The United Illuminating Company

1997

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Please sign and return your proxy promptly.

UI at a Glance

FINANCIAL PROFILE

Number of electric employees at year-end	1,212	Number of shares at year-end	14,101,291
Total payroll (000)	$69,276	Balance for common stock (000)	$40,606
Total taxes (000)	$101,526	Earnings per share of common stock	$2.88
Total operating revenue (000)	$726,020	Earnings per share from operations	$3.94
Net utility plant at year-end (000)	$1,322,314	Dividends declared per share	$2.88
Fuel and energy cost (000)	$160,517	Payout ratio	100%
Shareowners (total)	17,289	Return on average equity	9.20%
In Connecticut	8,319	Book value per share	$31.20

CUSTOMER PROFILE

	Residential	Commercial	Industrial	Other	Total
Average number	279,024	28,666	1,652	1,141	310,483
kWh sales (000)	1,891,988	2,258,501	1,141,109	48,291	5,339,889
Sales revenue (000)	$265,562	$263,609	$108,825	$11,880	$649,876
Average revenue per kWh	14.04¢	11.67¢	9.54¢	24.60¢	12.17¢
Average kWh use per customer	6,781				
Peak Load (MW)					1,045

UI GENERATING PROFILE

Name	Location	In-Service Date	Capacity (MW)	UI Share (MW)	%
Fossil Capacity					
Bridgeport Harbor Station	Bridgeport, CT	1961-1985	556.2	556.2	100%
New Haven Harbor Station	New Haven, CT	1975	447.0	418.9	93.71%
Nuclear Capacity					
Millstone Unit 3	Waterford, CT	1986	1,119.6	41.3	3.685%
Seabrook Unit 1	Seabrook, NH	1990	1,162.0	203.4	17.5%
Renewable Capacity					
Hydro Quebec Entitlement	Canada	NA	1,800.0	98.1	5.5%
Power Purchase: Refuse Recovery Generator	Bridgeport, CT	1988	59.5	59.5	100%

Average fuel cost per kWh generated	1.69¢	Coal burned (tons)	925,330
Generating capability at year-end (MW)	1,522	Coal burned oil equivalent (BBL)	3,763,111
Barrels of oil burned (42gal/BBL)	3,058,874	Gas burned (MCF)	1,912,027

TRANSMISSION AND DISTRIBUTION PROFILE

Transmission and Distribution UI maintains approximately 102 circuit miles of overhead transmission lines and approximately 17 circuit miles of underground transmission cables. The Company owns and operates 24 bulk substations and 42 distributions substations.

There are 3,125 pole-line miles of distribution lines and 130 conduit-bank miles of underground distribution lines in UI's system.

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Richard J. Grossi
Chairman & Chief Executive Officer

Dear Shareowner:

The year 1997 reminded me a little of that recent television series on the Lewis and Clark expedition: unforeseen valleys and peaks, unexpected twists and turns. We stayed on course, however, focusing on our efforts to transform your Company, making it more competitive by reducing costs. As a result, 1997 was a year of solid financial accomplishment.

Valleys and Peaks By the end of March 1997, a series of perceived negative events had shaken investor confidence in our earnings outlook and dividend prospects. The stock price fell to a five-year low. As proposed electric utility restructuring legislation, both in Connecticut and elsewhere, became better understood, investor confidence in our outlook grew. We started a stock price recovery that, by year-end, achieved a five-year high, producing a total return for the year of over 55%.

The year 1997 was also the first of our innovative five-year rate plan ("the Plan"), approved in 1996 by the Department of Public Utility Control. The Plan is based on an "allowed" utility equity return of 11.5%, reduces customer prices and accelerates asset recovery. The Plan worked well in 1997. On a diluted basis, earnings per share for the year increased 14% to $3.26. This increase occurred despite an average reduction in prices of 4.6%, or $30 million in revenue. There

were several one-time items that contributed a net $.16 per share, so earnings per share from operations were $3.10 for the year.

We did not, however, achieve our "allowed" level of earnings from operations for the year, primarily because of costs associated with our ownership share of the shutdown Millstone 3 nuclear unit, operated by Northeast Utilities. Although we anticipated the unit being out-of-service for the entire year, our share of the restart expenses was $3.5 million more than expected. An unexpected Seabrook nuclear outage at year-end also added about $1.5 million to expense.

Our cash flow remained excellent for the year, producing over $168 million from operating activities, more than 4 times the indicated annual dividend of $2.88, on a per share basis. The ratio of dividends-to-earnings declined in 1997 to 88%, and we expect a further decline in this payout ratio in 1998 because we expect earnings to improve. In response to many investor inquiries in 1997, we reaffirmed the security of the dividend, and the 1997 financial results have proved our point.

Maintaining high cash flow is a key benefit of the Plan. Even with the price reductions taken in 1997, we expect that price levels will still be adequate to accelerate the non-cash amortization of pre-tax regulatory assets by more than $13 million in 1998 and $20 million in 1999. Cash flow per share should remain at about 3-4 times the dividend level as long as the Plan remains in place. Strong cash flow allows debt paydown and advantageous refinancing of higher-cost debt. Cash available after paying dividends and capital requirements in 1997, alone, allowed us to pay down long-term debt by $85 million, about

11% of the total outstanding long-term debt, and to reduce interest expense by $7.5 million, a decline of 11%.

Twists and Turns In May of 1997, we thought we would be explaining to our shareowners dramatic changes in the way the utility industry would be structured in Connecticut. Instead, the bill in the legislature was withdrawn without coming to a vote.

Now, in March of 1998, a new restructuring bill is being considered in the legislature. We are optimistic that we will be able to work with legislators to refine the language of the bill to provide equitable treatment for our shareowners and customers as the utility business moves forward into the future. We continue to support the basic concepts of industry restructuring.

Even though we do not yet have approved restructuring legislation, we are already moving into the future. We have organized along business unit lines. We expect that the "Power Supply" business will become unregulated and separated from the "Wires" business. We expect the "Wires" business to remain a regulated entity responsible for maintaining the reliability of power delivery over the distribution wire system. We are unbundling our costs and creating separate financial reports and forecasts for each business unit, and we are building separate business strategies as well.

Unregulated Subsidiaries UI recognized the profit potential of several unregulated activities associated with the utility business more than five years ago, when it established American Payment Systems,

Inc. and Precision Power, Inc. American Payment Systems manages remote agent collection networks for utility companies and has become a leading supplier of these services as utilities downsize by closing their customer service centers. After a slow start and a disappointing write-off in 1996, American Payment Systems turned in positive results in 1997 and is expected to contribute 5-10 cents per share to consolidated earnings in 1998. There is room for enormous growth in this business, but we have to be certain the profit margins are worth the risks.

Precision Power was created to fill a need for power quality consulting and back-up power system design in our service territory. Precision Power is expected to breakeven in 1998 and, with the addition of new services, it should begin to make an earnings contribution in the following year.

The "unbundling" of vertical integration in the electric industry should create additional opportunities for growth. Evidence of this is our recent agreement with Duke Energy to develop a combined cycle gas turbine plant at our Bridgeport Harbor location and the NEES Global Transmission effort to build a transmission cable across Long Island Sound from our New Haven Harbor Station location.

Looking Ahead in 1998 The Company anticipates significant net expense declines, principally from: employee reductions made in 1997 (our workforce declined to about 1,050 utility employees at year-end 1997, 17% below 1995 levels and 35% below peak levels in 1989); continued interest expense reductions as a result of debt paydown;

improved Seabrook nuclear availability; and, hopefully, a return to service of the Millstone 3 nuclear unit. These expense reductions should more than compensate for the loss of one-time items realized in 1997, cover the increased accelerated asset recovery, and allow utility earnings to rise above the 11.5% return level into the "sharing" range included in the Plan.

When coupled with the expected improvement in subsidiary earnings, we now expect earnings in the neighborhood of $3.50 per share for 1998. Of course, our sales are highly weather-dependent and we all know "El Nino" is wreaking havoc with "normal" weather patterns, so a lot depends on how our summer sales period is affected.

The United Illuminating Company is well-positioned to meet the challenges and opportunities of a deregulated world. All of the work completed and changes implemented over the past three years have provided a solid platform for a new strategy and direction for the company.

It was time to make another change as well.

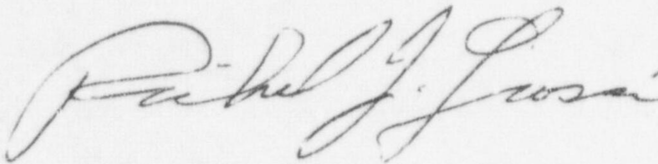
A New Leader I informed the Board of Directors last year that I wished to retire by the end of 1998. The Board did an outstanding job in its search for my successor. Many excellent candidates were reviewed before the Board selected Nathaniel D. Woodson, a 30-year veteran

Nathaniel D. Woodson

of Westinghouse Electric Corporation, as President of UI and my successor.

Nat's broad range of managerial experience and reputation as an aggressive strategist will serve UI well as the company moves into a different and more competitive world. I'm pleased to be leaving the company in such capable hands at such a critical time in its history. Nat will be assuming the role of Chief Executive Officer immediately following the Annual Meeting in May and will become Chairman of the Board at year's end.

I have enjoyed every one of my 41 years with UI. My assignments were both challenging and rewarding, and it was indeed an honor and privilege to work with people who were competent and dedicated to fulfilling UI's mission. For all the support and encouragement I received over the years from UI employees and from you, UI's shareowners, I extend my thanks and deepest appreciation.



Richard J. Grossi
Chairman and Chief Executive Officer

Note: All earnings per share amounts are on a fully diluted basis.

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Richard J. Grossi, chairman and chief executive officer of The United Illuminating Company will retire this year with 41 years of extraordinary service.

His outstanding leadership and vision have helped UI meet the challenges of past decades and prepared it to succeed in the industry of the future.

During his career at UI, Mr. Grossi contributed significantly to all aspects of the Company. He brought the benefit of his extensive background in engineering and strategic planning and combined it with a special blend of high ethical standards, intellectual curiosity and a sense of humor.

He joined UI in 1957 as an engineering assistant and subsequently was appointed chief mechanical engineer in 1965. In 1968, UI took a lead position in developing a nuclear power plant in New Hampshire to be called Seabrook. Mr. Grossi was named project engineer and moved his family to New Hampshire for a year and a half.

While at UI, he also supervised the design and construction of the Company's New Haven Harbor Station generating plant and served as executive assistant to the vice president of engineering and planning; he was later named vice president in 1974.

In the 1980s, Mr. Grossi attended Harvard University's Advanced Management Program and was named vice president of corporate planning and development. He was named executive vice president and chief operating officer in 1983, president in 1987 and assumed the position of chairman and chief executive officer in 1991.

Mr. Grossi exemplifies UI's widely recognized commitment to community service, serving on a number of area boards including: New Haven Savings Bank, Anthem Blue Cross and Blue Shield of Connecticut, The University of Connecticut Foundation, Inc. and Regional Growth Partnership.

Mr. Grossi believes UI has the people, the capabilities and the values needed to take the Company successfully into the future. Today, the health and vitality of UI, operationally and financially, are a testament to Mr. Grossi's effectiveness.

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The United Illuminating Company

• Summary Financial Information

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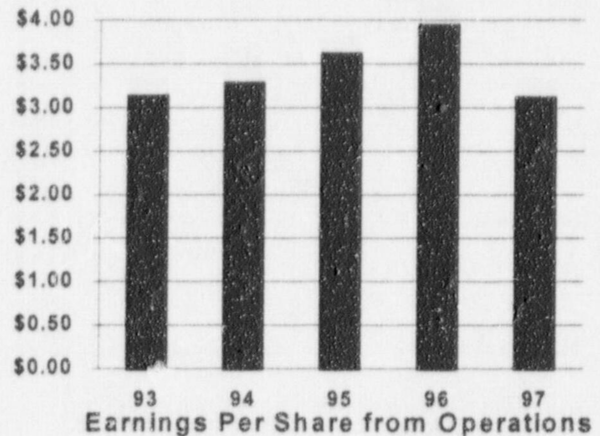
Glossary of Terms

after-tax	The effect that an item of income or expense has on earnings after the impact of state and federal income taxes; the combined statutory income tax rate on UI was about 42% in 1997.
amortization	The accounting process of decreasing the book value of an intangible asset by periodic non-cash charges against income over a specified time period.
amortization of Seabrook phase-in costs	The amortization in 1995 to 1999 of deferred Seabrook related income accrued during its phase-in to rate base during 1990 to 1993.
APS	American Payment Systems, Inc. - a wholly owned subsidiary of UI that manages a national network of agents for the processing of bill payments made by customers of other utilities.
book value per share	Calculated by dividing "Total Common Stock Equity" by "Common Shares Outstanding".
capacity factor	A measure of the energy actually produced by a generating system over a period of time relative to maximum amount of energy that the system was capable of producing during that time period.
conservation adjustment mechanism	A component of retail customer rates that allows the Company to recover its expenditures for approved conservation and load management programs.
cash flow	Net cash provided by operating activities as shown on the "Consolidated Statement of Cash Flows".
deferring	The process of delaying the recognition of an expense transaction for accounting purposes until some time in the future.
electric utility deregulation	The process of removing governmental controls over the electric industry and allowing the utility companies to operate in a free market with no defined territories and open to competition.
DPUC	Department of Public Utility Control - the governmental body that regulates the activities of the Company.
early retirement charges	A one-time recording of the expenses associated with an early retirement program offering to employees.
earnings per share	"Income Applicable to Common Stock" divided by "Average Number of Common Shares Outstanding".
earnings per share from operations	Earnings per share, excluding the effects of non-recurring items of income or expense.

equity capitalization ratio	The ratio of "Common Stock Equity" to "Total Capitalization".
free cash flow	Net cash from operating activities less dividend payments and capital expenditures; cash available to pay down debt.
gross earnings tax	A Connecticut tax (approximately 3.8% on average in 1997) assessed on all of a utility's retail revenues.
kWh	The energy consumed by ten 100 watt light bulbs operating for one hour; MWH = Mega-watt hour or 1,000 kWhs; GWH = Giga-watt hour or 1,000,000 kWhs.
load factor	A measure of the kWh consumed by a retail system over a period of time relative to the kWh it would have consumed if its rate of consumption during the entire period had equaled its maximum rate of consumption at any time during the period.
NEPOOL	New England Power Pool.
non-recurring	An income or expense item that is a "one-time" event... e.g., a gain from the sale of property or an early retirement charge.
payout ratio	Cash dividends declared per share of common stock divided by earnings per share.
Rate Plan	A 5 year plan offered by the DPUC and implemented by the Company in 1996 that allowed the Company to earn an annual equity return of 11.5% over the five-year period and to share any earnings above that level. The plan also provides for annual increases in the accelerated amortization of some regulatory assets, although earnings need to be at least 10.5% for the accelerated charges to be taken.
regulatory assets	A balance sheet asset consisting of the right to collect certain revenues in the future.
retail wheeling	The selling of electricity to an end user in a utility's retail franchise territory by a person other than that utility.
sales margin	Revenues less fuel expense and Connecticut's tax on revenues.
Seabrook	The nuclear generating unit located in Seabrook, New Hampshire, which is jointly owned by UI and ten other New England electric utility entities.
Seabrook refueling	The period when Seabrook is unavailable to produce electricity while a portion of its nuclear fuel is being replaced.
securitization	A form of state assisted debt financing that may allow the Company to lower cost and further enhance customer price reductions.
stranded costs	Past investments in plant that may not be recoverable in the new competitive power market environment. Also known as transition assets.
total return	Cash dividends declared per share of Common Stock over a period of time, plus (or minus) the increase (or decrease) in the market price per share of Common Stock between the beginning and the end of the period.

Summary Results of Operations

I. Earnings under 5 Year Rate Plan ("The Plan")
The Plan allows for an equity return of 11.5% on rate base equity and a sharing mechanism that allows the Company to earn above 11.5% if operating margins improve over anticipated levels. The Plan also provides for annual increases in accelerated amortization, although earnings need to be at least 10.5% for these charges to be taken.



Earnings from Operations Total earnings may fluctuate due to various non-recurring items. Looking at "earnings from operations", which exclude non-recurring items, is a useful way to evaluate year-to-year trends and build expectations for the future years.

Earnings from operations in **1997** were **$3.11** per share, down **21%** from 1996. The expected decrease was due to lower prices to customers resulting from implementation of rate plan and higher retail fuel expense.

Total Earnings Total earnings per share for 1997 were **$3.27**, up $.39 from the 1996 level of $2.88. Earnings in 1996 were down $0.76 per share from the 1995 level of $3.64 per share. Earnings in each of the years 1993-1997 were affected by non-recurring items that, if not segregated, produce a view of recent earnings trends that is different from the view provided by earnings from operations:

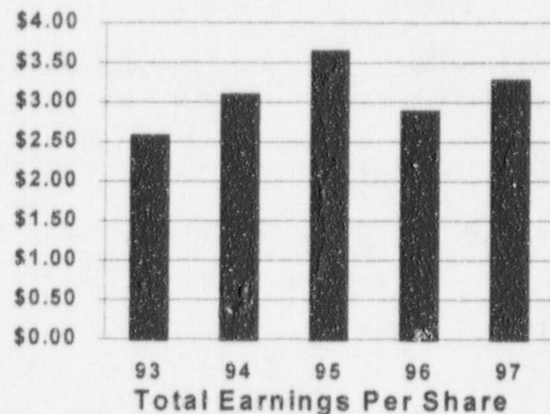
- 1997 - Gains, principally from an income tax expense reduction from deferred tax benefits associated with future decommissioning of generating plants, partially offset by charges for the accelerated amortization of regulatory assets and for the termination of a contract, increased earnings by $.16 per share.

- 1996 - Charges related to two early retirement programs, a severance program and a subsidiary loss, offset by a gain from the purchase of preferred stock at a discount, reduced earnings by $1.06 per share.

- 1995 - A charge to reflect the effects of legislated future state income tax rate reductions and a gain from the repurchase of preferred stock at a discount, increased earnings by $.03 per share.

- 1994 - The settlement of a property tax dispute with the city of Bridgeport and an accounting change to reflect the accrual of Postemployment Benefits, reduced earnings by $.19 per share.

- 1993 - An early retirement program, associated with the Company's reorganization, created a charge that reduced earnings by $.56 per share.



