission (LPSC). On December 12, 1983, the LPSC denied the Company's application for a $119.4 million electric rate increase and ordered a $1.1 million reduction in electric rates. At the same time, 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 action and an order to grant the requested increases. The Company plans to file an application for an electric rate increase in Louisiana during the first quarter of 1984.

The Company was granted a $28.8 million rate increase in its wholesale rates during July, 1982.

During 1983, kilowatt-hour sales remained virtually unchanged from the 1982 level. This compares to a sales decline of 6 percent during 1982, and a sales increase of less than 1 percent during 1981 (see the Statistical Summary on page 43). An increase during 1983, in sales to industrial customers of 4 percent was offset by decreases in sales to residential and wholesale customers of 5 percent and 8 percent, respectively. The increase in industrial sales is in part a reflection of the improvement in economic conditions experienced in the Company's service area during the latter part of 1983. The decrease in sales to residential customers was primarily the result of the milder than normal summer weather and the continuing effects of price elasticity. The decrease in sales for resale also resulted from the milder summer weather along with the transfer of certain municipal customers to another power supplier during the second half of the year. The decrease in total sales during 1982, was primarily attributable to decreases in sales to industrial and wholesale customers, offset in part by increases in residential and commercial sales. Reduced industrial sales in 1982 were a reflection of the economic recession experienced throughout the year.

Operating Expenses and Taxes

Fuel expenses decreased by 2 percent during 1983, and 7 percent during 1982. These decreases followed a 27 percent

increase in fuel expense during 1981. A reduction in the unit price paid for fuel during 1983 was the primary reason for the decrease in fuel expense. This reduction in unit price reflects 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 decrease in fuel expense during 1982, was due to reduced generation requirements caused by lower sales, partially offset by increases in the unit price of fuel. Increased fuel expense during 1981 resulted primarily from increased unit prices paid for fuel and increased generation requirements. 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 11 percent during 1983, compared to increases of 21 percent and 10 percent during 1982 and 1981. The 1983 increase is attributable to increased unit prices resulting primarily from costs associated with the Company's buyback of the co-participants share of capacity in Nelson Unit 6, a 540 MW coal-fired generating unit placed in service on May 31, 1982. The increased unit prices were offset in part by decreased energy purchases. The increase in purchased power expenses during 1982 and 1981 was caused primarily by increases in the unit price paid for energy purchased.

On January 1, 1985, the Company's long-term contract for the purchase of low-cost natural gas expires. The Company expects that the contract expiration will have a significant impact on total fuel and purchased power expense and anticipates that the additional costs attributable to its wholesale and Louisiana retail customers will be recovered through fuel adjustment clauses. The Company has filed a request with the PUCT to recover these additional fuel costs through a fixed fuel factor in its Texas retail rates.

Other operating expenses 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 1983 and 1981. A decrease in the amount of unscheduled maintenance performed during 1982, offset these increased costs and resulted in a decrease in maintenance expense during 1982.

Depreciation expense increased as a result of placing the Company's portion of Nelson Unit 6 and Big Cajun 2 Unit 3 into commercial operation.

Income taxes increased during 1983, as a result of the increase in pre-tax income. An increase in pre-tax income during 1982, combined with the effects of certain tax adjustments recorded during 1981, resulted in the increase in income taxes during 1982.

Non-Operating Items

Increases in allowance for funds used during construction (AFUDC) are the result of increases in the rate used to compute AFUDC, along with a decrease in the amount of construction work in progress (CWIP) upon which the Company is allowed to earn a cash return. The increase in the AFUDC rate results from the continuing increases in the Company's embedded cost of capital.

Increased interest on long-term debt resulted from the interest requirements on first mortgage and pollution control bonds issued during 1983, and the latter half of 1982, offset in part by reduced interest requirements on the revolving credit facility due to a decrease in the average amount outstanding and lower interest rates. The issuances of long-term debt were used to refund short and intermediate-term borrowings incurred in connection with the Company's construction program. The decrease in short-term interest expense resulted primarily from lower short-term interest rates.

Financial Information

Financings and Capital Resources

During 1983, the Company invested $643 million (including $127 million of AFUDC) in utility and other plant. It is currently estimated that the Company's construction expenditures will total $568 million in 1984, and $500 million in 1985 (including $160 million and $179 million of AFUDC, respectively). A total of $436 million or 68 percent of the Company's 1983 investment in utility and other plant was attributable to the Company's investment in River Bend Unit 1, a 940 MW nuclear-fueled generating unit. During 1983, the Company also continued funding its 42 percent share of Big Cajun 2 Unit 3 which was placed in commercial operation on September 1. In addition to funding the construction program, the Company must periodically redeem preferred stock in accordance with sinking fund provisions, and pay dividends to the holders of its preferred and preference stock.

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 1983, 66 percent of the Company's construction expenditures were funded from external sources. Internally generated funds and AFUDC equal the remaining 34 percent of construction costs during 1983, compared to 26 percent during 1982. It is currently estimated that internally generated funds and AFUDC will be equal to an average of approximately 45 percent of construction costs (including AFUDC) during 1984 and 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 cash return on a significant portion of CWIP. While the PUCT and the Federal Energy Regulatory Commission currently allow the Company to earn a cash return on a portion of its CWIP, the LPSC, in its order issued during December, 1983, disallowed the inclusion of any CWIP in rate base.

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. This can only be accomplished if the rates which the Company is allowed to charge are sufficient to provide the necessary levels of debt and preferred stock coverage ratios and common stock equity earnings. During January, 1984, the Company's credit rating, as assigned by independent credit rating agencies, was lowered. Despite the lower rating, the Company's first mortgage bonds and preferred stock remain investment grade securities. The impact which the new ratings will have on the Company's ability to fund its construction program is indeterminable at this time. During 1983, the Company financed $424 million of its total capital requirements of $663 million through sales of long-term debt ($217 million), common stock ($137 million), preferred stock ($30 million), and net increased borrowings under the revolving credit agreement ($40 million). A total of $10 million of debt matured and was repaid during 1983. Average daily short-term borrowings were approximately $96 million during 1983, up five percent from last year. (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, 1983, the Company would have been able to issue at year end, $452 million in additional first mortgage bonds (assuming an interest rate of 13¾ 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, 1983, the Company would have been able to issue at year end, $300 million in additional preferred stock (assuming a 12¾ percent dividend rate for such stock).

Statement of Income

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

	1983	1982	1981
Operating Revenue			
Electric	**$1,305,449**	$1,188,944	$1,106,522
Steam	**83,646**	75,213	77,624
Gas	**47,093**	43,102	37,568
	1,436,188	1,307,259	1,221,714
Operating Expenses and Taxes			
Fuel	**438,154**	446,521	481,285
Purchased power (Note 5)	**201,325**	182,106	150,463
Other operations	**173,151**	151,660	133,647
Maintenance	**78,971**	65,321	70,867
Depreciation and amortization	**103,251**	89,291	78,194
Income Taxes			
Federal (Note 2)	**70,538**	52,847	32,187
State	**4,236**	3,314	2,933
Other taxes	**53,269**	45,790	41,845
	1,122,895	1,036,850	991,421
Operating Income	**313,293**	270,409	230,293
Other Income and Deductions			
Allowance for equity funds used during construction	**88,172**	56,141	40,741
Nonutility subsidiary operations	**(2,228)**	(206)	11,498
Other — net	**(1,172)**	2,581	1,996
Income Before Interest Charges	**398,065**	328,925	284,528
Interest Charges			
Long-term debt (Note 8)	**196,502**	181,985	151,427
Short-term debt and other	**10,577**	14,398	17,698
Allowance for borrowed funds used during construction	**(38,813)**	(33,437)	(35,528)
	168,266	162,946	133,597
Net Income	**229,799**	165,979	150,931
Dividends on Preferred and Preference Stock	**49,052**	38,949	30,381
Income Applicable to Common Stock	**$ 180,747**	$ 127,030	$ 120,550
Average Shares of Common Stock Outstanding	**78,233**	65,056	53,851
Earnings Per Average Share of Common Stock Outstanding	**$ 2.31**	$ 1.95	$ 2.24

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

Statement of Sources of Funds Invested in Utility and Other Plant

For the years ended December 31
(in thousands)

	1983	1982	1981
Provided From Operations			
Net income	**$ 229,799**	$ 165,979	$ 150,931
Principal income items not requiring current funds			
Depreciation and amortization	**103,251**	89,291	78,194
Deferred income taxes — net	**37,246**	32,684	(6,252)
Investment tax credits — net	**24,670**	14,020	32,029
Equity component of allowance for funds used during construction	**(88,172)**	(56,141)	(40,741)
Nonutility subsidiary operations	**2,228**	206	(11,498)
Total provided from operations	**309,022**	246,039	202,663
Dividends			
Preferred and preference	**(49,052)**	(38,949)	(30,381)
Common	**(127,263)**	(101,223)	(79,379)
Reinvested funds provided from operations	**132,707**	105,867	92,903
Provided from Financing			
Sales of securities			
Common stock	**136,481**	164,820	132,762
Preferred stock subject to mandatory redemption	**30,000**	—	—
Preference stock	—	100,000	—
First mortgage bonds (principal amount)	**200,000**	167,000	168,000
Guaranteed debentures	—	60,000	60,000
Change in escrow deposit	**(11,048)**	(24,000)	—
Pollution control bonds	**17,450**	48,285	—
Net change in short-term borrowings	**3,093**	52,162	(20,433)
Retirement of first mortgage bonds and convertible debentures	**(11,049)**	(26,507)	(41,970)
Equipment purchase obligations	—	(53,691)	(16,181)
Nuclear fuel lease transaction	—	108,969	—
Net change in revolving credit agreement	**40,000**	(120,000)	30,000
Term loan agreement	—	24,000	—
Total provided from financing	**404,927**	501,038	312,178
Other Sources and Uses			
Investments in and advances to subsidiary companies	**(13,973)**	(11,582)	(1,123)
Retirement of Uranox Trust	—	(27,216)	—
Other — net (including changes in working capital)	**31,253**	5,246	(8,014)
Total other sources and uses	**17,280**	(33,552)	(9,137)
Expenditures for Utility and Other Plant	**554,914**	573,353	395,944
Equity component of allowance for funds used during construction	**88,172**	56,141	40,741
Invested in Utility and Other Plant	**$ 643,086**	$ 629,494	$ 436,685

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

Balance Sheet

December 31
(in thousands)