II. Why Earnings from Operations Decreased in 1997

Earnings decreased principally because of reductions in sales margin. Reductions in customer prices decreased retail operating revenues by about $30 million due mainly to implementation of the 5-year rate plan. Overall average prices declined by 4.6%. Retail fuel and energy expenses increased by $14.2 million, which was mainly due to the need to purchase more expensive fossil energy to replace generation from shutdown nuclear generating plants. These sales margin reductions were offset by $9.4 million from increased sales volume and reductions in revenue based taxes.

	1997	1996
Earnings Per Share-Basic		
From operations	$3.11	$3.94
From non-recurring items	.16	(1.06)
Total Earnings Per Share	$3.27	$2.88

III. Outlook for 1998 and beyond

1998 The Company expects substantial net expense reductions that should more than compensate for the loss of one-time items realized in 1997 and the increase in accelerated amortization under the rate plan. The savings should allow utility earnings to increase above an 11.5% return into the "sharing" range of the rate plan. If the Company were to achieve the 11.5% return, earnings from utility operations would be in the $3.40 to $3.45 per share range.

The Company experienced about 1%-1.5% of "real" sales growth in 1997. A similar level of growth in 1998 from all customer groups would add about $6-$8 million to sales margin. UI's largest customer is, however, constructing a cogeneration unit that is expected to commence operation in early 1998. This is expected to offset sales growth from other customers and as a result, little change in retail kilowatt hour sales is expected in 1998 compared to 1997. Retail revenues should decline by several million dollars (or more if the Company is in the "sharing" range above an 11.5% return). Abnormal weather can swing sales either up or down, and the Company has no regulatory protection from these effects.

Expense reductions include $6 million of savings from the 1996-1997 early retirement and severance separation programs, $9 million savings from operation & maintenance expenses associated with Seabrook and Connecticut Yankee, and $10 million savings from lower interest costs, offset by increased costs for fossil fueled generating unit maintenance, base depreciation and accelerated amortization per the rate plan.

Non-utility earnings should increase by about $.05-$.10 per share, primarily from an anticipated improvement in earnings of American Payment Systems, Inc.

The strength of wholesale sales markets will depend on the timing of the return to service of the nuclear units at Millstone, the addition of new generation sources, and on how the capacity and energy markets perform under the new NEPOOL competitive bid market system.

1999 to 2002

Legislation The Connecticut legislature may pass a bill this year to restructure the electric utility industry in Connecticut. Any final version of the bill that will be supported by the Company is likely to encompass the "unbundling" of integrated electric service, including: divestiture of fossil generating plants; retail customer choice of supplier; a regulated distribution system; pass-through of mandated government program costs; and provisions to recover past investments in plant that may not be recoverable in the new competitive power market environment (so called "stranded costs") through a non-bypassable "transition" charge. The proposed bill will also require utilities to reduce prices by 10% from 1996 levels, which will be an additional 4-5% reduction from the Company's current plan. The Company expects to be able to accomodate these additional price cuts and still allow for accelerated amortization of certain costs.

Wholesale Revenues The Company does not expect much additional growth as the generating capacity of the Company is limited.

Retail Sales The Company expects continuing modest growth resulting from improvements in the local economy.

Expenses

- Fuel and Energy - The Company expects fuel savings from its fossil fueled generating plants with the return of Millstone Unit 3 to service and anticipates nuclear fuel expense savings from nuclear fuel price reductions and expanded intervals between refueling of the nuclear units in which it has interests.

- Interest - The Company expects a further reduction in interest costs in 1999 and continued declines thereafter from refinancing and the continued paydown of debt, all assuming that interest rates remain at current levels.

- Operating - The Company expects continuing declines in operation and maintenance expenses from the process re-engineering cost reductions and the retirement of Connecticut Yankee.

Condensed Consolidated Statement of Income

This statement is a summary of the Company's operating performance that shows the Company's revenues and expenses that result in the "Balance for Common Stock," the earnings for all shareowners.

For the Years Ended December 31, 1997 and 1996 (Millions Except Per Share Amounts)	1997	1996
Operating Revenues	$710	$726
Fuel and energy expense	183	160
Sales-related taxes	23	27
Sales Margin	504	539
Operation expenses	269	272
Depreciation and amortization	82	80
Non-recurring charges	7	29
Other (income) and expenses	(1)	5
Interest expense	62	70
Income Before Income Taxes	85	83
Income taxes for operations	48	56
Non-recurring income taxes	(9)	(12)
Net Income	46	39
Gains on repurchase of preferred stock	-	(2)
Preferred stock dividends	-	-
Income Applicable to Common Stock	$46	$41
Average Number of Shares Outstanding	14	14
Earnings per Share - Basic	$3.27	$2.88
Earnings per Share - Diluted	$3.26	$2.87

Declined by $35 million... This was the principal cause of our reduction in earnings from operations

Includes operation, maintenance, purchased capacity and property and payroll taxes

Includes about $13 million of amortization of previously deferred revenue

The Company's refinancing program and strong cash flow help to reduce interest expense

Non-recurring charges include accelerated amortization of conservation costs and deferred tax benefits in 1997 and voluntary early retirement program charges in 1996

	1997	1996
Retail Operating Revenue	$623	$650
Other Operating Revenue	4	3
Retail fuel and energy expense	110	95
Sales-related taxes	23	27
Retail Sales Margin	$494	$531
Wholesale Operating Revenue	$83	$73
Wholesale fuel and energy expense	73	65
Wholesale Sales Margin	$10	$8

Declined because of price reductions to customers

Increased because of nuclear plant outages

Decreased due to revenue reduction and tax rate reduction

These condensed financial statements should be read in conjunction with the full financial statements for the year ended December 31, 1997, including the report of independent accountants, dated January 26, 1998, in the Annual Report to Shareowners.

Condensed Consolidated Balance Sheet

This statement reports the Company's total assets (what we own and what is owed to us), liabilities (what we owe others, now and in the future) and capitalization (amounts invested in or loaned to the Company) at the end of the year.

December 31, 1997 and 1996 (Millions of Dollars)	1997	1996
Assets		
Utility Net Plant at Original Cost	$1,222	$1,258
Construction Work in Progress	26	41
Nuclear Fuel	26	23
Other Property and Investments	33	26
Current Assets		
Cash and temporary cash investments	32	6
Customer accounts receivable, net and accrued utility revenues	83	93
Other	50	64
Total	165	163
Deferred Charges	12	8
Regulatory Assets	348	441
	$1,832	$1,960
Capitalization and Liabilities		
Capitalization		
Common stock equity	$439	$440
Preferred stock	4	4
Preferred securities	50	50
Long-term debt - net	645	760
Total	1,138	1,254
Noncurrent Liabilities	120	139
Current Liabilities		
Current portion of long-term debt	100	70
Notes payable	38	11
Accounts payable	69	68
Other	62	61
Total	269	210
Regulatory Liabilities	18	18
Deferred Income Taxes	285	337
Other	2	2
Commitments and Contingencies	-	-
	$1,832	$1,960

Annotations:

- Other (Current Assets): Includes inventory and prepayments
- Deferred Charges: Principally unamortized debt issuance costs
- Regulatory Assets: Future revenues due from customers through the ratemaking process, principally to collect future income taxes
- Noncurrent Liabilities: Includes Connecticut Yankee obligation and pensions accrued
- Other (Current Liabilities): Includes dividends payable, taxes accrued and interest accrued
- Regulatory Liabilities: Future amounts owed to customers through the ratemaking process
- Deferred Income Taxes: Future tax liabilities owed to taxing authorities from future customer revenues
- Common stock equity: Shareowners' "book" value
1997: $31.56 per share
1996: $31.20 per share

These condensed financial statements should be read in conjunction with the full financial statements for the year ended December 31, 1997, including the report of independent accountants, dated January 26, 1998, in the Annual Report to Shareowners.

Condensed Consolidated Statement of Cash Flows

This statement summarizes cash inflows and outflows during the year from operating, investing, and financing activities.

These amounts are included in the calculation of net income, but do not represent cash outflows

Investment in our own debt securities to reduce interest expense

For the Years Ended December 31, 1997 and 1996 (Millions of Dollars)	1997	1996
Cash Flows From Operating Activities		
Net income	$46	$39
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	92	83
Deferred income taxes	8	(2)
Amortization of nuclear fuel	6	6
Other non-cash income items	(2)	(3)
Subtotal	150	123
Changes in working capital	19	22
Cash Provided by Operating Activities	169	145
Dividend payments	(41)	(41)
Cash used for debt and equity redemptions	(151)	(77)
Cash provided by debt/equity issuances and borrowings	117	93
Cash used for other financing activities	-	(1)
Cash used for investments	(35)	(71)
Cash used for capital expenditures	(33)	(47)
Increase in Cash and Temporary Cash Investments	26	1
Cash Balance at Beginning of Period	6	5
Cash Balance at End of Period	$32	$6

	1997	1996
Cash Available from Earnings to Pay Interest Charges (A)	$228	$214
Annual Cash Interest Charges (B)	59	69
Total Debt (C)	745	830
Cash Coverage Ratio (A) / (B)	3.9	3.1
Cash Available to Total Debt (A-B) / (C)	23%	17%

	1997	1996
Cash Provided by Operating Activities less Dividend Payments	$128	$104
Capital Expenditures	(33)	(47)
Difference	$95	$57

These condensed financial statements should be read in conjunction with the full financial statements for the year ended December 31, 1997, including the report of independent accountants, dated January 26, 1998, in the Annual Report to Shareowners.

Financial and Stock Data

INCOME AND DIVIDEND DATA

Year	Sales Margin $ mil	Sales Margin $/share	Pretax (fed.) Net Income $ mil	Pretax (fed.) Net Income % of s.m.	Balance for Common $ mil	Basic Earnings per Share $	Diluted Earnings per Share $	Dividend Declared Share $	Payout Ratio %	Yield on Average Price %
1993	487	34.63	63	12.9	36	2.57	2.56	2.66	103.5	6.3
1994	502	35.64	81	16.1	43	3.09	3.08	2.76	89.3	8.1
1995	525	37.25	92	17.5	51	3.64	3.63	2.82	77.5	8.3
1996	539	38.21	74	13.7	41	2.88	2.87	2.88	100.0	8.1
1997	504	36.06	76	15.1	46	3.27	3.26	2.88	88.1	8.2
5 Yr. Avg.	511	36.36	77	15.1	43	3.09	3.08	2.80	91.7	7.8

COMMON SHARE DATA

Year	Closing Price Range $ High	Closing Price Range $ Low	Closing Price Range $ End	Price Earnings Ratio High	Price Earnings Ratio Low	Price Earnings Ratio Close
1993	45 7/8	38 1/2	40 1/4	17.9	15.0	15.7
1994	39 1/2	29	29 1/2	12.8	9.4	9.5
1995	38 1/2	29 1/2	37 3/8	10.6	8.1	10.3
1996	39 3/4	31 3/8	31 3/8	13.8	10.9	10.9
1997	45 15/16	24 1/2	45 15/16	14.0	7.5	14.0
5 Yr. Avg.	41 15/16	30 9/16	36 7/8	13.8	10.2	12.1

COMMON SHARE DATA (Cont'd)

Quarter ended	Closing Market Price $ 1997 High	1997 Low	1997 End	1996 High	1996 Low	1996 End	1995 High	1995 Low	1995 End	Trading Volume in Thousands 1997	1996	1995
3/31	32 5/8	24 1/2	26 1/8	39 3/4	36 1/4	36 7/8	33 1/4	29 1/2	32	4,990	4,023	2,796
6/30	30 7/8	24 1/2	30 7/8	38	35 3/4	37 3/8	33 5/8	31 1/4	33	4,660	2,534	1,468
9/30	37	31 1/2	36 7/16	37 1/2	33 7/8	34 3/8	35 1/4	31 1/2	35 1/8	4,032	1,801	1,522
12/31	45 15/16	37	45 15/16	35	31 3/8	31 3/8	38 1/2	35 3/4	37 3/8	2,710	3,020	2,657

QUARTERLY FINANCIAL INFORMATION

Quarter ended	Sales Margin $ mil. 1997	1996	1995	Pretax (fed.) Net Income $ mil. 1997	1996	1995	Basic Earnings per Share $ 1997	1996	1995	Dividends Paid per Share $ 1997	1996	1995
3/31	120	133	122	15	21	18	0.54	0.82	0.62	0.72	0.705	0.69
6/30	119	129	123	8	18	16	0.61	0.75	0.67	0.72	0.72	0.705
9/30	146	153	156	40	31	44	1.68	1.27	1.89	0.72	0.72	0.705
12/31	119	124	124	13	4	14	0.44	0.04	0.46	0.72	0.72	0.705

s.m. = Sales Margin; (fed.) = Federal

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The United Illuminating Company

• 1997 Annual Report to Shareowners

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

MAJOR INFLUENCES ON FINANCIAL CONDITION

The Company's financial condition will continue to be dependent on the level of its retail and wholesale sales and the Company's ability to control expenses. The two primary factors that affect sales volume are economic conditions and weather. Annual growth in total operation and maintenance expense, excluding one-time items and cogeneration capacity purchases, has averaged less than 1.5% during the past 5 years. The Company hopes to continue to restrict this average to less than the rate of inflation in future years (see "Looking Forward").

The Company's financial status and financing capability will continue to be sensitive to many other factors, including conditions in the securities markets, economic conditions, interest rates, the level of the Company's income and cash flow, and legislative and regulatory developments, including the cost of compliance with increasingly stringent environmental legislation and regulations and competition within the electric utility industry.

A major factor affecting the Company's earnings prospects will be the success of the Company's efforts to implement the regulatory framework ordered by the DPUC at the end of 1996. On December 31, 1996, the DPUC completed a financial and operational review of the Company and ordered a five-year incentive regulation plan for the years 1997-2001. The DPUC did not change the existing retail base rates charged to customers; but its order increased amortization of the Company's conservation and load management program investments during 1997-1998, and accelerated the recovery of unspecified regulatory assets during 1999-2001 if the Company's common stock equity return on utility investment exceeds 10.5% after recording the increased conservation and load management amortization. The order also reduced the level of conservation adjustment mechanism revenues in retail prices, provided a reduction in customer prices through a surcredit in each of the five plan years, and accepted the Company's proposal to modify the operation of the fossil fuel clause mechanism. The Company's authorized return on utility common stock equity was reduced from 12.4% to 11.5%. Earnings above 11.5%, on an annual basis, are to be utilized one-third for customer price reductions, one-third to increase amortization of regulatory assets, and one-third retained as earnings. As a result of the DPUC's order, customer prices were required to be reduced, on average, by 3% in 1997 compared to 1996. Retail revenues actually decreased by approximately $30 million, or 4.6%, in 1997 due to customer price reduc[illegible]. Also as a result of the order, customer prices are required to be reduced by an additional 1% in 2000, and [illegible] 1% in 2001, compared to 1996.

By its terms, the DPUC's 1996 order should be reopened in 1998 to d[illegible]rmine the regulatory assets to be subjected to accelerated recovery in 1999, 2000 and 2001.

Federal legislation has fostered competition in the wholesale electric power market, as has a FERC rulemaking requiring electric utilities to furnish transmission service to all buyers and sellers in the marketplace. In its rulemaking, the FERC stated that state regulatory commissions should address the issue of recovery by electric utilities of the costs of existing facilities that, on account of "retail access", become unrecoverable by the utilities through the regulated rates charged to their service territory customers.

The legislatures and regulatory commissions in several states have considered or are considering "retail access". This, in general terms, means the transmission by an electric utility of energy produced by another entity over the utility's transmission and distribution system to a retail customer in the utility's own service territory.

A retail access requirement has the effect of permitting retail customers to purchase electric capacity and energy, at the election of such customers, from the electric utility in whose service area they are located or from any other electric utility, independent power producer or power marketer. The costs of existing facilities that become unrecoverable by the service area electric utility on account of the loss of sales to these customers are said to be "stranded costs". In 1995, the Connecticut Legislature established a task force to review these issues and to make recommendations on electric industry restructuring within Connecticut. The task force concluded its work in December 1996 and issued a

report and related recommendations. In its 1997 session, the Connecticut legislature drafted, but failed to bring to a vote, comprehensive legislation that would have introduced retail access in Connecticut over a period of several years, with a provision for the recovery of stranded costs by service area utilities. The legislature is currently considering legislation of this same sort in its 1998 session. Among many other factors, decisions and actions concerning retail access in other states could impact the timing and form of this legislation.

Although the Company is unable to predict the future effects of competitive forces in the electric utility industry, competition could result in a change in the regulatory structure of the industry, and costs that have traditionally been recoverable through the ratemaking process may not be recoverable in the future. This effect could have a material impact on the financial condition and/or results of operations of the Company.

Currently, the Company's electric service rates are subject to regulation and are based on the Company's costs. Therefore, the Company, and most regulated utilities, are subject to certain accounting standards (Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71)) that are not applicable to other businesses in general. These accounting rules allow regulated utilities, where appropriate, to defer the income statement impact of certain costs that are expected to be recovered in future regulated service rates and to establish regulatory assets on balance sheets for such costs. The effects of competition or a change in the cost-based regulatory structure could cause the operations of the Company, or a portion of its assets or operations, to cease meeting the criteria for application of these accounting rules. While the Company expects to continue to meet these criteria in the foreseeable future, if the Company, or a portion of its assets or operations, were to cease meeting these criteria, accounting standards for businesses in general would become applicable and immediate recognition of any previously deferred costs, or a portion of deferred costs, would be required in the year in which the criteria are no longer met, if such deferred costs are not recoverable in that portion of the business that continues to meet the criteria for the application of SFAS No. 71. If this change in accounting were to occur, it would have a material adverse effect on the Company's earnings and retained earnings in that year and could have a material adverse effect on the Company's ongoing financial condition as well.

LIQUIDITY AND CAPITAL RESOURCES

The Company's capital requirements are presently projected as follows:

	1998	1999	2000 (millions)	2001	2002
Cash on Hand - Beginning of Year	$ 32.0	$10.4	$ -	$ -	$ -
Internally Generated Funds less Dividends	118.5	108.0	109.3	97.0	68.6
Subtotal	150.5	118.4	109.3	97.0	68.6
Less:					
Capital Expenditures	35.9	32.7	39.6	31.1	30.7
Cash Available to pay Debt Maturities and Redemptions	114.6	85.7	69.7	65.9	37.9
Less:					
Maturities and Mandatory Redemptions	104.2	103.4	150.4	75.3	0.3
External Financing Requirements (Surplus)	$(10.4)	$ 17.7	$ 80.7	$ 9.4	$(37.6)

Note: Internally Generated Funds less Dividends, Capital Expenditures and External Financing Requirements are estimates based on current earnings and cash flow projections and are subject to change due to future events and conditions that may be substantially different from those used in developing the projections.