	1983	1982
Assets		
Utility and Other Plant, at original cost (Note 5)		
Plant in service	**$3,106,834**	$2,760,434
Less: Accumulated provision for depreciation	**904,919**	811,853
	2,201,915	1,948,581
Construction work in progress (Notes 10 and 11)	**1,844,163**	1,574,925
	4,046,078	3,523,506
Other Property and Investments		
Non-utility subsidiary companies	**55,595**	43,850
Other	**6,791**	7,035
	62,386	50,885
Current Assets		
Cash and temporary cash investments	**3,026**	6,230
Receivables		
Customers	**94,532**	102,188
Other	**20,780**	11,563
Materials and supplies	**13,224**	16,111
Fuel stock	**42,330**	42,526
Prepayments and other	**16,574**	6,560
	190,466	185,178
Deferred Charges		
Unamortized debt expense	**16,777**	14,567
Unamortized project cancellation costs	**9,594**	13,451
Accumulated deferred income taxes	**10,831**	8,378
Other	**17,266**	10,146
	54,468	46,542
	$4,353,398	$3,806,111
Capitalization and Liabilities		
Capitalization (See Statement of Capitalization)		
Common shareholders' equity	**$1,316,599**	$1,128,991
Preference stock	**100,000**	100,000
Preferred stock		
Not subject to mandatory redemption	**136,444**	136,444
Subject to mandatory redemption	**204,336**	175,553
Long-term debt	**1,839,833**	1,595,525
	3,597,212	3,136,513
Current Liabilities		
Long-term debt due within one year	**—**	10,000
Preferred stock sinking fund requirements (Note 7)	**1,217**	—
Notes payable (Note 9)		
Banks	**90,000**	69,000
Commercial paper	**—**	17,907
Accounts payable		
Trade	**98,955**	88,456
Subsidiaries	**3,819**	2,350
Customer deposits	**12,212**	9,599
Taxes accrued	**12,011**	15,073
Interest accrued	**61,695**	55,221
Other	**49,917**	40,855
	329,826	308,461
Deferred Credits		
Investment tax credits	**176,399**	151,696
Accumulated deferred income taxes	**239,296**	199,842
Other	**10,665**	9,599
	426,360	361,137
Commitments and Contingencies (Notes 5, 10 and 11)	**—**	—
	$4,353,398	$3,806,111

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	1983	1982
Common Shareholders' Equity (Note 6)				
Common stock				
Authorized 200,000,000 shares without par value				
Outstanding 83,687,644 and 74,049,921 shares, respectively			**$ 903,606**	$ 767,125
Premium and expense on capital stock			**3,601**	4,501
Other paid-in capital			**25,876**	25,876
Retained earnings			**383,516**	331,489
			1,316,599	1,128,991
Preference Stock (Note 6)				
Authorized 20,000,000 shares without par value, cumulative				
Outstanding 4,000,000 shares				
Dividend Series				
$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 (Notes 6 and 7)				
Authorized 6,000,000 shares, $100 par value, cumulative				
Outstanding 3,419,970 and 3,119,970 shares, respectively				
Dividend Series				
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	111.60	**35,000**	35,000
			136,444	136,444
Subject to mandatory redemption				
8.80	371,835	105.00	**37,183**	37,183
9.75	33,697	105.00	**3,370**	3,370
8.64	350,000	108.64	**35,000**	35,000
11.48	500,000	111.48	**50,000**	50,000
13.64	500,000	113.64	**50,000**	50,000
Adjustable Rate	300,000	111.50	**30,000**	—
			205,553	175,553
Preferred stock sinking fund requirement			**(1,217)**	—
			204,336	175,553

(Statement continued on following page)

	1983	1982
Long-Term Debt (Note 8)		
First mortgage bonds		
Maturing 1984 through 1988 —		
4¼% due September 1, 1986	**15,000**	15,000
14¾% due March 1, 1987	**100,000**	100,000
4⅞% due October 1, 1987	**17,000**	17,000
4% due May 1, 1988	**20,000**	20,000
Maturing 1989 through 1993 — 4⅜% through 17½%	**295,000**	295,000
Maturing 1994 through 1998 — 5% through 6¾%	**120,000**	120,000
Maturing 1999 through 2003 — 7¼% through 8½%	**195,000**	195,000
Maturing 2004 through 2008 — 8⅜% through 10.15%	**220,000**	220,000
Maturing 2009 through 2013 — 10⅛% through 15%	**525,000**	325,000
	1,507,000	1,307,000
Pollution control and industrial development bonds		
7% due 2006	**25,000**	25,000
5.9% due 2007	**23,000**	23,000
10⅜% due 2012	**48,285**	48,285
9½% due 2013	**17,450**	—
Debentures		
Guaranteed debentures		
17½% due 1988	**60,000**	60,000
16% due 1990	**60,000**	60,000
Escrow deposit	**(35,048)**	(24,000)
Convertible debentures — 7¼% due 1992	**2,927**	3,976
Term loan agreement		
Variable rates (11% at December 31, 1983) due 1987	**24,000**	24,000
Revolving credit agreement	**110,000**	70,000
	1,842,614	1,597,261
Unamortized premium and discount on debt — net	**(2,781)**	(1,736)
	1,839,833	1,595,525
	$3,597,212	$3,136,513

First mortgage bond and preferred stock sinking fund requirements and long-term debt maturities for each of the next five years are as follows:

	Sinking Fund Requirements			
	First Mortgage Bonds		Preferred Stock	Long-Term Debt Maturities
	Cash	Other		
1984	$ —	$14,064	$ 1,217	$ —
1985	—	14,064	2,617	—
1986	—	14,064	6,617	15,000
1987	8,570	13,680	6,617	141,000
1988	27,320	13,440	6,617	80,000

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, 1981	$175,553	$ —	$469,543	$(2,169)	$25,847	$269,975
Net income — 1981						150,931
Common stock sold:						
Public offerings (8,000,000 shares)			92,375			
Conversion of debentures (1,625,572 shares)			23,791			
Dividend reinvestment and stock purchase plan (570,428 shares)			6,648			
Employee benefit plans (883,053 shares)			9,936			
Acquisition of subsidiary (588,000 shares)			12		29	
Dividends declared:						
Preferred						(30,381)
Common						(79,379)
Capital stock expense				81		(3,856)
Balance: December 31, 1981	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:						
Public offering (300,000 shares)	30,000					
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**

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:

	1983	1982	1981
Electric	3.60%	3.66%	3.70%
Steam	2.34	2.44	2.80
Gas	3.52	3.51	3.50
Total Company	3.58	3.63	3.68

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. Both the equity and the borrowed portions of AFUDC are non-cash items which have the effect of increasing the Company's reported net income by their full amounts. However, when the related utility plant is placed in service, a return on and recovery of these costs is permitted, subject to regulatory approval, in determining the rates charged for utility service. The Company computed AFUDC at the following net of tax rates compounded semi-annually:

January 1, 1981—March 31, 1981	8.50%
April 1, 1981—December 31, 1981	9.00
January 1, 1982—September 30, 1982	9.50
October 1, 1982—December 31, 1983	10.25

Effective January 1, 1984, the AFUDC rate was reduced to 10 percent.

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. Effective with customer billings after September 15, 1983, the Company's Texas retail rate schedules were revised to include an interim fixed fuel factor based on fuel costs actually incurred during the twelve months ended June 30, 1983. 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 in both Texas and Louisiana 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 average cost, and coal, valued at last-in, first-out (LIFO) cost. Materials and supplies inventories are valued at 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.

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.

Retirement Plan. Effective January 1, 1983, the Company's pension plan, which covers all employees meeting certain age and service requirements, was changed from a contributory to a non-contributory plan. The Company's policy is to fund accrued pension cost annually. Past and prior service costs are being funded and amortized by the Company over periods of up to forty years.

Earnings Per Share. Earnings per share are based on the weighted average number of common shares outstanding during the period. Earnings per share assuming conversion of convertible debentures are not presented because the amount of dilution which would result if the outstanding convertible debentures had been converted on the date of the original issue is immaterial.

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:

	1983	1982	1981
	(in thousands)		
Net income before federal income taxes	$304,330	$221,526	$185,016
Federal income taxes at statutory tax rate	$139,992	$101,902	$ 85,107
Reductions in federal income taxes resulting from:			
Exclusions from taxable income of AFUDC	(58,413)	(40,875)	(32,053)
Items capitalized for book purposes but expensed for tax purposes	(8,068)	(7,189)	(3,034)
Non-deferred depreciation differences	5,236	6,825	6,380
Adjustment for prior years taxes and other regulatory adjustments	(4,056)	(1,172)	(13,159)
Equity in earnings of non-utility subsidiaries	1,025	95	(5,289)
Amortization of investment tax credit	(4,708)	(3,848)	(3,391)
Other items	3,523	(191)	(476)
Total federal income taxes	$ 74,531	$ 55,547	$ 34,085
Effective federal income tax rate	24.5%	25.1%	18.4%

The components of federal income taxes are as follows:

	1983	1982	1981
	(in thousands)		
Charged to operating expenses:			
Current federal income taxes	$ 9,276	$ 7,317	$ 5,779
Deferred federal income taxes — net:			
Tax depreciation	30,477	21,468	9,255
Capitalized construction costs	8,686	2,751	(4,392)
Amortized nuclear unit cancellation costs	(1,629)	(1,629)	(1,659)
Fuel and purchased power costs deferred (accrued)	339	4,554	(6,532)
Book expenses deferred for tax purposes	(1,441)	2,300	(2,300)
Other	160	2,066	7
Total deferred federal income taxes — net	36,592	31,510	(5,621)
Investment tax credits — net	24,670	14,020	32,029
Total federal income taxes charged to operating expenses	70,538	52,847	32,187
Charged to other income — net	3,993	2,700	1,898
Total federal income taxes	$ 74,531	$ 55,547	$ 34,085

The Company was able to reduce its income tax liability for the years 1983, 1982, and 1981, by utilizing investment tax credits. At December 31, 1983, the Company had accumulated carryforwards of investment tax credits of $111.9 million. Included in this amount was $13.2 million of investment tax credits claimed by the Company as permitted by the Internal Revenue Code as a result of the provisions of the Employee Stock Ownership Plan (ESOP). The provisions for claiming the additional 1½ percent investment-based tax credit expired December 31, 1982. The investment tax credit carryforwards, including those related to the ESOP, expire through 1998, 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, 1983, 1982, and 1981, were $8,213,000, $3,698,000, and $6,696,000, respectively. Of such amounts, $5,343,000, $2,472,000, and $4,245,000, 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 years for each plan year ended December 31. The information for the plan years 1982 and 1981, is shown below. Such valuation information is not yet available with respect to plan year 1983.

	1982	1981
	(in thousands except percents)	
Actuarial present value of accumulated plan benefits:		
Vested	$56,508	$44,189
Nonvested	4,003	2,912
Present value of accumulated plan benefits	$60,511	$47,101
Net assets available for benefits	$95,474	$69,730
Assumed rate of return in determining actuarial present values of plan benefits	9%	10%

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 $13,867,000, $12,799,000, and $6,830,000 during 1983, 1982, and 1981, respectively. Of such amounts, $12,064,000, $10,395,000, and $5,679,000, 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, 1983, are estimated to be (in thousands):

1984	$ 17,040
1985	17,475
1986	16,080
1987	15,283
1988	12,386
Remaining years	227,718
	$305,982

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 quarter. The Lessor's investment in nuclear fuel was approximately $142 million and $115 million (including accumulated carrying charges) at December 31, 1983 and 1982, respectively. During December, 1983, the Company, in accordance with a prior agreement, purchased approximately $11 million of nuclear fuel from Sam Rayburn G&T (SRG&T). The Company subsequently sold the nuclear fuel to the Lessor.

In accordance with the ratemaking treatment afforded its leases by regulatory agencies, the Company does not capitalize those leases which meet the criteria for capital leases under the guidelines of Statement of Financial Accounting Standards (SFAS) No. 13. However, had such leases been accounted for as capital leases, the balance sheet would have included leased assets and related liabilities of approximately $168.5 million at December 31, 1983, and $154.9 million at December 31, 1982.

5. Jointly-Owned Facilities

The Company owns an undivided interest in three jointly-owned electric generating facilities as detailed below (dollars in thousands):

	Company Ownership as of December 31, 1983						
	%	MW	Fuel Source	Plant in Service	Accumulated Depreciation	Construction Work in Progress	In Service Dates
Roy S. Nelson Unit 6	70%	378	Coal	$408,015	$21,180	$ —	May 31, 1982
Big Cajun 2 Unit 3	42%	227	Coal	210,465	2,283	—	September 1, 1983
River Bend Unit 1	70%	658	Nuclear	—	—	1,677,639	December, 1985 (Estimate)

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

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. Through May 31, 1983, the Company purchased 100 percent of such capacity from the participants. Effective June 1, 1983, SRG&T, owner of a 10 percent undivided interest, began utilizing 1 percent of the capacity of the unit. The variable costs associated with such buybacks are composed of fuel costs and operations and maintenance expenses. For the years ended December 31, 1983 and 1982, variable costs applicable to the buybacks were $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 which are not currently determinable for years subsequent to 1983. For the years ended December 31, 1983 and 1982, the fixed costs associated with the buybacks were $37,346,000 and $22,302,000, respectively.

River Bend Unit 1 is jointly owned by the Company (70 percent) and Cajun Electric Power Cooperative, Inc. (CEPCO) (30 percent). On September 30, 1983, the Rural Electrification Administration approved CEPCO's application for an additional loan guarantee designed to permit CEPCO to finance the present estimated balance of its share of construction costs.

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

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, 1983 and 1982, amounted to approximately $289 million and $234 million, respectively (see Note 7 for restrictions on the payment of dividends on common stock under the sinking fund provisions for preferred stock). During May, 1983, the Company increased the number of authorized common shares from 100,000,000 to 200,000,000.

At December 31, 1983, the Company had reserved 6,110,217 shares of common stock to be issued in connection with its employee benefit plans and Dividend Reinvestment and Stock Purchase Plan.

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.

At December 31, 1983, the Company had authorized 10,000,000 shares of preferred stock without par value (none issued). The Company's Restated Articles of Incorporation, as amended, place limitations on the issuance of additional preferred stock. For information with respect to the amount of preferred stock currently issuable subject to this limitation, see "Management's Discussion and Analysis of Results of Operations and Financial Condition."

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.

7. Preferred Stock Subject to Mandatory Redemption

The dividend rate on the Adjustable Rate Cumulative Preferred Stock Series A, (ARPS) 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. The dividend rate for the quarter ended March 14, 1984, is 12.55 percent per annum.

The $8.80 and $9.75 Dividend Preferred Stock are entitled to mandatory sinking funds sufficient to retire 3 percent of the shares of each series beginning in 1984. The $8.64, $11.48, and $13.64 Dividend Preferred Stock, along with the ARPS, are entitled to mandatory sinking funds sufficient to retire 4 percent of the shares of each series beginning in the sixth year after the date of issuance. Sinking fund requirements for the next five years are detailed in the Statement of Capitalization.

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 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 for each of the next five years are detailed in the Statement of Capitalization.

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 1982, the Company entered into an agreement for an $800 million revolving credit agreement to be made available until September 12, 1986, with the balance then outstanding being repayable over a three-year period beginning in 1987. Borrowings during the revolving credit term of the agreement bear interest based on the Prime Rate as determined by Irving Trust Company, the London Interbank Offering Rate (LIBOR) plus ⅝ percent and the Certificate of Deposit Rate plus ⅝ percent. At December 31, 1983, the amount outstanding under the revolving credit agreement was $110 million bearing an interest rate of 11 percent.