All of the Company's capital requirements that exceed available cash will have to be provided by external financing. Although the Company has no commitment to provide such financing from any source of funds, other than a $75 million revolving credit agreement with a group of banks, described below, the Company expects to be able to satisfy its external financing needs by issuing additional short-term and long-term debt, and by issuing preferred stock or common stock, if necessary. The continued availability of these methods of financing will be dependent on many factors, including conditions in the securities markets, economic conditions, and the level of the Company's income and cash flow.

On December 30, 1996, the Company transferred $51.3 million to a trustee under an escrow agreement. The funds, which were invested in Treasury Notes, were used to pay $50 million principal amount of 7% Notes that matured on January 15, 1997 plus accrued interest.

In February 1997, the Company purchased at a discount on the open market, and canceled, 403 shares of its $100 par value 4.35%, Series A preferred stock. The shares, having a par value of $40,300, were purchased for $21,271, creating a net gain of $19,029.

On February 15, 1997, the Company repaid $10.8 million principal amount of maturing 9.44% First Mortgage Bonds, Series B, and redeemed, at a premium of $185,328, the remaining $21.6 million outstanding principal amount of 9.44% First Mortgage Bonds, Series B, issued by Bridgeport Electric Company, a wholly-owned subsidiary of the Company that was merged with and into the Company in September 1994.

On July 30, 1997, the Company borrowed $98.5 million from the Business Finance Authority of the State of New Hampshire (BFA), representing the proceeds from the issuance by the BFA of $98.5 million principal amount of tax-exempt Pollution Control Refunding Revenue Bonds (PCRRBs). The Company is obligated, under its borrowing agreement with the BFA, to pay to a trustee for the PCRRBs' bondholders such amounts as will pay, when due, the principal of and the premium, if any, and interest on the PCRRBs. The PCRRBs will mature in 2027, and their interest rate is adjusted periodically to reflect prevailing market conditions. The PCRRBs' interest rate, which is being adjusted weekly, was 3.75% at December 31, 1997. The Company has used the proceeds of this $98.5 million borrowing to cause the redemption and repayment of $25 million of 9 3/8%, 1987 Series A, Pollution Control Revenue Bonds, $43.5 million of 10 3/4%, 1987 Series B, Pollution Control Revenue Bonds, and $30 million of Adjustable Rate, 1990 Series A, Solid Waste Disposal Revenue Bonds, three outstanding series of tax-exempt bonds on which the Company also had a payment obligation to a trustee for the bondholders. Expenses associated with this transaction, including redemption premiums totaling $2,055,000 and other expenses of approximately $1,500,000, were paid by the Company.

In August 1997, the Company purchased at a discount on the open market, and canceled, 500 shares of its $100 par value 4.72%, Series B preferred stock and 200 shares of its $100 par value 4.64%, Series C preferred stock. These shares, having a par value of $70,000, were purchased for $41,100, creating a net gain of $28,900.

On November 12, 1997, the Company refinanced the secured lease obligation bonds that were issued in 1990 in connection with the sale and leaseback by the Company of a portion of its ownership share in Seabrook Unit 1. All of the outstanding $69,593,000 principal amount of 9.76% Series 2006 Seabrook Lease Obligation Bonds (the "9.76% Bonds") and $129,055,000 principal amount of 10.24% Series 2020 Seabrook Lease Obligation Bonds (the "10.24% Bonds") were redeemed. The redemption premiums paid on the 9.76% Bonds and the 10.24% Bonds were $1,884,549 and $8,589,901, respectively. The Bonds were refunded with the proceeds from the issuance of $203,088,000 principal amount of 7.83% Seabrook Lease Obligation Bonds due January 2, 2019 (the "7.83% Bonds"), the principal of which will be payable from time to time in installments. Transaction expenses totaling $1,530,022 and redemption premiums totaling $8,139,978 were paid from the proceeds of the 7.83% Bonds and will be repaid as part of the Company's Lease payments over the remaining term of the Lease. The remainder of the redemption premiums ($2,334,472) and transaction expenses were paid by the Company and will be amortized over the remainder of the Lease term. The transaction reduces the interest rate on the leaseback arrangement, which is treated as long-term debt on the Company's Consolidated Balance Sheet, from 8.45% to 7.56%. The Company owned $16,997,000 principal amount of the 9.76% Bonds and $49,850,000 principal amount of the 10.24% Bonds.

The Company used the proceeds from the redemption of these bonds ($70,662,688, including redemption premiums totaling $3,815,688), plus available funds and short-term borrowings, to purchase $101,388,000 principal amount of the 7.83% Bonds. The Company intends to hold the 7.83% Bonds until maturity and has recognized the investment as an offset to long-term debt on its Consolidated Balance Sheet.

On January 13, 1998, the Company issued and sold $100 million principal amount of 6.25% four-year and eleven month Notes. The yield on the Notes, which were issued at a discount, is 6.30%; and the Notes will mature on December 15, 2002. The proceeds from the sale of the Notes were used to repay $100 million principal amount of 7 3/8% Notes, which matured on January 15, 1998.

The Company has a revolving credit agreement with a group of banks, which currently extends to December 9, 1998. The borrowing limit of this facility is $75 million. The facility permits the Company to borrow funds at a fluctuating interest rate determined by the prime lending market in New York, and also permits the Company to borrow money for fixed periods of time specified by the Company at fixed interest rates determined by the Eurodollar interbank market in London, or by bidding, at the Company's option. If a material adverse change in the business, operations, affairs, assets or condition, financial or otherwise, or prospects of the Company and its subsidiaries, on a consolidated basis, should occur, the banks may decline to lend additional money to the Company under this revolving credit agreement, although borrowings outstanding at the time of such an occurrence would not then become due and payable. As of December 31, 1997, the Company had $30 million of short-term borrowings outstanding under this facility.

In addition, as of December 31, 1997, one of the Company's subsidiaries, American Payment Systems, Inc., had borrowings of $7.8 million outstanding under a bank line of credit agreement.

At December 31, 1997, the Company had $32.0 million of cash and temporary cash investments, an increase of $25.6 million from the balance at December 31, 1996. The components of this increase, which are detailed in the Consolidated Statement of Cash Flows, are summarized as follows:

	(Millions)
Balance, December 31, 1996	$ 6.4
Net cash provided by operating activities	168.4
Net cash provided by (used in) financing activities:	
- Financing activities, excluding dividend payments	(34.2)
- Dividend payments	(40.6)
Net cash used in investing activities, excluding investment in plant	(34.6)
Cash invested in plant, including nuclear fuel	(33.4)
Net Change in Cash	25.6
Balance, December 31, 1997	$ 32.0

The Company's long-term debt instruments do not limit the amount of short-term debt that the Company may issue. The Company's revolving credit agreement described above requires it to maintain an available earnings/interest charges ratio of not less than 1.5:1.0 for each 12-month period ending on the last day of each calendar quarter. For the 12-month period ended December 31, 1997 this coverage ratio was 3.23:1.0.

SUBSIDIARY OPERATIONS

UI has one wholly-owned subsidiary, United Resources, Inc. (URI), that serves as the parent corporation for several unregulated businesses, each of which is incorporated separately to participate in business ventures that will

complement and enhance UI's electric utility business and serve the interests of the Company and its shareholders and customers.

URI has four wholly-owned subsidiaries. The largest URI subsidiary, American Payment Systems, Inc., manages a national network of agents for the processing of bill payments made by customers of other utilities. Another subsidiary of URI, Thermal Energies, Inc., is participating in the development of district heating and cooling facilities in the downtown New Haven area, including the energy center for an office tower and participation as a 52% partner in the energy center for a city hall and office tower complex. A third URI subsidiary, Precision Power, Inc., provides power-related equipment and services to the owners of commercial buildings and industrial facilities. URI's fourth subsidiary, United Bridgeport Energy, Inc., is participating in a merchant wholesale electric generating facility being constructed on land leased from UI at its Bridgeport Harbor Station generating plant.

The after-tax impact of the subsidiaries on the consolidated financial statements of the Company is as follows:

	Net Income (loss) (000's)	Earnings per Share (Basic & Diluted)	Assets at Dec. 31 (000's)
1997	$(542)	$(0.04)	$27,873
1996	(5,237)	(0.37)	36,385
1995	(2,640)	(0.19)	16,323

In 1996, the Company made provisions for losses of $2.6 million (after-tax) associated with agent collections and miscellaneous other items at its American Payment Systems, Inc. subsidiary.

RESULTS OF OPERATIONS

1997 vs. 1996

Earnings for the year 1997 were $45.6 million, or $3.27 basic earnings per share, up $5.0 million, or $.39 per share, from 1996. Earnings from operations, which exclude one-time items and accelerated amortization of costs attributable to one-time items, decreased by $12.2 million, or $.83 per share, in 1997 compared to 1996. The most significant one-time item recorded in 1997 was a gain from an income tax expense reduction of $6.7 million in the second quarter, or $.48 per share, which makes provision for the cumulative deferred tax benefits associated with the future decommissioning of fossil-fueled generating plants. By order of the Connecticut Department of Public Utility Control (DPUC), the Company was required to accelerate the amortization of regulatory assets by as much as $6.4 million ($4.1 million after-tax), or $.30 per share, provided that the 1997 return on utility common stock equity would exceed 10.5 percent for the year. As a result of the tax benefit, the full $6.4 million was charged in the second quarter of 1997. *See the **LOOKING FORWARD** section for more information on the DPUC order.*

Additional 1997 one-time items include a $.05 per share gain related to subleasing office space, a gain of $2.5 million ($1.5 million after-tax), or $.11 per share, related to forgone benefits associated with the 1996 voluntary retirement and separation programs, and a charge of $4.3 million ($2.5 million after-tax), or $.18 per share, for terminating a consulting contract. The one-time items recorded in 1996, which amounted to a net loss of $1.06 per share were: charges of $23.0 million ($13.4 million after-tax), or $.95 per share, from early retirement and voluntary severance programs, a charge of $1.4 million ($0.8 million after-tax), or $.06 per share, for the cumulative loss on an office space sublease, a charge of $2.6 million (after-tax), or $.18 per share, related to subsidiary operations, and a gain of $1.8 million (after-tax), or $.13 per share, from the repurchase of preferred stock at a discount to par value.

Retail operating revenues decreased by about $26.3 million in 1997 compared to 1996:

- Results for 1997 reflect an **adjustment to retail kilowatt-hour sales and revenue,** made in the fourth quarter of 1997, to reverse prior period overestimates of transmission losses. The adjustment added 25 million kilowatt-hours, a 0.5 percent increase compared to 1996 kilowatt-hour sales, and $2.7 million of revenues.

- An additional retail kilowatt-hour sales increase of 0.2% from the prior year increased retail revenues by $1.6 million and sales margin (revenue less fuel expense and revenue-based taxes) by $1.1 million. The Company believes that weather factors had a negative impact on retail kilowatt-hour sales of about 0.5 percent. There was one less day in 1997 (1996 was a leap year), which decreased retail kilowatt-hour sales by 0.3 percent. This would indicate that "real" (i.e. not attributable to abnormal weather or the leap year day in 1996) kilowatt-hour sales increased by about 1.0-1.5 percent for the year.

- Reductions in customer bills, as agreed to by the Company and the DPUC in December 1996, decreased retail revenues by about $23.0 million, including suspension of the fossil fuel adjustment clause (FAC) mechanism that reduced revenues by $6.0 million. This was a somewhat greater decrease than expected, principally because of a decrease in conservation spending. Other reductions in customer bills, due to rate mix, contract pricing and other pass-through reductions, amounted to $7.6 million.

Wholesale "capacity" revenues increased $2.1 million in 1997 compared to 1996. Wholesale "energy" revenues, which increased during 1997 compared to 1996 as a result of nuclear generating unit outages in the region, are a direct offset to wholesale energy expense and do not contribute to sales margin.

Retail fuel and energy expenses increased by $14.2 million in 1997 compared to 1996. These expenses increased by $12.6 million due to the need for more expensive energy to replace generation by nuclear generating units: for the Connecticut Yankee unit, which ran at nearly full capacity in the first six and one-half months of 1996, for Millstone Unit 3, which ran at nearly full capacity in the first quarter of 1996, for an unplanned eight-day extension of a Seabrook unit refueling outage in the second quarter of 1997 that increased the Company's replacement generation cost by about $0.7 million, and for an unplanned Seabrook unit outage that began on December 5, 1997. The Seabrook unit was returned to service from the last outage on January 17, 1998. Millstone Unit 3 was taken out of service on March 30, 1996 and Connecticut Yankee was taken out of service on July 23, 1996. For more on the status of the Connecticut Yankee and Millstone Unit 3 units, see the **LOOKING FORWARD** section. Retail fuel and energy expenses also increased by about $1.6 million in 1997 compared to 1996, due to higher fossil fuel prices. By order of the DPUC, these costs are not passed on to customers through the FAC.

Operating expenses for operations, maintenance and purchased capacity charges decreased by $1.7 million, excluding the impact of one-time items, in 1997 compared to 1996:

- Purchased capacity expense decreased $6.9 million, due to declining costs from the retired Connecticut Yankee nuclear generating unit, and also due to slightly lower cogeneration costs.

- Operation and maintenance expense increased by $5.1 million. General, refueling and unscheduled outage expenses at the Seabrook nuclear generating unit increased about $2.9 million, and general expenses at the Millstone 3 nuclear generating unit increased $4.8 million. Expenses associated with the Company's re-engineering efforts increased by a net $1.0 million. Other general expenses increased by about $2.9 million. These increases were partly offset by a $4.6 million reduction in pension expense due to investment performance and changes in actuarial assumptions and methodologies, and health benefit reductions of $1.9 million. The increase at Millstone Unit 3 was partly offset by the reversal of a portion of a 1996 provision in "Other income (deductions)".

Depreciation expense, excluding the impact of one-time items, increased by $2.3 million in 1997 compared to 1996. Income taxes, exclusive of the effects of one-time items, changed based on changes in taxable income and tax rates.

Other net income increased by $4.6 million in 1997 compared to 1996 due to an improvement in earnings (reduction in losses) from unregulated subsidiaries. The Company's largest unregulated subsidiary, American Payment Systems, earned about $101,000 ($47,000 after-tax) in 1997, an improvement of $3.8 million ($2.2 million after-tax) over 1996 losses, excluding one-time items, of about $3.7 million ($2.1 million after-tax). Other UI subsidiaries lost $1.0 million ($0.6 million after-tax) compared to a loss of $0.8 million in 1996. The remainder of the improvement in other net income was due to an increase of $0.8 million in interest income.

Interest charges continued their significant decline, decreasing by $7.5 million, or 11 percent, in 1997 compared to 1996 as a result of the Company's refinancing program and strong cash flow. Also, total preferred dividends (net-of-tax) decreased slightly in 1997 compared to 1996 as a result of purchases of preferred stock by the Company in 1996.

<u>1996 vs. 1995</u>

Earnings for the year 1996 were $40.6 million, or $2.88 basic earnings per share, down $10.6 million, or $.76 per share, from 1995. Earnings from operations, which exclude one-time items, were $55.6 million, or $3.94 per share for 1996, up $4.9 million, or $.33 per share, from 1995. The one-time items recorded in 1996, that totaled to a charge of $1.06 per share, were: a gain of $1.8 million (after-tax), or $.13 per share, from the purchase of preferred stock by the Company at a discount to par value, charges of $23.0 million ($13.4 million after-tax), or $.95 per share, reflecting the estimated costs of early retirements and voluntary separations as part of the Company's on-going organization review and cost reduction program, a charge of $1.4 million ($0.8 million after-tax), or $.06 per share, for the cumulative loss on an office space sublease, and a charge of $2.6 million (after-tax), or $.18 per share, that the Company was required to make provisions for losses associated with agent collections and miscellaneous other items at its American Payment Systems, Inc. subsidiary. The one-time items recorded in 1995, that totaled to a gain of $.03 per share, were: a charge of $.12 per share, taken in the third quarter of 1995, to reflect the effects of legislated future state income tax rate reductions that reduced future tax benefits on plant previously written off, and gains of $.15 per share from the purchase of preferred stock by the Company at a discount to par value.

Retail operating revenues increased by about $10.8 million in 1996 compared to 1995:

- Retail kilowatt-hour sales for 1996 were virtually unchanged from 1995. The Company's calculation of the impact of weather on kilowatt-hour sales indicates that sales decreased by about 1.3% in 1996 compared to 1995 due to weather factors. Weather was deemed to be more severe than normal in 1995, particularly in the summer months, and milder than normal in 1996, particularly in the summer months. Retail kilowatt-hour sales also increased by 0.3% due to the leap year day in 1996. This indicates that there was a "real" (i.e. not attributable to abnormal weather or leap year) kilowatt-hour sales increase of about 1.0% in 1996 compared to 1995. Because sales were lower in the summer months when rates are generally higher, retail revenues decreased by $0.7 million.

- Other factors increased retail revenues by $11.5 million: $6.4 million from the recovery, through the Conservation Adjustment Mechanism, of previously recorded and projected conservation program costs mandated by the Department of Public Utility Control (DPUC), partially offset by competitive pricing and other price reduction mechanisms, and a net $5.1 million increase from "pass through" charges for certain expense changes including increases in fuel costs.

Wholesale "capacity" revenues increased by $1.1 million in 1996 compared to 1995. Wholesale "energy" revenues are a direct offset to wholesale energy expense and do not contribute to sales margin (revenue less fuel expense and revenue-based taxes). These energy revenues, as well as the associated fuel expense, increased during 1996 compared to 1995.

Retail fuel and energy expenses decreased by $1.2 million in 1996 compared to 1995. A decrease of $9.0 million was due to lower nuclear fuel prices, primarily at the Seabrook nuclear generating unit. Higher kilowatt-hour generation at the Seabrook nuclear generating unit, that had a refueling outage in 1995, reduced fuel and energy expenses by $1.9 million, while lower kilowatt-hour generation, due to the shutdowns at the Connecticut Yankee and Millstone Unit 3 nuclear generating units, increased fuel and energy expense by $5.3 million. For more on the status of the operation of these units, see the **LOOKING FORWARD** section. Other fuel and energy expenses increased by $4.4 million, primarily from increases in "pass through" charges, including fossil fuel costs.

Operating expenses for operations, maintenance and purchased capacity charges increased by $10.9 million in 1996 compared to 1995:

- Purchased capacity expense was $0.6 million lower.

- Operation and maintenance expense increased by $11.5 million. Expenses associated with the Company's re-engineering efforts increased by a net $2.0 million. Expenses increased by $1.5 million at the Millstone Unit 3 nuclear generating unit, by $4.9 million for overhauls at the Company's fossil fuel generating units, by $1.0 million for a major dredging project at one of the generating stations, by $1.3 million from the expensing of previously capitalized costs associated with software purchases and development, and by $4.0 million in general. Expenses at the Seabrook nuclear generating unit decreased by $3.2 million absent the refueling outage that occurred in the fourth quarter of 1995.

Other operating expenses increased in 1996 compared to 1995, from higher depreciation expense and income taxes (excluding the income tax effects of one-time items).

Other net income increased in 1996 compared to 1995 primarily because of the absence of expenses, associated with canceled construction projects, which were recorded in 1995.

Interest charges continued their significant decline, decreasing by $6.8 million in 1996 compared to 1995 as a result of the Company's refinancing program and strong cash flow. The Company was successful in purchasing $67 million of the approximately $200 million outstanding Seabrook Lease Obligation Bonds, to hold in its own account, using proceeds from a lower cost bank term loan. The interest income that the Company receives from its $67 million investment in these bonds appears on the income statement as a credit to interest expense and partially offsets the interest expense incurred on the Seabrook lease obligation. Also, total preferred dividends (net-of-tax) decreased slightly in 1996 compared to 1995 as a result of the purchases of preferred stock by the Company.

LOOKING FORWARD

(The following discussion contains forward-looking statements, which are subject to uncertainties that could cause actual results to differ materially from those currently expected. Readers are cautioned that the Company regards specific numbers as only the "most likely" to occur within a range of possible values.)

Five-year rate plan

On December 31, 1996, the DPUC issued an order (the Order) that implemented a 5-year regulatory framework that would reduce the Company's retail prices and accelerate the recovery of certain "regulatory" assets beginning with deferred conservation costs. The Order's schedule of price reductions and accelerated amortizations was based on a DPUC pro forma financial analysis that anticipated the Company would be able to implement such changes and earn an allowed return on common stock equity invested in utility assets of 11.5% over the period 1997 to 2001. The Order established a set formula to share any income that would produce a return above the 11.5% level: one-third would be applied to customer bill reductions, one-third would be applied to additional amortization of regulatory assets, and one-third would be retained by shareowners.

It should be noted that, although the Order was for the five-year period 1997-2001 and the Company agreed that it would begin to implement the multi-year plan, it did not agree to commit to the five-year period. In addition, the DPUC, in the Order, acknowledged that the Order could be revisited in the light of any new legislation. The Connecticut legislature did not pass an electric utility restructuring bill in the 1997 legislative session, but such legislation has been reintroduced in 1998.

1998 Earnings

The Company's income from its utility business is greatly affected by: retail sales that fluctuate with weather conditions and economic activity, fossil fuel prices, nuclear generating unit availability and operating costs, and interest rates. These are all items over which the Company has little control, although the Company engages in economic development activities to increase sales, and hedges its exposure to volatile fuel costs and interest rates.

The Company's revenues are principally dependent on the level of retail sales. The two primary factors that affect retail sales volume are economic conditions and weather. The Company estimates that mild 1997 weather reduced retail kilowatt-hour sales by about 0.5 percent for the year. Because much of the mild weather occurred in the summer months, when prices are higher than average, the revenue impact was exacerbated. It is estimated that mild weather may have reduced revenues by as much as $5.2 million for the year, and sales margin (revenue less fuel expense and revenue-based taxes) by as much as $4.2 million. Weather corrected retail sales for 1997 were probably in the 5,375-5,420 gigawatt-hour range. On this basis, the Company experienced about 1-1.5 percent of "real" sales growth in 1997 (i.e. exclusive of weather and leap year factors) over "normal" 1996 sales, with almost all of the growth occurring in the last half of the year. A similar level of growth in 1998 compared to 1997 from all customer groups would add about $6-$8 million to sales margin.

Reductions in revenues could occur for several reasons. The Company has dealt with the potential loss of customers as a result of self-generation, relocation or discontinuation of operations by successfully negotiating 62 multi-year contracts with major customers. Such a contract has been signed with Yale University, the Company's largest customer, which is constructing a cogeneration unit that will produce approximately one half of its annual electricity requirements (about 1.5 percent of the Company's total 1997 retail sales) commencing sometime in early 1998. While providing cost reduction and price stability for customers and helping the Company maintain its customer base for the long term, these contracts are expected to cause future reductions in retail revenues. They reduced retail revenues by about $3 million in 1997 compared to 1996, but are not expected to approach that level of change in 1998. Additionally, rate migration (customers switching to rates that are more favorable because of usage patterns) reduced retail revenues by about $3 million in 1997 compared to 1996; but the impact of rate migration on revenues in 1998 compared to 1997 is expected to be less than $1 million. Also, as part of the Order, the operation of the Company's long-standing fossil fuel adjustment clause (FAC) mechanism that allowed for recovery in retail rates of changes in fossil fuel costs was suspended within a broad range of fuel prices. FAC revenues will decline by about $2 million in 1998, to zero, compared to 1997, due to this suspension of the FAC.

To summarize, assuming 1997 rates of "real" growth and the expected loss of sales due to Yale University cogeneration, little change in retail kilowatt-hour sales is expected in 1998 compared to 1997. Retail revenues should decline by several million dollars or more if the Company is in the "sharing" range above an 11.5% return on common stock equity. The overall average retail price anticipated for 1998 is about 11.6 cents per kilowatt-hour, almost 5 percent below the 1996 peak level.

Wholesale capacity prices strengthened in short-term markets during 1997, due to outages of regional nuclear generating plants and changes in the New England Power Pool (NEPOOL) capability responsibility requirements for its participants. Wholesale capacity and transmission sales revenues increased $2.1 million in 1997 compared to 1996. The strength of these markets for 1998 will depend on the timing of the return to service of the nuclear units at Millstone Station, on the addition of new generation sources, and on how the capacity and energy markets perform under the new NEPOOL open competition system, designed to meet Federal Energy Regulatory Commission (FERC) open access orders, when it is implemented. Implementation of this system is currently

expected in mid-1998; but this date is subject to NEPOOL information system development and testing and further orders from the FERC. No significant sales margin improvement is expected from wholesale capacity sales. Wholesale energy revenues should remain similar to wholesale energy expense and not contribute significantly to sales margin.

Another major factor affecting the Company's 1998 earnings prospects will be the Company's ability to control operating expenses. The Company offered voluntary early retirement programs and a voluntary severance program to union, nonunion and management employees in 1996. A portion of the resulting personnel cost savings occurred in 1996 and 1997, but the majority of the savings will be realized in 1998. Savings of $6 million from personnel reductions are estimated.

The Company is expecting other significant expense declines in 1998 compared to 1997 from a number of sources. From the nuclear generating units, it is expected that operation and maintenance expenses associated with the Seabrook and Connecticut Yankee units should decline by a total of about $9 million. The Seabrook unit should have no refueling outage in 1998 and, if it operates at an assumed 95% availability (it was available virtually 100% between outages in 1997), net fuel expense should decline by about $2 million.

Millstone Unit 3 was taken out of service on March 30, 1996, and will remain shut down pending a comprehensive Nuclear Regulatory Commission (NRC) inquiry into the conformity of the unit and its operations with all applicable NRC regulations and standards. The Company anticipates that, once NRC deficiencies are corrected and Unit 3 is returned to service, operating costs should ramp down to more normal levels for an efficient and safe nuclear unit of this class. Also, if Millstone Unit 3 returns to service, net fuel expense should decline by $400,000 per month for every month of operation, net of the replacement fuel provision of about $100,000 per month...up to $3.6 million for the year, if full power is reached by May 1, 1998.

Pension and health benefit expenses, excluding one-time items, are expected to decrease by about $2.5 million in 1998 compared to 1997. NEPOOL expenses are expected to increase by about $1.0 million, and information system expenses associated with the "year 2000 issue" are expected to increase by $2.0 million. Other operation and maintenance expenses may increase or decrease by amounts that cannot be predicted at this time.

Interest costs are expected to continue to decline by about $10 million in 1998, reaching a level of about $52 million, a level that was last experienced in 1984. This interest cost reduction is largely a result of 1997 debt refinancings and debt paydown (long-term debt was reduced by $85 million in 1997) and an expected 1998 debt paydown of more than $70 million.

Other factors should increase costs. Other operation and maintenance expense should increase in 1998, compared to 1997, by about $6 million, reflecting increased fossil-fueled generating unit scheduled maintenance and provisions for future outages. Base depreciation, excluding accelerated amortization, should increase about $2.0 million; and accelerated amortization per the DPUC Order will increase by about $7 million. Other operating expenses will have some increases and some decreases that should more or less offset one another.

In summary, the Company expects substantial net expense reductions that should more than compensate for the loss of one-time items realized in 1997, cover the increase in accelerated conservation and load management amortization, and allow utility earnings to increase above an 11.5% return on common stock equity into the "sharing" range of the DPUC Order. The 11.5% return level would produce utility earnings of about $3.40-$3.45 per share, while "shared" earnings should add an additional $.05-$.10 per share. Non-utility earnings should increase by about $.05-$.10 per share in 1998 compared to 1997, primarily from an anticipated improvement in the earnings of American Payment Systems, Inc. The other subsidiaries are expected to break even in 1998. The Company expects that 1998 quarterly earnings from operations will follow a pattern similar to that of 1997 on a weather-normalized basis.

Although the current $2.88 indicated annual common stock dividend level for 1997 represented a payout of 88% of total 1997 earnings, the Company's cash flow remains, and is expected to remain, very strong. Net cash

provided by operating activities was $168 million in 1997, over 4 times the common stock dividend payout, one of the highest such "coverage" levels in the utility industry. The DPUC Order will limit earnings from utility operations such that further dividend increases may have to be delayed for several years. However, the Order should allow the Company to recover regulatory assets more rapidly, help it prepare for competition in the electric utility industry, and help maintain cash flow at its excellent current level through the end of the decade. If the Company is able to grow income and earnings in 1998 to the extent indicated above, the common stock dividend payout ratio at the current indicated annual dividend rate would be reduced to approximately 80%.

Longer Term

On June 30, 1997, the Company's unionized employees accepted a new five-year agreement, amending and extending the existing agreement that was scheduled to remain in effect through May 15, 1998. The new agreement provides for, among other things, 2% annual wage increases beginning in May 1998, and annual lump sum bonuses of 2.5% of base annual straight time wages (not cumulative). These provisions will restrict the growth of the Company's bargaining unit base wage expense to about $500,000 per year. The agreement also provides for job security for longer-term bargaining unit employees, and will allow the Company some flexibility in adjusting work methods, as part of its ongoing process re-engineering efforts.

Connecticut Yankee expenses are expected to continue to decline by substantial amounts before leveling out at about $6 million per year after 1999, compared to $11.8 million in 1997, until decommissioning is complete. However, the ability of the Company to recover its ownership share of future costs associated with the retirement of the Connecticut Yankee unit will be dependent upon the outcome of pending regulatory filings with the Federal Energy Regulatory Commission.

On August 7, 1997, the Company and the other nine minority joint owners of Millstone Unit 3 that are not subsidiaries of Northeast Utilities (NU) filed lawsuits against NU and its trustees, as well as a demand for arbitration against The Connecticut Light and Power Company and Western Massachusetts Electric Company, the operating electric utility subsidiaries of NU that are the majority joint owners of the unit and have contracted with the minority joint owners to operate it. The ten non-NU joint owners, who together own about 19.5% of the unit, claim that NU and its subsidiaries failed to comply with NRC regulations, failed to operate Millstone Station in accordance with good utility operating practice and concealed their failures from the non-operating joint owners and the NRC. The arbitration and lawsuits seek to recover costs of purchasing replacement power and increased operation and maintenance costs resulting from the shutdown of Millstone Unit 3.

The Company's planning and operations functions, and its cash flow, are dependent on the timely flow of electronic data to and from its customers, suppliers and other electric utility system managers and operators. In order to assure that this data flow will not be disturbed by the problems emanating from the fact that many existing computer programs were designed without considering the impact of the year 2000 and use only two digits to identify the year in the date field of the programs (the Year 2000 Issue), the Company initiated in mid-1997, and is pursuing, an aggressive program to identify and correct all deficiencies in its computer systems and in the computer systems of the critical suppliers and other persons with whom data must be exchanged. A complete inventory and assessment of the Company's computer system applications, hardware, software and embedded technologies has been completed, and recommended solutions to all identified risks and exposures have been generated. A remediation, retirement, renovation and testing program has commenced. Necessary upgrades to mainframe hardware and software are expected to be completed and tested during 1998, and a parallel program with respect to desktop hardware and software is currently projected to be completed and tested by March 31, 1999. Request for documented compliance information have been sent to all critical suppliers, data sharers and facility building owners and, as responses are received, appropriate solutions and testing programs are being developed and executed. The Company believes that the successful implementation of this program, which is currently estimated to cost approximately $2.6 million, will preclude any significant adverse impact of the Year 2000 Issue on its operations and financial condition.

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New York, NY 10036

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Price Waterhouse LLP

Report of Independent Accountants

January 26, 1998

To the Shareowners and Board of Directors
of The United Illuminating Company

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of cash flows and of retained earnings present fairly, in all material respects, the consolidated financial position of The United Illuminating Company and its subsidiaries at December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 1997, in conformity with generally accepted accounting principles These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP

Coopers
&Lybrand

Coopers & Lybrand L.L.P.

a professional services firm

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareowners and Directors of
The United Illuminating Company:

We have audited the accompanying consolidated balance sheet of The United Illuminating Company as of December 31, 1995, and the related consolidated statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The United Illuminating Company as of December 31, 1995, and the consolidated results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

Hartford, Connecticut
January 29, 1996

Coopers & Lybrand L.L.P., a registered limited liability partnership, is a member firm of Coopers & Lybrand (International).

THE UNITED ILLUMINATING COMPANY
CONSOLIDATED STATEMENT OF INCOME
For the Years Ended December 31, 1997, 1996 and 1995
(Thousands except per share amounts)

	1997	1996	1995
Operating Revenues (Note G)	$710,267	$726,020	$690,449
Operating Expenses			
Operation			
Fuel and energy	182,666	160,517	138,169
Capacity purchased	39,976	46,830	47,420
Early retirement program charges	-	23,033	-
Other	158,600	158,945	147,660
Maintenance	42,203	37,652	36,089
Depreciation	74,618	65,921	61,426
Amortization of cancelled nuclear project and deferred return (Note D and J)	13,758	13,758	13,758
Income taxes (Note A and F)	41,333	53,090	59,828
Other taxes (Note G)	52,540	57,139	58,943
Total	605,694	616,885	563,293
Operating Income	104,573	109,135	127,156
Other Income and (Deductions)			
Allowance for equity funds used during construction	336	940	390
Other-net (Note G)	4,186	(7,166)	(4,272)
Non-operating income taxes	2,496	9,332	4,901
Total	7,018	3,106	1,019
Income Before Interest Charges	111,591	112,241	128,175
Interest Charges			
Interest on long-term debt	63,063	66,305	63,431
Interest on Seabrook obligation bonds owned by the company	(6,905)	(1,259)	-
Other interest (Note G)	3,280	2,092	9,002
Allowance for borrowed funds used during construction	(1,239)	(1,435)	(2,372)
	58,199	65,703	70,061
Amortization of debt expense and redemption premiums	2,788	2,629	4,138
Net Interest Charges	60,987	68,332	74,199
Minority Interest in Preferred Securities	4,813	4,813	3,583
Net Income	45,791	39,096	50,393
Discount on preferred stock redemptions	(48)	(1,840)	(2,183)
Dividends on preferred stock	205	330	1,329
Income Applicable to Common Stock	$45,634	$40,606	$51,247
Average Number of Common Shares Outstanding - Basic	13,976	14,101	14,090
Average Number of Common Shares Outstanding - Diluted	13,992	14,131	14,108
Earnings per share of Common Stock - Basic	$3.27	$2.88	$3.64
Earnings per share of Common Stock - Diluted	$3.26	$2.87	$3.63
Cash Dividends Declared per share of Common Stock	$2.88	$2.88	$2.82

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

THE UNITED ILLUMINATING COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Years Ended December 31, 1997, 1996 and 1995
(Thousands of Dollars)

	1997	1996	1995
Cash Flows From Operating Activities			
Net Income	$45,791	$39,096	$50,393
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	79,487	70,363	66,958
Deferred income taxes	7,986	(2,276)	27,495
Deferred investment tax credits - net	(762)	(762)	(762)
Amortization of nuclear fuel	5,799	5,690	13,571
Allowance for funds used during construction	(1,575)	(2,375)	(2,762)
Amortization of deferred return	12,586	12,586	12,586
Early retirement costs accrued	-	23,033	-
Changes in:			
Accounts receivable - net	16,944	(23,555)	9,489
Fuel, materials and supplies	2,863	239	69
Prepayments	211	(557)	9,256
Accounts payable	641	22,657	2,555
Interest accrued	(3,569)	(671)	(6,420)
Taxes accrued	3,663	(4,794)	(11,310)
Other assets and liabilities	(1,644)	6,078	(9,627)
Total Adjustments	122,630	105,656	111,098
Net Cash provided by Operating Activities	168,421	144,752	161,491
Cash Flows from Financing Activities			
Common stock	(6,432)	40	440
Long-term debt	98,500	82,500	150,000
Preferred securities of subsidiary	-	-	50,000
Notes payable	26,786	10,965	(67,000)
Securities redeemed and retired:			
Preferred stock	(110)	(6,078)	(34,161)
Long-term debt	(151,199)	(72,895)	(165,103)
Discount on preferred stock redemption	48	1,840	2,183
Expenses of issues	(1,500)	(442)	(2,222)
Lease obligations	(315)	(291)	(1,169)
Dividends			
Preferred stock	(206)	(410)	(1,944)
Common stock	(40,408)	(40,399)	(39,514)
Net Cash used in Financing Activities	(74,836)	(25,170)	(108,490)
Cash Flows from Investing Activities			
Plant expenditures, including nuclear fuel	(33,436)	(47,174)	(59,363)
Investment in Seabrook obligation bonds	(34,541)	(71,084)	-
Net Cash used in Investing Activities	(67,977)	(118,258)	(59,363)
Cash and Temporary Cash Investments:			
Net change for the period	25,608	1,324	(6,362)
Balance at beginning of period	6,394	5,070	11,432
Balance at end of period	$32,002	$6,394	$5,070
Cash paid during the period for:			
Interest (net of amount capitalized)	$59,441	$69,669	$76,271
Income taxes	$26,773	$51,415	$32,100