The Company and Gulf States Overseas Finance, N.V. (Finance), a wholly-owned subsidiary of the Company, entered into an escrow agreement, whereby Finance deposited with an escrow agent $24 million in certificates of deposit. Since the use of the deposit is restricted to payment to the trustee for both series of guaranteed debentures in the event of default, the deposit has been treated as an offset to such debentures in the financial statements presented herein. Related interest income of $2,807,000 and $2,552,000, from the escrow deposit has been offset against long-term interest expense for 1983 and 1982, respectively.

9. Notes Payable

As of December 31, 1983, the Company had agreements with banks and banking institutions which provided for short-term lines of credit totaling approximately $190 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 ⅜ of 1 percent to ½ of 1 percent of amount of available credit. In lieu of commitment fees, certain banks require a cash balance be maintained equal to 5 percent to 10 percent of the commitment.

Information regarding short-term debt outstanding is detailed below:

	1983	1982	1981
		(in thousands)	
Maximum amount outstanding during year			
Bank notes	$146,000	$141,750	$ 35,000
Commercial paper	120,000	121,585	122,840
Average daily amount outstanding			
Bank notes	56,265	43,661	11,930
Commercial paper	39,470	47,795	69,782
Weighted average interest rate for amount outstanding at year end			
Bank notes	10.01%	9.58%	—
Commercial paper	—	9.61	13.28%
Weighted average interest rate(a)			
Bank notes	9.56	12.53	18.41
Commercial paper	9.32	15.18	17.64

(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 1984 construction program is currently estimated to be $568 million, including approximately $160 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.

Purchase Power Agreement. The Company and the Southern Companies have entered into an interchange arrangement, subject to approval by the FERC, which replaces an earlier contract. The arrangement, as recently amended, 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 arrangement 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 in 1988-1992). The agreement requires the Company to build a 500 kilovolt line scheduled for completion in 1984, that will tie the Company's system with that of the Southern Companies and provides for purchases of up to 500 MW of power prior to the expected completion of the new interconnection facilities when other transmission can be arranged.

The fixed costs applicable to the purchases of power are based in part on costs of existing and future generating units and other factors and are not determinable at this time. The variable costs associated with such purchases will be composed of fuel costs and operations and maintenance expenses.

Proposed Remedial Order. A Proposed Remedial Order (an "Order") was issued by the Economic Regulatory Administration (ERA) of the Department of Energy (DOE) which alleged Varibus charged the Company approximately $7.5 million in excess of the maximum lawful selling price on fuel oil sales made during late 1973 and early 1974.

The Company and Varibus have reached a settlement agreement with the ERA which provides that Varibus will deposit $750,000, representing principal and interest, in an escrow account pending a decision by the DOE on Varibus' request to exempt its fuel oil sales from the mandatory petroleum price regulations.

11. Subsequent Events

At the January, 1984, Board of Directors' meeting the Company cancelled construction of River Bend Unit 2, a proposed 940 MW nuclear-fueled generating unit. Cancellation costs are expected to total $120.4 million before considering the related tax reduction of $38 million. The cancellation costs include approximately $38.5 million of AFUDC. The Company has requested authorization from the PUCT to allow the cancellation costs to be recovered through rates over a five year amortization period. The Company intends to seek similar recovery through rates from the LPSC and the FERC. The Company cannot presently predict the amount of cancellation costs, if any, which the regulatory bodies will allow to be recovered through rates.

During January, 1984, the Company filed an application with the PUCT for a rate increase to be implemented in two steps. The Company is requesting a $161.2 million increase to become effective in 1984, with the additional $264.6 million becoming effective in 1985. Virtually all of the second part of the rate increase is to cover the increased fuel and purchased power costs to be incurred beginning in January 1985, when a long-term contract for the purchase of low cost natural gas expires.

During January, 1984, the Company issued 450,000 shares of $100 par value, Adjustable Rate Cumulative Preferred Stock, Series B. The dividend rate for the initial and second dividends, payable on March 15 and June 15, 1984, will be 12.50 percent per annum. Thereafter, the dividend rate will be adjusted quarterly based upon certain applicable U.S. Treasury rates; however, in no event will the dividend rate be less than 7 percent per annum nor greater than 13½ percent per annum. The Adjustable Rate Cumulative Preferred Stock is entitled to a mandatory sinking fund beginning in 1990, sufficient to redeem annually 5 percent of the shares originally issued.

12. Quarterly Financial Information (Unaudited)

(in thousands except per share amounts)

1983	Operating Revenue	Operating Income	Net Income	Earnings Per Average Common Share Outstanding*
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**
1982				
First Quarter	$285,737	$ 51,728	$ 26,242	$.31
Second Quarter	309,758	61,939	34,464	.40
Third Quarter	375,816	85,277	56,885	.69
Fourth Quarter	335,948	71,465	48,388	.53

* The individual quarters may 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 the 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 and paying more for them. 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 inflation. Under the mandate of Financial Accounting Standards Board (FASB) Statement No. 33, however, an attempt is made to measure these effects upon the Company. Two methods of measurement are used: 1) Constant Dollar and 2) Current Cost.

Constant Dollar Method

The Constant Dollar method attempts to gauge the general effects of inflation on the Company. It utilizes the Consumer Price Index (CPI-U) for all Urban Consumers in its approach. The CPI-U measures the general effect of inflation on the economy as a whole.

Current Cost Method

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

Neither of the two methods should be construed as anything but an estimate of the effects of inflation on the Company. The application of both methods require subjective assumptions which have affected the statements presented.

(1) Depreciation — Under both the Constant Dollar and Current Cost methods, 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 costs of plant is recoverable as depreciation. The adjustment to net recoverable cost reflects this policy.

(2) Taxes — FASB No. 33 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 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)

	Conventional Historical Cost	Constant Dollar Average 1983 Dollars	Current Cost Average 1983 Dollars
		(in thousands)	
For the year ended December 31, 1983			
Operating revenue	$1,436,188	$1,436,188	$1,436,188
Fuel	438,154	438,154	438,154
Purchased power	201,325	201,325	201,325
Other operations and maintenance	252,122	252,122	252,122
Depreciation and amortization	103,251	219,599	234,312
Taxes	128,043	128,043	128,043
Other — net	(84,772)	(84,772)	(84,772)
Interest charges	168,266	168,266	168,266
	1,206,389	1,322,737	1,337,450
Net Income (excluding reduction to net recoverable cost)	$ 229,799	$ 113,451*	$ 98,738
Increase in specific prices (current cost) of utility and other plant held during the year**			$ 176,487
Adjustment to net recoverable cost		$ 322	15,035
Effect of increase in general price level			(171,231)
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost			20,291
Gain from decline in purchasing power of net amounts owed		71,737	71,737
Net		$ 72,059	$ 92,028

* Including the adjustment to net recoverable cost, the gain on a constant dollar basis would have been $113,773 for 1983.

** At December 31, 1983, current cost of utility and other plant, net of accumulated depreciation was $5,882,894 while historical cost or net cost recoverable through depreciation was $4,046,078.

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

	Years Ended December 31,				
	1983	1982	1981	1980	1979
	(in thousands of average 1983 dollars)				
Operating revenue	$1,436,188	$1,349,312	$1,338,324	$1,215,395	$1,186,377
Historical cost information adjusted for general inflation:					
Net income (excluding reduction to net recoverable cost)	113,451	57,914	63,151	45,605	29,683
Net income per common share (after dividend requirements on preferred and preference stock)	.82	.27	.55	.34	.21
Net assets at year-end at net recoverable cost	1,526,946	1,360,014	1,127,275	1,038,470	1,038,327
Current Cost Information:					
Net income (excluding reduction to net recoverable cost)	98,738	35,835	48,709	24,313	7,550
Income (Loss) per common share (after dividend requirements on preferred and preference stock and excluding reduction to net recoverable cost)	.64	(.07)	.29	(.13)	(.35)
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost	20,291	(15,885)	(154,729)	(249,056)	(235,003)
Net assets at year-end at net recoverable cost	1,526,946	1,360,014	1,127,275	1,038,470	1,038,327
General Information:					
Gain from decline in purchasing power of net amounts owed	71,737	96,771	180,378	227,060	217,915
Cash dividends declared per common share	1.62	1.61	1.62	1.68	1.87
Market price per common share at year-end	12.54	13.56	12.59	13.42	14.28
Average consumer price index	298.4	289.1	272.4	246.8	217.4

Auditor's 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, 1983, and 1982, 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, 1983. 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, 1983 and 1982, 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, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