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

THE UNITED ILLUMINATING COMPANY
CONSOLIDATED BALANCE SHEET
December 31, 1997, 1996 and 1995

ASSETS
(Thousands of Dollars)

	1997	1996	1995
Utility Plant at Original Cost			
In service	$1,867,145	$1,843,952	$1,809,925
Less, accumulated provision for depreciation	644,971	585,646	532,015
	1,222,174	1,258,306	1,277,910
Construction work in progress	25,448	40,998	41,817
Nuclear fuel	25,990	23,010	25,967
Net Utility Plant	1,273,612	1,322,314	1,345,694
Other Property and Investments	32,451	26,081	27,388
Current Assets			
Cash and temporary cash investments	32,002	6,394	5,070
Accounts receivable			
Customers, less allowance for doubtful accounts of $1,800, $2,300 and $6,300	57,231	63,722	63,987
Other	27,914	38,367	14,547
Accrued utility revenues	25,269	29,139	28,318
Fuel, materials and supplies, at average cost	19,147	22,010	22,249
Prepayments	3,397	3,608	3,051
Other	67	110	55
Total	165,027	163,350	137,277
Deferred Charges			
Unamortized debt issuance expenses	6,611	6,580	7,577
Other	5,727	1,485	2,377
Total	12,338	8,065	9,954
Regulatory Assets *(future amounts due from customers through the ratemaking process)*			
Income taxes due principally to book-tax differences (Note A)	228,992	289,672	358,168
Connecticut Yankee	51,313	64,851	-
Deferred return - Seabrook Unit 1	25,171	37,757	50,343
Unamortized redemption costs	23,027	25,063	22,244
Unamortized cancelled nuclear project	12,125	13,297	24,620
Uranium enrichment decommissioning costs	1,312	1,377	1,505
Other	6,357	9,068	8,424
Total	348,297	441,085	465,304
	$1,831,725	$1,960,895	$1,985,617

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

THE UNITED ILLUMINATING COMPANY
CONSOLIDATED BALANCE SHEET
December 31, 1997, 1996 and 1995

CAPITALIZATION AND LIABILITIES

(Thousands of Dollars)

	1997	1996	1995
Capitalization (Note B)			
Common stock equity			
Common stock	$288,730	$284,579	$284,542
Paid-in capital	1,349	772	769
Capital stock expense	(2,182)	(2,182)	(2,207)
Unearned employee stock ownership plan equity	(11,160)	-	-
Retained earnings	162,226	156,847	156,877
	438,963	440,016	439,981
Preferred stock	4,351	4,461	10,539
Minority interest in preferred securities	50,000	50,000	50,000
Long-term debt			
Long-term debt	746,058	826,527	845,684
Investment in Seabrook obligation bonds	(101,388)	(66,847)	-
Net long-term debt	644,670	759,680	845,684
Total	1,137,984	1,254,157	1,346,204
Noncurrent Liabilities			
Connecticut Yankee contract obligation	40,821	54,752	-
Pensions accrued (Note H)	39,149	49,205	33,832
Nuclear decommissioning obligation	17,538	12,851	10,317
Obligations under capital leases	16,853	17,193	17,508
Other	5,507	4,815	4,090
Total	119,868	138,816	65,747
Current Liabilities			
Current portion of long-term debt	100,000	69,900	40,800
Notes payable	37,751	10,965	-
Accounts payable	68,699	68,058	45,401
Dividends payable	10,051	10,205	10,072
Taxes accrued	4,166	503	5,297
Interest accrued	10,266	13,835	14,506
Obligations under capital leases	340	315	291
Other accrued liabilities	37,471	36,091	26,769
Total	268,744	209,872	143,136
Customers' Advances for Construction	1,878	1,888	2,655
Regulatory Liabilities *(future amounts owed to customers through the ratemaking process)*			
Accumulated deferred investment tax credits	16,385	17,147	17,909
Other	2,356	1,811	1,990
Total	18,741	18,958	19,899
Deferred Income Taxes *(future tax liabilities owed to taxing authorities)*	284,510	337,204	407,976
Commitments and Contingencies (Note L)			
	$1,831,725	$1,960,895	$1,985,617

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

THE UNITED ILLUMINATING COMPANY
CONSOLIDATED STATEMENT OF RETAINED EARNINGS
For the Years Ended December 31, 1997, 1996 and 1995
(Thousands of Dollars)

	1997	1996	1995
Balance, January 1	$156,847	$156,877	$145,559
Net income	45,791	39,096	50,393
Adjustments associated with repurchase of preferred stock	48	1,815	1,988
Total	202,686	197,788	197,940
Deduct Cash Dividends Declared			
Preferred stock	205	330	1,329
Common stock	40,255	40,611	39,734
Total	40,460	40,941	41,063
Balance, December 31	$162,226	$156,847	$156,877

The accompanying Notes to Consolidated Financial Statements are an integral part of the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The United Illuminating Company (UI or the Company) is an operating electric public utility company, engaged principally in the production, purchase, transmission, distribution and sale of electricity for residential, commercial and industrial purposes in a service area of about 335 square miles in the southwestern part of the State of Connecticut. The service area, largely urban and suburban in character, includes the principal cities of Bridgeport (population 137,000) and New Haven (population 124,000) and their surrounding areas. Situated in the service area are retail trade and service centers, as well as large and small industries producing a wide variety of products, including helicopters and other transportation equipment, electrical equipment, chemicals and pharmaceuticals.

In addition, the Company has created, and owns, unregulated subsidiaries. The Board of Directors of the Company has authorized the investment of a maximum of $27 million in the unregulated subsidiaries, and, at December 31, 1997, $27 million had been invested. A wholly-owned subsidiary, United Resources, Inc., serves as the parent corporation to American Payment Systems, Inc., (APS) which manages a national network of agents for the processing of bill payments made by customers of other utilities.

(A) STATEMENT OF ACCOUNTING POLICIES

Accounting Records

The accounting records are maintained in accordance with the uniform systems of accounts prescribed by the Federal Energy Regulatory Commission (FERC) and the Connecticut Department of Public Utility Control (DPUC).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to use estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, United Resources Inc. Intercompany accounts and transactions have been eliminated in consolidation.

Regulatory Accounting

The consolidated financial statements of the Company are in conformity with generally accepted accounting principles and with accounting for regulated electric utilities prescribed by the Federal Energy Regulatory Commission (FERC) and the Connecticut Department of Public Utility Control (DPUC). Generally accepted accounting principles for regulated entities allow the Company to give accounting recognition to the actions of regulatory authorities in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation". In accordance with SFAS No. 71, the Company has deferred recognition of costs (a regulatory asset) or has recognized obligations (a regulatory liability) if it is probable that such costs will be recovered or obligations relieved in the future through the ratemaking process. In addition to the Regulatory Assets and Liabilities separately identified on the Consolidated Balance Sheet, there are other regulatory assets and liabilities such as conservation and load management costs and certain deferred tax liabilities. The Company also has obligations under long-term power contracts, the recovery of which is subject to regulation.

The effects of competition could cause the operations of the Company, or a portion of its assets or operations, to cease meeting the criteria for application of these accounting rules. While the Company expects to continue to meet these criteria in the foreseeable future, if the Company, or a portion of its assets or operations, were to cease meeting these criteria, accounting standards for businesses in general would become applicable and immediate recognition of any previously deferred costs, or a portion of deferred costs, would be required in the year in which the criteria are no longer met. If this change in accounting were to occur, it could have a material adverse effect on the Company's earnings and retained earnings in that year and could have a material adverse effect on the Company's ongoing financial condition as well. See Note (C), Rate-Related Regulatory Proceedings.

Reclassification of Previously Reported Amounts

Certain amounts previously reported have been reclassified to conform with current year presentations.

Utility Plant

The cost of additions to utility plant and the cost of renewals and betterments are capitalized. Cost consists of labor, materials, services and certain indirect construction costs, including an allowance for funds used during construction (AFUDC). The cost of current repairs and minor replacements is charged to appropriate operating expense accounts. The original cost of utility plant retired or otherwise disposed of and the cost of removal, less salvage, are charged to the accumulated provision for depreciation.

The Company's utility plant in service as of December 31, 1997, 1996 and 1995 was comprised as follows:

	1997	1996 (000's)	1995
Production	$1,131,285	$1,124,113	$1,122,001
Transmission	161,288	160,970	158,373
Distribution	401,426	387,825	375,962
General	52,776	47,889	45,924
Future use plant	30,594	32,751	32,762
Other	89,776	90,404	74,903
	$1,867,145	$1,843,952	$1,809,925

Allowance for Funds Used During Construction

In accordance with the applicable regulatory systems of accounts, the Company capitalizes AFUDC, which represents the approximate cost of debt and equity capital devoted to plant under construction. In accordance with FERC prescribed accounting, the portion of the allowance applicable to borrowed funds is presented in the Consolidated Statement of Income as a reduction of interest charges, while the portion of the allowance applicable to equity funds is presented as other income. Although the allowance does not represent current cash income, it has historically been recoverable under the ratemaking process over the service lives of the related properties. The Company compounds the allowance applicable to major construction projects semi-annually. Weighted average AFUDC rates in effect for 1997, 1996 and 1995 were 7.5%, 9.0% and 8.0%, respectively.

Depreciation

Provisions for depreciation on utility plant for book purposes are computed on a straight-line basis, using estimated service lives determined by independent engineers. One-half year's depreciation is taken in the year of addition and disposition of utility plant, except in the case of major operating units on which depreciation commences in the month

they are placed in service and ceases in the month they are removed from service. The aggregate annual provisions for depreciation for the years 1997, 1996 and 1995 were equivalent to approximately 3.15%, 3.12% and 3.07%, respectively, of the original cost of depreciable property.

Income Taxes

In accordance with Statement of Financial Accounting Standards (SFAS) No. 109 "Accounting for Income Taxes", the Company has provided deferred taxes for all temporary book-tax differences using the liability method. The liability method requires that deferred tax balances be adjusted to reflect enacted future tax rates that are anticipated to be in effect when the temporary differences reverse. In accordance with generally accepted accounting principles for regulated industries, the Company has established a regulatory asset for the net revenue requirements to be recovered from customers for the related future tax expense associated with certain of these temporary differences.

For ratemaking purposes, the Company normalizes all investment tax credits (ITC) related to recoverable plant investments except for the ITC related to Seabrook Unit 1, which was taken into income in accordance with provisions of a 1990 DPUC retail rate decision.

Accrued Utility Revenues

The estimated amount of utility revenues (less related expenses and applicable taxes) for service rendered but not billed is accrued at the end of each accounting period.

Cash and Temporary Cash Investments

For cash flow purposes, the Company considers all highly liquid debt instruments with a maturity of three months or less at the date of purchase to be cash and temporary cash investments. The Company records outstanding checks as accounts payable until the checks have been honored by the banks.

The Company is required to maintain an operating deposit with the project disbursing agent related to its 17.5% ownership interest in Seabrook Unit 1. This operating deposit, which is the equivalent to one and one half months of the funding requirement for operating expenses, is restricted for use and amounted to $2.3 million, $3.4 million and $3.9 million, at December 31, 1997, 1996 and 1995, respectively.

Investments

The Company's investment in the Connecticut Yankee Atomic Power Company, a nuclear generating company in which the Company has a 9 1/2% stock interest, is accounted for on an equity basis. This investment amounted to $10.5 million, $10.1 million and $9.6 million at December 31, 1997, 1996 and 1995, respectively, and is included on the Consolidated Balance Sheet in "Other Property and Investments" at December 31, 1995 and as a regulatory asset at December 31, 1997 and 1996. See Note (L), Commitments and Contingencies - Other Commitments and Contingencies - Connecticut Yankee.

Fossil Fuel Costs

Historically, the amount of fossil fuel costs that cannot be reflected currently in customers' bills pursuant to the fossil fuel adjustment clause in the Company's rates has been deferred at the end of each accounting period. Since adoption of the deferred accounting procedure in 1974, rate decisions by the DPUC and its predecessors have consistently made specific provision for amortization and ratemaking treatment of the Company's existing deferred fossil fuel cost balances. As a result of a December 1996 DPUC decision, the Company has suspended this deferred

accounting procedure unless the average fossil fuel oil prices increase or decrease outside a certain bandwidth prescribed in the decision.

Interest Rate and Fuel Price Management

The Company utilizes interest rate and fuel oil price management instruments to manage interest rate and fuel oil price risk. Interest rate swap agreements have been entered into that effectively convert the interest rates on $225 million of variable rate term loan borrowings to fixed rate borrowings. Amounts receivable or payable under these swap agreements are accrued and charged to interest expense. The Company enters into basic fuel oil price management instruments to help minimize fuel oil price risk by fixing the future price for fuel oil used for generation. Amounts receivable or payable under these instruments are recognized in income when realized.

As of December 31, 1997, the Company had entered into swap agreements for 1998 for 795,000 barrels of fuel oil at a weighted average price of $16.33 per barrel and had call options for 590,000 barrels of fuel oil at a weighted average price of $18.45 per barrel.

Research and Development Costs

Research and development costs, including environmental studies, are capitalized if related to specific construction projects and depreciated over the lives of the related assets. Other research and development costs are charged to expense as incurred.

Pension and Other Postemployment Benefits

The Company accounts for normal pension plan costs in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 87, "Employers' Accounting for Pensions", and for supplemental retirement plan costs and supplemental early retirement plan costs in accordance with the provisions of SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits".

The Company accounts for other postemployment benefits, consisting principally of health and life insurance, under the provisions of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions", which requires, among other things, that the liability for such benefits be accrued over the employment period that encompasses eligibility to receive such benefits. The annual incremental cost of this accrual has been allowed in retail rates in accordance with a 1992 rate decision of the DPUC.

Uranium Enrichment Obligation

Under the Energy Policy Act of 1992 (Energy Act), the Company will be assessed for its proportionate share of the costs of the decontamination and decommissioning of uranium enrichment facilities operated by the Department of Energy. The Energy Act imposes an overall cap of $2.25 billion on the obligation assessed to the nuclear utility industry and limits the annual assessment to $150 million each year over a 15-year period. At December 31, 1997, the Company's unfunded share of the obligation, based on its ownership interest in Seabrook Unit 1 and Millstone Unit 3, was approximately $1.2 million. Effective January 1, 1993, the Company was allowed to recover these assessments in rates as a component of fuel expense. Accordingly, the Company has recognized these costs as a regulatory asset on its Consolidated Balance Sheet.

Nuclear Decommissioning Trusts

External trust funds are maintained to fund the estimated future decommissioning costs of the nuclear generating units in which the Company has an ownership interest. These costs are accrued as a charge to depreciation expense over the estimated service lives of the units and are recovered in rates on a current basis. The Company paid $2,571,000, $2,130,000 and $1,882,000 during 1997, 1996 and 1995 into the decommissioning trust funds for Seabrook Unit 1 and Millstone Unit 3. At December 31, 1997, the Company's shares of the trust fund balances, which included accumulated earnings on the funds, were $12.4 million and $5.1 million for Seabrook Unit 1 and Millstone Unit 3, respectively. These fund balances are included in "Other Property and Investments" and the accrued decommissioning obligation is included in "Noncurrent Liabilities" on the Company's Consolidated Balance Sheet.

Impairment of Long-Lived Assets

Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets to Be Disposed Of" requires the recognition of impairment losses on long-lived assets when the book value of an asset exceeds the sum of the expected future undiscounted cash flows that result from the use of the asset and its eventual disposition. This standard also requires that rate-regulated companies recognize an impairment loss when a regulator excludes all or part of a cost from rates, even if the regulator allows the company to earn a return on the remaining allowable costs. Under this standard, the probability of recovery and the recognition of regulatory assets under the criteria of SFAS No. 71 must be assessed on an ongoing basis. The Company does not have any assets that are impaired under this standard.

APS Revenues and Agent Collections

APS recognized revenue of $31.7 million, $19.2 million and $6.8 million for the years 1997, 1996 and 1995, respectively, based on established fees per payment transaction processed. Cash associated with customer payments are the property of other utilities and have not been reflected in UI's consolidated financial statements.

Earnings per Share

In February 1997, the Financial Accounting Standards Board issued SFAS No. 128, "Earnings per Share". This statement, which is effective for financial statements issued for periods ending after December 15, 1997, including interim periods, establishes simplified standards for computing and presenting earnings per share (EPS). It requires dual presentation of basic and diluted EPS on the face of the income statement for entities with complex capital structures and disclosure of the calculation of each EPS amount.

The following table presents a reconciliation of the numerators and denominators of the basic and diluted earnings per share calculations for the years 1997, 1996 and 1995:

	(In thousands except per share amounts)		
	Income Applicable to Common Stock (Numerator)	Average Number of Shares Outstanding (Denominator)	Earnings per Share
1997			
Basic earnings per share	$45,634	13,976	$3.27
Effect of dilutive stock options	-	16	(.01)
Diluted earnings per share	$45,634	13,992	$3.26
1996			
Basic earnings per share	$40,606	14,101	$2.88
Effect of dilutive stock options	-	30	(.01)
Diluted earnings per share	$40,606	14,131	$2.87
1995			
Basic earnings per share	$51,247	14,090	$3.64
Effect of dilutive stock options	-	18	(.01)
Diluted earnings per share	$51,247	14,108	$3.63

Stock-Based Compensation

The Company accounts for employee stock-based compensation in accordance with Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation". This statement establishes financial accounting and reporting standards for stock-based employee compensation plans, such as stock purchase plans, stock options, restricted stock, and stock appreciation rights. The statement defines the methods of determining the fair value of stock-based compensation and requires the recognition of compensation expense for book purposes. However, the statement allows entities to continue to measure compensation expense in accordance with the prior authoritative literature, APB No. 25, "Accounting for Stock Issued to Employees", but requires that pro forma net income and earnings per share be disclosed for each year for which an income statement is presented as if SFAS No. 123 had been applied. The accounting requirements of this statement are effective for transactions entered into after 1995. However, pro forma disclosures must include the effects of all awards granted after January 1, 1995. As of December 31, 1997, there were no options granted to which this statement would apply. The Company has not elected to adopt the expense recognition provisions of SFAS No. 123.

New Accounting Standards

In June 1997, the Financial Accounting Standards Board issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". This statement, which is effective for financial statements issued for fiscal years beginning after December 15, 1997, requires entities to disclose specific financial and descriptive information about its reportable operating segments. Reportable operating segments are components of an entity about which separate financial information is available that is regularly used when evaluating segment performance and determining the allocation of resources. The Company currently does not have separate reportable segments to which this standard would apply.

THE UNITED ILLUMINATING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

(B) CAPITALIZATION

	December 31,					
	1997		1996		1995	
	Shares Outstanding	$(000's)	Shares Outstanding	$(000's)	Shares Outstanding	$(000's)
Common Stock Equity						
Common stock, no par value, at December 31(a)	13,907,824	$288,730	14,101,291	$284,579	14,100,091	$284,[illegible]42
Shares authorized						
1995 30,000,000						
1996 30,000,000						
1997 30,000,000						
Paid-in capital		1,349		772		769
Capital stock expense		(2,182)		(2,182)		(2,207)
Unearned employee stock ownership plan equity		(11,160)		-		-
Retained earnings (b)		162,226		156,847		156,877
Total common stock equity		438,963		440,016		439,981
Preferred and Preference Stock (c)						
Cumulative preferred stock, $100 par value, shares authorized at December 31,						
1995 1,180,394						
1996 1,119,612						
1997 1,119,612						
Preferred stock issues:						
4.35% Series A	10,894		11,297		21,247	
4.72% Series B	17,158		17,658		30,490	
4.64% Series C	12,745		12,945		12,945	
5 5/8% Series D	2,712		2,712		40,712	
	43,509	4,351	44,612	4,461	105,394	10,539
Cumulative preferred stock, $25 par value: 2,400,000 shares authorized Preferred stock issues	-	-	-	-	-	-
Cumulative preference stock, $25 par value: 5,000,000 shares authorized Preference stock issues	-	-	-	-	-	-
Total preferred stock not subject to mandatory redemption		4,351		4,461		10,539
Minority Interest in Preferred Securities (d)		50,000		50,000		50,000

THE UNITED ILLUMINATING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

	December 31,		
	1997 $(000's)	1996 $(000's)	1995 $(000's)
Long-term Debt (e)			
First Mortgage Bonds:			
9.44%, Series B	-	$32,400	$43,200
Other Long-term Debt			
Pollution Control Revenue Bonds:			
9 1/2%, 1986 Series, due June 1, 2016	-	-	7,500
Variable rate, 1996 Series, due June 26, 2026	7,500	7,500	-
9 3/8%, 1987 Series, due July 1, 2012	-	25,000	25,000
10 3/4%, 1987 Series, due November 1, 2012	-	43,500	43,500
8%, 1989 Series A, due December 1, 2014	25,000	25,000	25,000
5 7/8%, 1993 Series, due October 1, 2033	64,460	64,460	64,460
Solid Waste Disposal Revenue Bonds:			
Adjustable rate 1990 Series A, due September 1, 2015	-	30,000	30,000
Pollution Control Refunding Revenue Bonds:			
Variable rate, 1997 Series, due July 30, 2027	98,500	-	-
Notes:			
7.00%, 1992 Series E, due January 15, 1997	-	-	50,000
7 3/8%, 1992 Series G, due January 15, 1998	100,000	100,000	100,000
6.20%, 1993 Series H, due January 15, 1999	100,000	100,000	100,000
Term Loans:			
6.95%, due August 29, 2000	50,000	50,000	50,000
6.47%, due September 6, 2000	50,000	50,000	50,000
6.4375%, due September 6, 2000	50,000	50,000	50,000
6.675%, due October 25, 2001	25,000	25,000	-
7.005% due October 25, 2001	50,000	50,000	-
Obligation under the Seabrook Unit 1 sale/leaseback agreement	225,601	243,660	248,030
	846,061	896,520	886,690
Unamortized debt discount less premium	(3)	(93)	(206)
Total long-term debt	846,058	896,427	886,484
Less:			
Current portion included in Current Liabilities (e)	100,000	69,900	40,800
Investment-Seabrook Lease Obligation Bonds	101,388	66,847	-
Total long-term debt included in Capitalization	644,670	759,680	845,684
Total Capitalization	$1,137,984	$1,254,157	$1,346,204

(a) Common Stock

The Company had 14,236,124 shares of its common stock, no par value, outstanding at December 31, 1997, of which 328,300 shares were unallocated shares held by the Company's Employee Stock Ownership Plan ("ESOP") and not recognized as outstanding for accounting purposes.

The Company issued 134,833 shares of common stock in 1997, 1,200 shares of common stock in 1996 and 13,400 shares of common stock in 1995, pursuant to a stock option plan.

In 1990, the Company's Board of Directors and the shareowners approved a stock option plan for officers and key employees of the Company. The plan provides for the awarding of options to purchase up to 750,000 shares of the Company's common stock over periods from one to ten years following the dates when the options are granted. The Connecticut Department of Public Utility Control (DPUC) has approved the issuance of 500,000 shares of stock pursuant to this plan. The exercise price of each option cannot be less than the market value of the stock on the date of the grant. Options to purchase 17,799 shares of stock at an exercise price of $30 per share, 54,500 shares of stock at an exercise price of $30.75 per share, 4,000 shares of stock at an exercise price of $35.625 per share, 3[illegible],799 shares of stock at an exercise price of $39.5625 per share, and 5,[illegible]00 shares of stock at an exercise price of $42.375 per share have been granted by the Board of Directors and remained outstanding at December 31, 1997.

The Company has entered into an arrangement under which it loaned $11.5 million to The United Illuminating Company ESOP. The trustee for the ESOP used the funds to purchase shares of the Company's common stock in open market transactions. The shares will be allocated to employees' ESOP accounts, as the loan is repaid, to cover a portion of the Company's required ESOP contributions. The loan will be repaid by the ESOP over a twelve-year period, using the Company contributions and dividends paid on the unallocated shares of the stock held by the ESOP. As of December 31, 1997, 328,300 shares, with a fair market value of $15.1 million, had been purchased by the ESOP and had not been committed to be released or allocated to ESOP participants.

(b) Retained Earnings Restriction

The indenture under which $200 million principal amount of Notes are issued places limitations on the payment of cash dividends on common stock and on the purchase or redemption of common stock. Retained earnings in the amount of $104.1 million were free from such limitations at December 31, 1997.

(c) Preferred and Preference Stock

The par value of each of these issues was credited to the appropriate stock account and expenses related to these issues were charged to capital stock expense.

In February 1997, the Company purchased at a discount on the open market, and canceled, 403 shares of its $100 par value 4.35%, Series A preferred stock. The shares, having a par value of $40,300, were purchased for $21,271, creating a net gain of $19,029.

In August 1997, the Company purchased at a discount on the open market, and canceled, 500 shares of its $100 par value 4.72%, Series B preferred stock and 200 shares of its $100 par value 4.64%, Series C preferred stock. These shares, having a par value of $70,000, were purchased for $41,100, creating a net gain of $28,900.

Shares of preferred stock have preferential dividend and liquidation rights over shares of common stock. Preferred shareholders are not entitled to general voting rights. However, if any preferred dividends are in arrears for six or more

quarters, or if certain other events of default occurs, preferred shareholders are entitled to elect a majority of the Board of Directors until all preferred dividend arrears are paid and any event of default is terminated.

Preference stock is a form of stock that is junior to preferred stock but senior to common stock. It is not subject to the earnings coverage requirements or minimum capital and surplus requirements governing the issuance of preferred stock. There were no shares of preference stock outstanding at December 31, 1997.

(d) Preferred Capital Securities

United Capital Funding Partnership L.P. ("United Capital") is a special purpose limited partnership in which the Company owns all of the general partner interests. United Capital has $50 million of its monthly income 9 5/8% Preferred Capital Securities, Series A, ("Preferred Capital Securities") outstanding, representing limited partnership interests in United Capital. United Capital loaned the proceeds of the issuance and sale of the Preferred Capital Securities to the Company in return for the Company's 9 5/8% Junior Subordinated Deferrable Interest Debentures, Series A, Due 2025.

United Capital and the Company have registered an additional $50 million of Capital Securities and/or Subordinated Debentures for sale to the public from time to time, in one or more series, under the Securities Act of 1933.

(e) Long-Term Debt

The expenses to issue long-term debt are deferred and amortized over the life of the respective debt issue.

On December 30, 1996, the Company transferred $51.3 million to a trustee under an escrow agreement. The funds, which were invested in Treasury Notes, were used to pay $50 million principal amount of 7% Notes that matured on January 15, 1997 plus accrued interest.

On February 15, 1997, the Company repaid $10.8 million principal amount of maturing 9.44% First Mortgage Bonds, Series B, and redeemed, at a premium of $185,328, the remaining $21.6 million outstanding principal amount of 9.44% First Mortgage Bonds, Series B, issued by Bridgeport Electric Company, a wholly-owned subsidiary of the Company that was merged with and into the Company in September 1994.

On July 30, 1997, the Company borrowed $98.5 million from the Business Finance Authority of the State of New Hampshire (BFA), representing the proceeds from the issuance by the BFA of $98.5 million principal amount of tax-exempt Pollution Control Refunding Revenue Bonds (PCRRBs). The Company is obligated, under its borrowing agreement with the BFA, to pay to a trustee for the PCRRBs' bondholders such amounts as will pay, when due, the principal of and the premium, if any, and interest on the PCRRBs. The PCRRBs will mature in 2027, and their interest rate is adjusted periodically to reflect prevailing market conditions. The PCRRBs' interest rate, which is being adjusted weekly, was 3.75% at December 31, 1997. The Company has used the proceeds of this $98.5 million borrowing to cause the redemption and repayment of $25 million of 9 3/8%, 1987 Series A, Pollution Control Revenue Bonds, $43.5 million of 10 3/4%, 1987 Series B, Pollution Control Revenue Bonds, and $30 million of Adjustable Rate, 1990 Series A, Solid Waste Disposal Revenue Bonds, three outstanding series of tax-exempt bonds on which the Company also had a payment obligation to a trustee for the bondholders. Expenses associated with this transaction, including redemption premiums totaling $2,055,000 and other expenses of approximately $1,500,000, were paid by the Company.

On November 12, 1997, the Company refinanced the secured lease obligation bonds that were issued in 1990 in connection with the sale and leaseback by the Company of a portion of its ownership share in Seabrook Unit 1. All

of the outstanding \$69,593,000 principal amount of 9.76% Series 2006 Seabrook Lease Obligation Bonds (the "9.76% Bonds") and \$129,055,000 principal amount of 10.24% Series 2020 Seabrook Lease Obligation Bonds (the "10.24% Bonds") were redeemed. The redemption premiums paid on the 9.76% Bonds and the 10.24% Bonds were \$1,884,549 and \$8,589,901, respectively. The Bonds were refunded with the proceeds from the issuance of \$203,088,000 principal amount of 7.83% Seabrook Lease Obligation Bonds due January 2, 2019 (the "7.83% Bonds") the principal of which will be payable from time to time in installments. Transaction expenses totaling \$1,530,022 and redemption premiums totaling \$8,139,978 were paid from the proceeds of the 7.83% Bonds and will be repaid as part of the Company's Lease payments over the remaining term of the Lease. The remainder of the redemption premiums (\$2,334,472) and transaction expenses were paid by the Company and will be amortized over the remainder of the Lease term. The transaction reduces the interest rate on the leaseback arrangement, which is treated as long-term debt on the Company's Consolidated Balance Sheet, from 8.45% to 7.56%. The Company owned \$16,997,000 principal amount of the 9.76% Bonds and \$49,850,000 principal amount of the 10.24% Bonds. The Company used the proceeds from the redemption of these bonds (\$70,662,688, including redemption premiums totaling \$3,815,688), plus available funds and short-term borrowings, to purchase \$101,388,000 principal amount of the 7.83% Bonds. The Company intends to hold the 7.83% Bonds until maturity and has recognized the investment as an offset to long-term debt on its Consolidated Balance Sheet.

On January 13, 1998, the Company issued and sold \$100 million principal amount of 6.25% four-year and eleven month Notes. The yield on the Notes, which were issued at a discount, is 6.30%; and the Notes will mature on December 15, 2002. The proceeds from the sale of the Notes were used to repay \$100 million principal amount of 7 3/8% Notes, which matured on January 15, 1998.

Maturities and mandatory redemptions/repayments are set forth below:

	1998	1999	2000	2001	2002
			(000's)		
Maturities	$100,000	$100,000	$150,000	$75,000	$ -
Mandatory redemptions/repayments (1)	4,194	3,410	430	333	338
Maturities, Mandatory and Optional redemptions/repayments	$104,194	$103,410	$150,430	$75,333	$338

(1) Principal component of Seabrook lease obligation, net of principal repayment of Seabrook Lease Obligation Bonds held as an investment.

As of December 31, 1997, the Company had $200 million principal amount of Notes for sale to the public from time to time, in one or more series, registered under the Securities Act of 1933. On January 13, 1998, the Company issued and sold $100 million principal amount of these Notes.

(C) RATE-RELATED REGULATORY PROCEEDINGS

Utilities are entitled by Connecticut law to charge retail rates that are determined by the DPUC to be sufficient to allow them to cover their operating and capital costs, to attract needed capital and maintain their financial integrity, while also protecting the public interest. However, a company may earn up to 1% above its DPUC-authorized return on equity for six consecutive months before a mandatory review is required by the DPUC. A Connecticut statute requires the DPUC to review and investigate the financial and operating records of each electric utility company, at intervals of not more than four years, to determine whether the company's rates comply with statutory standards.

On December 31, 1996, the DPUC completed a financial and operational review of the Company and ordered a five-year incentive regulation plan for the years 1997-2001. The DPUC did not change the existing retail base rates charged to customers; but its order increased amortization of the Company's conservation and load management program investments during 1997-1998, and accelerated the recovery of unspecified regulatory assets during 1999-2001 if the Company's common stock equity return on utility investment exceeds 10.5% after recording the increased conservation and load management amortization. The order also reduced the level of conservation adjustment mechanism revenues in retail prices, provided a reduction in customer prices through a surcredit in each of the five plan years, and accepted the Company's proposal to modify the operation of the fossil fuel clause mechanism. The Company's authorized return on utility common stock equity was reduced from 12.4% to 11.5%. Earnings above 11.5%, on an annual basis, are to be utilized one-third for customer price reductions, one-third to increase amortization of regulatory assets, and one-third retained as earnings.

A reopening of this docket will be requested by the Company in 1998 to determine the regulatory assets to be subjected to accelerated recovery in 1999, 2000 and 2001.

In its 1997 session, the Connecticut legislature drafted, but failed to bring to a vote, comprehensive legislation that would have introduced retail access in Connecticut over a period of several years, with a provision for the recovery of stranded costs by service area utilities. The legislature is currently considering legislation of this same sort in its 1998 session. Among many other factors, decisions and actions concerning retail access in other states could impact the timing and form of this legislation.

Since January 1971, UI has had a fossil fuel adjustment clause (FCA) in virtually all of its retail rates. As a result of the DPUC Order described above, the Company's FCA has been modified so that the clause will not be implemented

unless the monthly average price for fuel oil increases above $28 per barrel or decreases below $10 per barrel for six consecutive months.

(D) ACCOUNTING FOR PHASE-IN PLAN

The Company phased into rate base its allowable investment in Seabrook Unit 1, amounting to $640 million, during the period January 1, 1990 to January 1, 1994. In conjunction with this phase-in plan, the Company was allowed to record a deferred return on the portion of allowable investment excluded from rate base during the phase-in period. Accordingly, the Company is amortizing the net-of-tax accumulated deferred return of $62.9 million over a five-year period that commenced January 1, 1995.

(E) SHORT-TERM CREDIT ARRANGEMENTS

The Company has a revolving credit agreement with a group of banks that currently extends to December 9, 1998. The borrowing limit of this facility is $75 million. The facility permits the Company to borrow funds at a fluctuating interest rate determined by the prime lending market in New York, and also permits the Company to borrow money for fixed periods of time specified by the Company at fixed interest rates determined by the Eurodollar interbank market in London, or by bidding, at the Company's option. If a material adverse change in the business, operations, affairs, assets or condition, financial or otherwise, or prospects of the Company and its subsidiaries, on a consolidated basis, should occur, the banks may decline to lend additional money to the Company under this revolving credit agreement, although borrowings outstanding at the time of such an occurrence would not then become due and payable. As of December 31, 1997, the Company had $30 million of short-term borrowings outstanding under this facility.

In addition, as of December 31, 1997, one of the Company's subsidiaries, American Payment Systems, Inc., had borrowings of $7.8 million outstanding under a bank line of credit agreement.

The Company's long-term debt instruments do not limit the amount of short-term debt that the Company may issue. The Company's revolving credit agreement described above requires it to maintain an available earnings/interest charges ratio of not less than 1.5:1.0 for each 12-month period ending on the last day of each calendar quarter. For the 12-month period ended December 31, 1997, this coverage ratio was 3.23:1.0.

Information with respect to short-term borrowings under the Company's revolving credit agreement is as follows:

	1997	1996 (000's)	1995
Maximum aggregate principal amount of short-term borrowings outstanding at any month-end	$50,000	$30,000	$195,000
Average aggregate short-term borrowings outstanding during the year*	$41,441	$15,380	$117,980
Weighted average interest rate*	5.9%	5.7%	6.5%
Principal amounts outstanding at year-end	$30,000	$0	$0
Annualized interest rate on principal amounts outstanding at year-end	6.2%	N/A	N/A

*Average short-term borrowings represent the sum of daily borrowings outstanding, weighted for the number of days outstanding and divided by the number of days in the period. The weighted average interest rate is determined by dividing interest expense by the amount of average borrowings. Commitment fees of approximately $114,000, $130,000 and $426,500 paid during 1997, 1996 and 1995, respectively, are excluded from the calculation of the weighted average interest rate.