COOPERS & LYBRAND

Houston, Texas
February 3, 1984

Statistical Summary
For the years ended December 31

	1983	1982	1981	1980	1979
ELECTRIC					
Number of customers at year end:					
Residential	**475,782**	465,162	455,160	438,560	423,850
Commercial	**57,446**	55,265	52,955	52,731	50,807
Industrial	**4,146**	4,165	3,852	3,414	3,386
Temporary construction	**3,624**	3,132	2,871	3,354	3,279
Other	**2,101**	1,985	1,974	1,984	1,873
Total	**543,099**	529,709	516,812	500,043	483,195
Sales — Kilowatt-hours (thousands):					
Residential	**5,686,436**	5,991,578	5,717,715	5,682,016	5,147,436
Commercial	**4,341,093**	4,359,739	4,178,126	3,969,390	3,759,289
Industrial	**14,257,141**	13,728,469	15,066,330	14,870,419	14,961,211
Temporary construction	**55,927**	48,170	50,306	37,691	44,059
Other	**2,109,974**	2,261,350	2,797,761	3,098,910	2,638,490
Total Sales	**26,450,571**	26,389,306	27,810,238	27,658,426	26,550,485
Revenue — (thousands):					
Residential	**$ 396,026**	$ 362,223	$ 315,625	$ 249,603	$ 203,029
Commercial	**255,147**	226,104	198,676	157,616	133,988
Industrial	**534,066**	495,461	494,388	413,265	364,797
Temporary construction	**3,699**	2,786	2,723	1,728	1,673
Other	**116,511**	102,370	95,110	82,659	65,928
Total Electric Revenue	**$1,305,449**	$1,188,944	$1,106,522	$ 904,871	$ 769,415
Average Annual KWH Use Per Customer					
Residential	**12,097**	13,015	12,786	13,173	12,374
Commercial	**77,138**	80,814	79,558	76,529	75,291
Industrial	**3,431,322**	3,451,098	4,095,224	4,340,461	4,402,946
Revenue Per KWH — (cents):					
Residential	**6.96**	6.05	5.52	4.39	3.94
Commercial	**5.88**	5.19	4.76	3.97	3.56
Industrial	**3.75**	3.61	3.28	2.78	2.44
Electric Energy Output — Thousands of KWH					
Net Generated	**25,846,238**	25,523,512	28,115,700	27,775,374	25,381,996
Net Purchased and Interchanged	**4,987,292**	5,160,731	4,411,795	4,507,245	5,871,615
	30,833,530	30,684,243	32,527,495	32,282,619	31,253,611
System Peak Load — Including Interruptible Load — (MW)	**5,348**	5,164	5,542	5,604	5,229
Total Capability, Including Contract Purchases at Time of System Peak Load (MW)	**7,152**	7,208	6,745	6,602	6,169
Load Factor	**65.8%**	67.8%	67.0%	65.2%	68.2%
STEAM					
Steam Revenue (thousands)	**$ 83,646**	$ 75,213	$ 77,624	$ 69,346	$ 68,278
Steam Sales — KWH (millions)	**2,555**	2,579	2,887	2,927	3,191
Steam Sales — millions of pounds	**8,559**	9,447	12,209	14,906	14,796
GAS					
Gas Revenue (thousands)	**$ 47,093**	$ 43,102	$ 37,568	$ 31,009	$ 26,645
Number of Customers	**85,737**	85,394	85,664	85,218	83,910
Output — MM cu. ft. of natural gas purchased	**9,149**	8,229	8,738	9,148	10,333
Sales — MM cu. ft.	**8,498**	8,535	8,599	9,097	9,892
WEATHER DATA:					
Cooling degree days (Normal 2,732)	**2,418**	2,901	2,775	2,910	2,502
Percentage change from normal	**(11.5)**	6.2	1.6	6.5	(8.4)
Heating degree days (Normal 1,570)	**1,647**	1,587	1,620	1,637	1,885
Percentage change from normal	**4.9**	1.1	3.2	4.3	20.1

Officers

Chairman

Paul W. Murrill (2) 49
Chairman of the Board
and Chief Executive Officer

President

Norman R. Lee (35) 59
President and Chief Operating Officer

Executive Vice Presidents

Joseph E. Bondurant (26) 54
Executive Vice President—Operations

Joseph L. Donnelly (5) 54
Executive Vice President—Finance

Edward M. Loggins (25) 53
Executive Vice President—Administrative and Technical Services

Senior Vice Presidents

Thomas H. Burbank (5) 62
Senior Vice President—Executive Projects

William J. Cahill, Jr. (3) 60
Senior Vice President—
River Bend Nuclear Group

E. Linn Draper (5) 41
Senior Vice President—External Affairs

Vice Presidents

James R. Aldridge (3) 53
Vice President—Human Resources

William E. Barksdale (26) 52
Vice President—Technical Services

James C. Deddens (1) 55
Vice President—
River Bend Nuclear Group

James H. Derr, Jr. (43) 63
Vice President—Power Plant Engineering and Design

Anthony F. Gabrielle (3) 56
Vice President—Computer Applications

Charles D. Glass (34) 55
Vice President—Texas Operations

Calvin J. Hebert (21) 49
Vice President—Financial Services

William J. Jefferson (3) 54
Vice President—Rates and
Regulatory Affairs

George T. McCollough (4) 61
Vice President—Fuels and Materials

***Albert H. Newton, III,** (0) 47
Vice President—Prudential Drilling Co.

Fred C. Repper (5) 56
Vice President—Public Affairs

Edward J. Serwan (5) 62
Vice President—Production

Aubrey D. Sprawls (34) 55
Vice President—Marketing and
Consumer Services

Summa L. Stelly (35) 57
Vice President—Louisiana Operations

J. Gary Weigand (6) 48
Vice President—Nuclear Operations

Jasper F. Worthy (28) 55
Vice President—General Services

Division Vice Presidents

John W. Conley (26) 52
Division Vice President—Western

James E. Moss (25) 47
Division Vice President—Baton Rouge

Arden D. Loughmiller (23) 45
Division Vice President—Beaumont

J. Ted Meinscher (33) 51
Division Vice President—Lake Charles

Ronald M. McKenzie (16) 43
Division Vice President—Port Arthur

Other Officers

Leslie D. Cobb (28) 48
Secretary

Bobby J. Willis (22) 47
Controller

Jack L. Schenck (2) 45
Treasurer

Roy E. Eyler (25) 59
Assistant Secretary

Jon P. Trevelise (3) 38
Assistant Controller

Clyde W. McBride (6) 31
Assistant Treasurer

**Effective August 16, 1983*
( ) Years of service

Directors

****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)

Dr. 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**
President and Chief Operating Officer
Beaumont, Tx. (1967)

***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)

Lorene L. Rogers
President Emeritus, The
University of Texas at Austin
Austin, Tx. (1976)

***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 1983 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 1984 Annual Meeting of Shareholders will be held at 2 p.m., Thursday, May 3, 1984, 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 28, 1984. Shareholders are invited to attend, but if they cannot, they are urged to fill out and return their proxies.

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

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AREA CODE 713 838-6631

April 13, 1984

RBG- 17,581
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 1983 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,

William J. Reed Jr.

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

JEB/WJR/MWH/lp

Enclosures

M004
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