THE UNITED ILLUMINATING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

(F) INCOME TAXES

Income tax expense consists of:	1997	1996 (000's)	1995
Income tax provisions:			
Current			
Federal	$23,940	$35,398	$18,031
State	7,673	11,398	10,163
Total current	31,613	46,796	28,194
Deferred			
Federal	7,008	616	24,682
State	978	(2,892)	2,813
Total deferred	7,986	(2,276)	27,495
Investment tax credits	(762)	(762)	(762)
Total income tax expense	$38,837	$43,758	$54,927
Income tax components charged as follows:			
Operating expenses	$41,333	$53,090	$59,828
Other income and deductions - net	(2,496)	(9,332)	(4,901)
Total income tax expense	$38,837	$43,758	$54,927
The following table details the components of the deferred income taxes:			
Tax depreciation on unrecoverable plant investment	$8,089	$5,745	$8,889
Fossil plants decommissioning reserve	(7,286)	-	-
Conservation & load management	(5,768)	(367)	804
Accelerated depreciation	5,681	5,617	9,410
Pension benefits	4,911	(9,066)	(1,460)
Seabrook sale/leaseback transaction	2,664	(598)	(397)
Deferred fossil fuel costs	(686)	755	(122)
Cancelled nuclear project	(467)	(4,729)	(467)
Unit overhaul and replacement power costs	212	(1,491)	-
Alternative minimum tax	-	-	11,404
Other - net	636	1,858	(566)
Deferred income taxes - net	$7,986	($2,276)	$27,495

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

Total income taxes differ from the amounts computed by applying the federal statutory tax rate to income before taxes. The reasons for the differences are as follows:

	1997		1996		1995	
	Pre-Tax	Tax	Pre-Tax	Tax	Pre-Tax	Tax
			(000's)			
Computed tax at federal statutory rate		$29,619		$28,999		$36,862
Increases (reductions) resulting from:						
Deferred return-Seabrook Unit 1	12,586	4,405	12,586	4,405	12,586	4,405
ITC taken into income	(762)	(762)	(762)	(762)	(762)	(762)
Allowance for equity funds used during construction	(336)	(118)	(940)	(329)	(390)	(136)
Fossil plant decommissioning reserve	(15,591)	(5,457)	-	-	-	-
Book depreciation in excess of non-normalized tax depreciation	23,926	8,374	22,703	7,946	21,586	7,555
State income taxes, net of federal income tax benefits	8,651	5,622	8,506	5,529	12,976	8,434
Other items - net	(8,134)	(2,846)	(5,797)	(2,030)	(4,090)	(1,431)
Total income tax expense		$38,837		$43,758		$54,927
Book income before income taxes		$84,628		$82,854		$105,320
Effective income tax rates		45.9%		52.8%		52.1%

At December 31, 1997 the Company had deferred tax liabilities for taxable temporary differences of $400 million and deferred tax assets for deductible temporary differences of $115 million, resulting in a net deferred tax liability of $285 million. Significant components of deferred tax liabilities and assets were as follows: tax liabilities on book/tax plant basis differences and on the cumulative amount of income taxes on temporary differences previously flowed through to ratepayers, $237 million; tax liabilities on normalization of book/tax depreciation timing differences, $122 million and tax assets on the disallowance of plant costs, $47 million.

THE UNITED ILLUMINATING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

(G) SUPPLEMENTARY INFORMATION

	1997	1996 (000's)	1995
Operating Revenues			
Retail	$623,571	$649,876	$639,108
Wholesale - capacity	9,747	7,686	6,601
- energy	73,124	65,158	41,631
Other	3,825	3,300	3,109
Total Operating Revenues	$710,267	$726,020	$690,449
Sales by Class(MWH's) - Unaudited			
Retail			
Residential	1,903,096	1,891,988	1,890,575
Commercial	2,253,488	2,258,501	2,273,965
Industrial	1,170,815	1,141,109	1,126,458
Other	48,717	48,291	48,435
	5,376,116	5,339,889	5,339,433
Wholesale	2,700,393	2,260,423	1,708,837
Total Sales by Class	8,076,509	7,600,312	7,048,270
Other Taxes			
Charged to:			
Operating:			
State gross earnings	$23,618	$26,757	$27,379
Local real estate and personal property	22,974	24,854	25,761
Payroll taxes	5,948	5,528	5,800
Other	-	-	3
	52,540	57,139	58,943
Nonoperating and other accounts	459	628	527
Total Other Taxes	$52,999	$57,767	$59,470
Other Income and (Deductions) - net			
Interest income	$2,317	$1,505	$2,624
Equity earnings from Connecticut Yankee	1,343	1,225	1,440
Loss from subsidiary companies	(814)	(8,422)	(4,898)
Engineering study costs	-	-	(849)
Miscellaneous other income and (deductions) - net	1,340	(1,474)	(2,589)
Total Other Income and (Deductions) - net	$4,186	($7,166)	($4,272)
Other Interest Charges			
Notes Payable	$2,462	$882	$7,660
Other	818	1,210	1,342
Total Other Interest Charges	$3,280	$2,092	$9,002

(H) PENSION AND OTHER BENEFITS

The Company's qualified pension plan, which is based on the highest three years of pay, covers substantially all of its employees, and its entire cost is borne by the Company. The Company also has a non-qualified supplemental plan for certain executives and a non-qualified retiree only plan for certain early retirement benefits. The net pension costs for these plans for 1997, 1996 and 1995 were ($4,626,000), $18,403,000 and $3,842,000, respectively.

The Company's funding policy for the qualified plan is to make annual contributions that satisfy the minimum funding requirements of ERISA but that do not exceed the maximum deductible limits of the Internal Revenue Code. These amounts are determined each year as a result of an actuarial valuation of the plan. In accordance with this policy, no pension fund contributions were made in 1995. In 1996, the Company contributed $2.8 million for 1995 funding requirements. In 1997, the Company contributed $2.7 million for 1996 funding requirements and $2.5 million for 1997 funding requirements. During 1996, the Company established a supplemental retirement benefit trust and through this trust purchased life insurance policies on the officers of the Company to fund the future liability under the supplemental plan. The cash surrender value of these policies is shown as an investment on the Company's Consolidated Balance Sheet.

The qualified plan's irrevocable trust fund consists principally of equity and fixed-income securities and real estate investments in approximately the following percentages at December 31, 1997:

Asset Category	Percentage of Total Fund
Equity Securities	72.8%
Fixed-income Securities	24.2%
Real Estate	3.0%

	1997	1996
	(000's)	
The components of net pension costs were as follows:		
Service cost of benefits earned during the period	$ 3,791	$ 4,456
Interest cost on projected benefit obligation	17,565	15,882
Actual return on plan assets	(43,225)	(24,167)
Net amortization and deferral	19,967	6,336
Net pension cost	$ (1,902)**	$ 2,507*

* In addition, a cost of $15,896,000 was recognized under SFAS No. 88 as a result of special termination benefits provided under the Pension Plan.

** In addition, a credit of $2,724,000 was recognized under SFAS No. 88 as a curtailment gain resulting from a 1996 voluntary early retirement program.

Assumptions used to determine pension costs were:	1997	1996
Discount rate	7.75%	7.25%
Average wage increase	4.50%	4.50%
Return on plan assets	11.00%	9.00%

	December 31, 1997		December 31, 1996	
	Qualified Plan	Non-Qualified Plans	Qualified Plan	Non-Qualified Plans
		(000's)		
The funded status and amounts recognized in the balance sheet are as follows:				
Actuarial present value of benefit obligations:				
Vested benefit obligation	$184,055	$4,716	$165,919	$4,512
Accumulated benefit obligation	$192,556	$4,720	$174,253	$4,512
Reconciliation of accrued pension liability:				
Projected benefit obligation	$254,192	$5,353	$227,631	$5,152
Less fair value of plan assets	(243,739)	-	208,863	-
Projected benefit greater than plan assets	10,453	5,353	18,768	5,152
Unrecognized prior service cost	(4,217)	(68)	(5,078)	(81)
Unrecognized net gain (loss) from past experience	19,272	(13)	21,038	(28)
Unrecognized net asset (obligation) at date of initial application	8,446	(77)	9,554	(120)
Accrued pension liability	$ 33,954	$5,195	$ 44,282	$4,923
Assumptions used in estimating benefit obligations:				
Discount rate	7.25%	7.25%	7.75%	7.75%
Average wage increase	4.50%	4.50%	4.50%	4.50%

In addition to providing pension benefits, the Company also provides other postretirement benefits (OPEB), consisting principally of health care and life insurance benefits, for retired employees and their dependents. Employees with 25 years of service are eligible for full benefits, while employees with less than 25 years of service but greater than 15 years of service are entitled to partial benefits. Years of service prior to age 35 are not included in determining the number of years of service.

For funding purposes, the Company established a Voluntary Employees' Benefit Association Trust (VEBA) to fund OPEB for union employees who retire on or after January 1, 1994. Approximately 46% of the Company's employees are represented by Local 470-1, Utility Workers Union of America, AFL-CIO, for collective bargaining purposes. The Company established a 401(h) account in connection with the qualified pension plan to fund OPEB for non-union employees who retire on or after January 1, 1994. The funding policy assumes contributions to these trust funds to be the total OPEB expense calculated under SFAS No. 106, adjusted to reflect a share of amounts expensed as a result of voluntary early retirement programs minus pay-as-you-go benefit payments for pre-January 1, 1994 retirees, allocated in a manner that minimizes current income tax liability, without exceeding maximum tax deductible limits. In accordance with this policy, the Company contributed approximately $3.1 million, $3.8 million and $0 to the union VEBA in 1995, 1996 and 1997, respectively. The Company contributed $0, $0.9 million and $1.7 million to the 401(h) account in 1995, 1996 and 1997, respectively. Plan assets for both the union VEBA and 401(h) account consist primarily of equity and fixed-income securities.

The components of the net cost of OPEB were as follows:

	1997	1996
	(000's)	
Service cost	$ 925	$1,379
Interest cost	2,434	2,524
Actual return on plan assets	(3,836)	(1,838)
Amortizations and deferrals - net	3,527	2,359
Net Cost of Postretirement Benefit	$3,050**	$4,424*

* In addition, a cost of $4,126,000 was recognized as a result of special termination programs.

** Includes a credit of $186,000 recognized under SFAS No. 88 as a curtailment gain resulting from a 1996 voluntary early retirement program.

Assumptions used to determine OPEB costs were:

	1997	1996
Discount rate	7.75%	7.25%
Health Care Cost Trend Rate	5.50%	5.50%
Return on plan assets	11.00%	8.50%

A one percentage point increase in the assumed health care cost trend rate would have increased the aggregate service cost and interest cost components of the 1997 net cost of periodic postretirement benefit by approximately $400,000 and would increase the accumulated postretirement benefit obligation for health care benefits by approximately $3,000,000.

The following table reconciles the funded status of the plan with the amount recognized in the Consolidated Balance Sheet as of December 31, 1997 and 1996:

	1997	1996
	(000's)	
Accumulated Postretirement Benefit Obligation:		
Retirees and dependents	$22,847	$22,614
Fully eligible active plan participants	299	929
Other active plan participants	11,966	12,677
Total Accumulated Postretirement Benefit Obligation	35,112	36,220
Plan assets at fair value	21,168	16,720
Accumulated Postretirement Benefit Obligation in Excess of Plan Assets	13,944	19,500
Unrecognized net gain (loss)	6,380	2,731
Unamortized transition obligation	(17,537)	(19,443)
Accrued Postretirement Benefit Obligation	$ 2,787	$ 2,788

The weighted average discount rates used to measure the accumulated postretirement benefit obligation at December 31, 1997 and 1996 were 7.25% and 7.75%, respectively.

The Company has an Employee Savings Plan (401(k) Plan) in which substantially all employees are eligible to participate. The 401(k) Plan enables employees to defer receipt of up to 15% of their compensation and to invest such

funds in a number of investment alternatives. The Company makes matching contributions in the form of Company common stock for each employee. During 1995 and the first five months of 1996, the matching contributions were made into the 401(k) Plan. Beginning in June 1996, the matching contributions were made into the Employee Stock Ownership Plan (ESOP). The Company's matching contributions to the 401(k) Plan during 1995 and the first five months of 1996 were $1.6 million and $0.8 million, respectively. In June 1996, all shares of the Company's common stock in the 401(k) Plan were transferred to the ESOP.

The Company has an ESOP for substantially all its employees. In June 1996, the Company began making matching contributions to the ESOP based on each employee's salary deferrals in the 401(k) Plan. The matching contribution currently equals fifty cents for each dollar of the employee's compensation deferred, but is not more than three and three-eighths percent of the employee's annual salary. The Company's matching contributions to the ESOP during the period June 1996 - December 1996 and the year 1997 were $0.8 million and $1.7 million, respectively.

The Company pays dividends on the shares of stock in the ESOP to the participant and the Company receives a tax deduction on the dividends paid. The participant is given the option of reinvesting the dividends into the ESOP, as an after-tax contribution. The Company also makes an annual contribution to the ESOP equal to 25% of the dividends paid to each participant. The Company's annual contributions during 1997, 1996 and 1995 were $417,000, $324,000 and $192,000, respectively.

(I) JOINTLY OWNED PLANT

At December 31, 1997, the Company had the following interests in jointly owned plants:

	Ownership/ Leasehold Share	Plant In Service	Accumulated Depreciation
		(Millions)	
Seabrook Unit 1	17.5 %	$650	$131
Millstone Unit 3	3.685	135	59
New Haven Harbor Station	93.7	143	74

The Company's share of the operating costs of jointly owned plants is included in the appropriate expense captions in the Consolidated Statement of Income.

(J) UNAMORTIZED CANCELLED NUCLEAR PROJECT

From December 1984 through December 1992, the Company had been recovering its investment in Seabrook Unit 2, a partially constructed nuclear generating unit that was cancelled in 1984, over a regulatory approved ten-year period without a return on its unamortized investment. In the Company's 1992 rate decision, the DPUC adopted a proposal by the Company to write off its remaining investment in Seabrook Unit 2, beginning January 1, 1993, over a 24-year period, corresponding with the flowback of certain Connecticut Corporation Business Tax (CCBT) credits. Such decision will allow the Company to retain the Seabrook Unit 2/CCBT amounts for ratemaking purposes, with the accumulated CCBT credits not deducted from rate base during the 24-year period of amortization in recognition of a longer period of time for amortization of the Seabrook Unit 2 balance. As a result of reducing its remaining unamortized investment in Seabrook Unit 2 with proceeds from the sale of certain Seabrook Unit 2 equipment, the Company expects to completely amortize its unamortized investment in the year 2008.

(K) FUEL FINANCING OBLIGATIONS AND OTHER LEASE OBLIGATIONS

The Company has a Fossil Fuel Supply Agreement with a financial institution providing for financing up to $37.5 million of fossil fuel purchases. Under this agreement, the financing entity may acquire and/or store natural gas, coal and fuel oil for sale to the Company, and the Company may purchase these fossil fuels from the financing entity at a price for each type of fuel that reimburses the financing entity for the direct costs it has incurred in purchasing and storing the fuel, plus a charge for maintaining an inventory of the fuel determined by reference to the fluctuating interest rate on thirty-day, dealer-placed commercial paper in New York. The Company is obligated to insure the fuel inventories and to indemnify the financing entity against all liabilities, taxes and other expenses incurred as a result of its ownership, storage and sale of fossil fuel to the Company. This agreement currently extends to March 1999. At December 31, 1997, approximately $28.1 million of fossil fuel purchases were being financed under this agreement.

The Company also has lease arrangements for data processing equipment, office equipment, vehicles and office space, including the lease of a distribution service facility, which is recognized as a capital lease. The gross amount of assets recorded under capital leases and the related obligations of those leases as of December 31, 1997 are recorded on the balance sheet.

Future minimum lease payments under capital leases, excluding the Seabrook sale/leaseback transaction, which is being treated as a long-term financing, are estimated to be as follows:

	(000's)
1998	$ 1,715
1999	1,696
2000	1,696
2001	1,696
2002	1,696
After 2002	17,695
Total minimum capital lease payments	26,194
Less: Amount representing interest	9,001
Present value of minimum capital lease payments	$17,193

Capitalization of leases has no impact on income, since the sum of the amortization of a leased asset and the interest on the lease obligation equals the rental expense allowed for ratemaking purposes.

Operating leases, which are charged to operating expense, consist principally of a large number of small, relatively short-term, renewable agreements for a wide variety of equipment. In addition, the Company has an operating lease for its corporate headquarters. Future minimum lease payments under this lease are estimated to be as follows:

	(000's)
1998	$ 6,125
1999	6,426
2000	6,524
2001	6,837
2002	8,168
2003-2012	100,334
Total	$134,414

Rental payments charged to operating expenses in 1997, 1996 and 1995, including rental payments for its corporate headquarters, were $12.2 million, $12.8 million and $11.5 million, respectively.

(L) COMMITMENTS AND CONTINGENCIES

Capital Expenditure Program

The Company's continuing capital expenditure program is presently estimated at approximately $170.0 million, excluding AFUDC, for 1998 through 2002.

Nuclear Insurance Contingencies

The Price-Anderson Act, currently extended through August 1, 2002, limits public liability resulting from a single incident at a nuclear power plant. The first $200 million of liability coverage is provided by purchasing the maximum amount of commercially available insurance. Additional liability coverage will be provided by an assessment of up to $75.5 million per incident, levied on each of the nuclear units licensed to operate in the United States, subject to a maximum assessment of $10 million per incident per nuclear unit in any year. In addition, if the sum of all public liability claims and legal costs resulting from any nuclear incident exceeds the maximum amount of financial protection, each reactor operator can be assessed an additional 5% of $75.5 million, or $3.775 million. The maximum assessment is adjusted at least every five years to reflect the impact of inflation. With respect to each of the three nuclear generating units in which the Company has an interest, the Company will be obligated to pay its ownership and/or leasehold share of any statutory assessment resulting from a nuclear incident at any nuclear generating unit. Based on its interests in these nuclear generating units, the Company estimates its maximum liability would be $23.2 million per incident. However, any assessment would be limited to $3.1 million per incident per year.

The NRC requires each nuclear generating unit to obtain property insurance coverage in a minimum amount of $1.06 billion and to establish a system of prioritized use of the insurance proceeds in the event of a nuclear incident. The system requires that the first $1.06 billion of insurance proceeds be used to stabilize the nuclear reactor to prevent any significant risk to public health and safety and then for decontamination and cleanup operations. Only following completion of these tasks would the balance, if any, of the segregated insurance proceeds become available to the unit's owners. For each of the three nuclear generating units in which the Company has an interest, the Company is required to pay its ownership and/or leasehold share of the cost of purchasing such insurance. Although each of these units has purchased $2.75 billion of property insurance coverage, representing the limits of coverage currently available from conventional nuclear insurance pools, the cost of a nuclear incident could exceed available insurance proceeds. Under those circumstances, the nuclear insurance pools that provide this coverage may levy assessments against the insured owner companies if pool losses exceed the accumulated funds available to the pool. The maximum potential assessments against the Company with respect to losses occurring during current policy years are approximately $5.0 million.

Other Commitments and Contingencies

Connecticut Yankee

On December 4, 1996, the Board of Directors of the Connecticut Yankee Atomic Power Company (Connecticut Yankee) voted unanimously to retire the Connecticut Yankee nuclear plant (the Connecticut Yankee Unit) from commercial operation. The Company has a 9.5% stock ownership share in Connecticut Yankee and had relied on the Connecticut Yankee Unit for approximately 3.7% of the Company's 1995 total generating resources. The power purchase contract under which the Company has purchased its 9.5% entitlement to the Connecticut Yankee Unit's power output permits Connecticut Yankee to recover 9.5% of all of its costs from UI. Connecticut Yankee has filed

revised decommissioning cost estimates and amendments to the power contracts with its owners with the Federal Energy Regulatory Commission (FERC). The estimate of the sum of future payments for the closing, decommissioning and recovery of the remaining investment in the Connecticut Yankee Unit is approximately $606 million at December 31, 1997. Based on regulatory precedent, Connecticut Yankee believes it will continue to collect from its owners its decommissioning costs, the unrecovered investment in the Connecticut Yankee Unit and other costs associated with the permanent shutdown of the Connecticut Yankee Unit. UI expects that it will continue to be allowed to recover all FERC-approved costs from its customers through retail rates. The Company's estimate of its remaining share of costs, including decommissioning, less return of investment (approximately $10.5 million) and return on investment (approximately $6.3 million) at December 31, 1997, is approximately $40.8 million. This estimate, which is subject to ongoing review and revision, has been recorded by the Company as a regulatory asset and an obligation on the Consolidated Balance Sheet.

Hydro-Quebec

The Company is a participant in the Hydro-Quebec transmission intertie facility linking New England and Quebec, Canada. Phase I of this facility, which became operational in 1986 and in which the Company has a 5.75% participating share, has a 690 megawatt equivalent capacity value; and Phase II, in which the Company has a 5.45% participating share, increased the equivalent capacity value of the intertie from 690 megawatts to a maximum of 2000 megawatts in 1991. A ten-year Firm Energy Contract, which provides for the sale of 7 million megawatt-hours per year by Hydro-Quebec to the New England participants in the Phase II facility, became effective on July 1, 1991. Additionally, the Company is obligated to furnish a guarantee for its participating share of the debt financing for the Phase II facility. As of December 31, 1997, the Company's guarantee liability for this debt was approximately $7.4 million.

Property Taxes

On November 2, 1993, the Company received "updated" personal property tax bills from the City of New Haven (the City) for the tax year 1991-1992, aggregating $6.6 million, based on an audit by the City's tax assessor. On May 7, 1994, the Company received a "Certificate of Correction....to correct a clerical omission or mistake" from the City's tax assessor relative to the assessed value of the Company's personal property for the tax year 1994-1995, which certificate purports to increase said assessed value by approximately 53% above the tax assessor's valuation at February 28, 1994, generating tax claims of approximately $3.5 million. On March 1, 1995, the Company received notices of assessment changes relative to the assessed value of the Company's personal property for the tax year 1995-1996, which notices purport to increase said assessed value by approximately 48% over the valuation declared by the Company, generating tax claims of approximately $3.5 million. On May 11, 1995, the Company received notices of assessment changes relative to the assessed values of the Company's personal property for the tax years 1992-1993 and 1993-1994, which notices purport to increase said assessed values by approximately 45% and 49%, respectively, over the valuations declared by the Company, generating tax claims of approximately $4.1 million and $3.5 million, respectively. On March 8, 1996, the Company received notices of assessment changes relative to the assessed value of the Company's personal property for the tax year 1996-1997, which notices purport to increase said assessed value by approximately 57% over the valuations declared by the Company and are expected to generate tax claims of approximately $3.8 million. On March 7, 1997, the Company received notices of assessment changes relative to the assessed value of the Company's personal property for the tax year 1997-1998, which notices purport to increase said assessed value by approximately 54% over the valuations declared by the Company and are expected to generate tax claims of approximately $3.7 million. The Company is vigorously contesting each of these actions by the City's tax assessor. In January 1996, the Connecticut Superior Court granted the Company's motion for summary judgment against the City relative to the earliest tax year at issue, 1991-1992, ruling that, after January 31, 1992, the tax assessor had no statutory authority to revalue personal property listed and valued on the Company's tax list for the tax year 1991-1992. This Superior Court decision, which would also have been applicable to and defeated the assessor's valuation increases for

the two subsequent tax years, 1992-1993 and 1993-1994, was appealed by the City. On April 11, 1997, the Connecticut Supreme Court reversed the Superior Court's decisions in this and two other companion cases involving other taxpayers, ruling that the tax assessor had a three-year period in which to audit and revalue personal property listed and valued on the Company's tax list for the tax year 1991-1992. It is currently anticipated that all of the pending cases for all of the tax years in dispute will now be scheduled for trial in the Superior Court relative to the Company's claim that the tax assessor's increases in personal property tax assessments for the three earliest years were unlawful for other reasons and relative to the vigorously contested issue, for all of the tax years, as to the reasonableness of the tax assessor's valuation method, both as to amount and methodology. It is the present opinion of the Company that the ultimate outcome of this dispute will not have a significant impact on the long-term financial position of the Company. The Company would seek permission from the DPUC to recover from its retail customers the expense of any adverse court decision or settlement.

Environmental Concerns

In complying with existing environmental statutes and regulations and further developments in areas of environmental concern, including legislation and studies in the fields of water and air quality (particularly "air toxics" and "global warming"), hazardous waste handling and disposal, toxic substances, and electric and magnetic fields, the Company may incur substantial capital expenditures for equipment modifications and additions, monitoring equipment and recording devices, and it may incur additional operating expenses. Litigation expenditures may also increase as a result of scientific investigations, and speculation and debate, concerning the possibility of harmful health effects of electric and magnetic fields. The total amount of these expenditures is not now determinable.

Site Decontamination, Demolition and Remediation Costs

The Company has estimated that the total cost of decontaminating and demolishing its Steel Point Station and completing requisite environmental remediation of the site will be approximately $11.3 million, of which approximately $8.3 million had been incurred as of December 31, 1997, and that the value of the property following remediation will not exceed $6.0 million. As a result of a 1992 DPUC retail rate decision, beginning January 1, 1993, the Company has been recovering through retail rates $1.075 million of the remediation costs per year. The remediation costs, property value and recovery from customers will be subject to true-up in the Company's next retail rate proceeding based on actual remediation costs and actual gain on the Company's disposition of the property.

The Company is presently remediating an area of PCB contamination at its English Station generating site, including repair and/or replacement of approximately 560 linear feet of sheet piling. The total cost of the remediation and sheet piling repair is presently estimated at $3.5 million, and the Company plans to repair/replace a major portion of the remaining sheet piling at this location at an estimated cost of $6 million.

(M) NUCLEAR FUEL DISPOSAL AND NUCLEAR PLANT DECOMMISSIONING

Costs associated with nuclear plant operations include amounts for disposal of nuclear wastes, including spent fuel, and for the ultimate decommissioning of the plants. Under the Nuclear Waste Policy Act of 1982, the federal Department of Energy (DOE) is required to design, license, construct and operate a permanent repository for high level radioactive wastes and spent nuclear fuel. The Act requires the DOE to provide, beginning in 1998, for the disposal of spent nuclear fuel and high level radioactive waste from commercial nuclear plants through contracts with the owners and generators of such waste; and the DOE has established disposal fees that are being paid to the federal government by electric utilities owning or operating nuclear generating units. In return for payment of the prescribed fees, the federal government was required to take title to and dispose of the utilities' high level wastes and spent nuclear fuel beginning no later than January 1998. However, the DOE has announced that its first high level waste repository will

not be in operation earlier than 2010 and possibly not earlier than 2013, notwithstanding the DOE's statutory and contractual responsibility to begin disposal of high-level radioactive waste and spent fuel beginning not later than January 31, 1998.

The DOE also announced that, absent a repository, the DOE has no statutory obligation to begin taking high level wastes and spent nuclear fuel for disposal by January 1998. However, numerous utilities and states have obtained a judicial declaration that the DOE has a statutory responsibility to take title to and dispose of high level wastes and spent nuclear fuel beginning in January 1998, and that the contracts between the DOE and the plant owners and generators of such waste will provide a potentially adequate remedy for the latter if the DOE fails to fulfill its contractual obligations by that date. The DOE is contesting these judicial declarations; and it is unclear at this time whether the United States Congress will enact legislation to address spent fuel/high level waste disposal issues.

Until the federal government begins receiving such materials, nuclear generating units will need to retain high level wastes and spent nuclear fuel on-site or make other provisions for their storage. Storage facilities for the Connecticut Yankee Unit are deemed adequate, and storage facilities for Millstone Unit 3 are expected to be adequate for the projected life of the unit. Storage facilities for Seabrook Unit 1 are expected to be adequate until at least 2010. Fuel consolidation and compaction technologies are being considered for Seabrook Unit 1 and may provide adequate storage capability for the projected life of the unit. In addition, other licensed technologies, such as dry storage casks, may satisfy spent nuclear fuel storage requirements.

Disposal costs for low-level radioactive wastes (LLW) that result from operation or decommissioning of nuclear generating units have increased significantly in recent years and may continue to rise. The cost increases are a function of increased packaging and transportation costs, and higher fees and surcharges imposed by the disposal facilities. Currently, the Chem Nuclear LLW facility at Barnwell, South Carolina, is open to the Connecticut Yankee Unit, Millstone Unit 3, and Seabrook Unit 1 for disposal of LLW. The Envirocare LLW facility at Clive, Utah, is also open to these generating units for portions of their LLW. All three units have contracts in place for LLW disposal at these disposal facilities.

Because access to LLW disposal may be lost at any time, Millstone Unit 3 and Seabrook Unit 1 have storage plans that will allow on-site retention of LLW for at least five years in the event that disposal is interrupted. The Connecticut Yankee Unit, which has been retired from commercial operation, has a similar storage program, although disposal of its LLW will take place in connection with its decommissioning.

The Company cannot predict whether or when a LLW disposal site will be designated in Connecticut. The State of New Hampshire has not met deadlines for compliance with the Low-Level Radioactive Waste Policy Act and has stated that the state is unsuitable for a LLW disposal facility. Both Connecticut and New Hampshire are also pursuing other options for out-of-state disposal of LLW.

NRC licensing requirements and restrictions are also applicable to the decommissioning of nuclear generating units at the end of their service lives, and the NRC has adopted comprehensive regulations concerning decommissioning planning, timing, funding and environmental reviews. UI and the other owners of the nuclear generating units in which UI has interests estimate decommissioning costs for the units and attempt to recover sufficient amounts through their allowed electric rates, together with earnings on the investment of funds so recovered, to cover expected decommissioning costs. Changes in NRC requirements or technology, as well as inflation, can increase estimated decommissioning costs.

New Hampshire has enacted a law requiring the creation of a government-managed fund to finance the decommissioning of nuclear generating units in that state. The New Hampshire Nuclear Decommissioning Financing Committee (NDFC) has established $473 million (in 1998 dollars) as the decommissioning cost estimate for Seabrook

Unit 1, of which the Company's share would be approximately $83 million. This estimate assumes the prompt removal and dismantling of the unit at the end of its estimated 36-year energy producing life. Monthly decommissioning payments are being made to the state-managed decommissioning trust fund. UI's share of the decommissioning payments made during 1997 was $1.9 million. UI's share of the fund at December 31, 1997 was approximately $12.4 million.

Connecticut has enacted a law requiring the operators of nuclear generating units to file periodically with the DPUC their plans for financing the decommissioning of the units in that state. The current decommissioning cost estimate for Millstone Unit 3 is $557 million (in 1998 dollars), of which the Company's share would be approximately $21 million. This estimate assumes the prompt removal and dismantling of the unit at the end of its estimated 40-year energy producing life. Monthly decommissioning payments, based on these cost estimates, are being made to a decommissioning trust fund managed by Northeast Utilities (NU). UI's share of the Millstone Unit 3 decommissioning payments made during 1997 was $487,000. UI's share of the fund at December 31, 1997 was approximately $5.1 million. The decommissioning trust fund for the Connecticut Yankee Unit is also managed by NU. For the Company's 9.5% equity ownership in Connecticut Yankee, decommissioning costs of $2.1 million were funded by UI during 1997, and UI's share of the fund at December 31, 1997 was $24.9 million. The current decommissioning cost estimate for the Connecticut Yankee Unit, assuming the prompt removal and dismantling of the unit commencing in 1997, is $456 million, of which UI's share would be $43 million.

The Financial Accounting Standards Board (FASB) has issued an exposure draft related to the accounting for the closure and removal costs of long-lived assets, including nuclear plant decommissioning. If the proposed accounting standard were adopted, it may result in higher annual provisions for decommissioning to be recognized earlier in the operating life of nuclear units and an accelerated recognition of the decommissioning obligation. The FASB will be deliberating this issue, and the resulting final pronouncement could be different from that proposed in the exposure draft.

THE UNITED ILLUMINATING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

(O) FAIR VALUE OF FINANCIAL INSTRUMENTS (1)

The estimated fair values of the Company's financial instruments are as follows:

	1997		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(000's)		(000's)	
Cash and temporary cash investments	$32,002	$32,002	$ 6,394	$ 6,394
Long-term debt (2)(3)(4)	$620,457	$624,192	$652,767	$655,582

(1) Equity investments were not valued because they were not considered to be material.

(2) Excludes the obligation under the Seabrook Unit 1 sale/leaseback agreement.

(3) The fair market value of the Company's long-term debt is estimated by brokers based on market conditions at December 31, 1997 and 1996, respectively.

(4) See Note (B), Capitalization - Long-Term Debt.

THE UNITED ILLUMINATING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

(P) QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected quarterly financial data for 1997 and 1996 are set forth below:

Quarter	Operating Revenues (000's)	Operating Income (000's)	Net Income (000's)	Earnings Per Share of Common Stock(1) Basic	Earnings Per Share of Common Stock(1) Diluted
1997					
First	$180,325	$22,150	$7,710	$ .54	$.54
Second(2)(3)	163,774	22,692	8,542	.61	.61
Third	196,563	38,351	23,402	1.68	1.68
Fourth	169,605	21,380	6,137	.44	.44
1996					
First(4)	$170,860	$29,042	$11,721	$ .82	$ .82
Second(4)(5)	168,790	25,871	8,883	.75	.75
Third(4)	209,167	34,466	17,904	1.27	1.26
Fourth(6)	177,203	19,756	588	.04	.04

(1) Based on weighted average number of shares outstanding each quarter.

(2) Operating income, net income and earnings per share for the second quarter of 1997 included an after-tax credit of $6.7 million, or $.48 per share, to provide for the cumulative tax benefits associated with future fossil generation decommissioning.

(3) Operating income, net income and earnings per share for the second quarter of 1997 included an after-tax charge of $4.1 million, or $.30 per share, to record additional amortization of conservation and load management costs.

(4) Operating income, net income and earnings per share for the first, second and third quarters of 1996 included after-tax charges of $4.2 million, or $.30 per share, $0.5 million, or $.03 per share and $8.7 million, or $.62 per share, respectively, for early retirement and voluntary separation programs.

(5) Operating income, net income and earnings per share for the second quarter of 1996 included an after-tax charge of $0.8 million, or $.06 per share, for the cumulative loss on an office space sublease.

(6) Net income and earnings per share for the fourth quarter of 1996 included an after-tax charge of $2.6 million, or $.18 per share, for losses associated with the Company's unregulated subsidiaries.

MARKET FOR THE COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

UI's Common Stock is traded on the New York Stock Exchange, where the high and low sale prices during 1997 and 1996 were as follows:

	1997 Sale Price		1996 Sale Price	
	High	Low	High	Low
First Quarter	32 5/8	24 1/2	39 3/4	36 1/4
Second Quarter	30 7/8	24 1/2	38	35 3/4
Third Quarter	37	31 1/2	37 1/2	33 7/8
Fourth Quarter	45 15/16	37	35	31 3/8

UI has paid quarterly dividends on its Common Stock since 1900. The quarterly dividends declared in 1996 and 1997 were at a rate of 72 cents per share.

The indenture under which $200 million principal amount of Notes are issued places limitations on the payment of cash dividends on common stock and on the purchase or redemption of common stock. Retained earnings in the amount of $104.1 million were free from such limitations at December 31, 1997.

As of December 31, 1997, there were 16,057 Common Stock shareowners of record.

EXECUTIVE OFFICERS OF THE COMPANY

Richard J. Grossi	Chairman of the Board of Directors and Chief Executive Officer
Robert L. Fiscus	Vice Chairman of the Board of Directors and Chief Financial Officer
Nathaniel D. Woodson	President
James F. Crowe	Group Vice President Power Supply Services
Albert N. Henricksen	Group Vice President Support Services
Anthony J. Vallillo	Group Vice President Client Services
Rita L. Bowlby	Vice President Corporate Affairs
Stephen F. Goldschmidt	Vice President Planning and Information Resources
E. Jon Majkowski	Vice President/President Subsidiaries (URI, PPI & TEI)
James L. Benjamin	Controller
Kurt D. Mohlman	Treasurer and Secretary
Charles J. Pepe	Assistant Treasurer and Assistant Secretary

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Selected Financial Data

	1997	1996	1995
Financial Results of Operation ($000's)			
Sales of electricity			
Retail			
Residential	$259,842	$265,562	$260,694
Commercial	248,984	263,609	259,715
Industrial	102,967	108,825	106,963
Other	11,778	11,880	11,736
Total Retail	623,571	649,876	639,108
Wholesale (1)	82,871	72,844	48,232
Other operating revenues	3,825	3,300	3,109
Total operating revenues	710,267	726,020	690,449
Fuel and interchange energy -net			
Retail -own load	109,542	95,359	96,538
Whole[illegible]e	73,124	65,158	41,631
Capacity purchased-net	39,976	46,830	47,420
Depreciation	74,618 (3)	65,921	61,426
Other amortization, principally deferred return and cancelled plant	13,758	13,758	13,758
Other operating expenses, excluding tax expense	200,803	219,630 (5)	183,749
Gross earnings tax	23,618	26,757	27,379
Other non-income taxes	28,922	30,382	31,564
Total operating expenses, excluding income taxes	564,361	563,795	503,465
Deferred return - Seabrook Unit 1	0	0	0
AFUDC	1,575	2,375	2,762
Other non-operating income(loss)	4,186	(7,166)	(4,272)
Interest expense			
Long-term debt - net	56,158	65,[illegible]46	63,431
Other	6,068	4,721	13,140
Total	62,226	69,767	76,571
Minority interest in preferred securities	4,813	4,813	3,583
Income tax expense			
Operating income tax	41,333 (4)	53,090	59,828
Non-operating income tax	(2,496)	(9,332)	(4,901)
Total	38,837	43,758	54,927
Income(loss) before cumulative effect of accounting change	45,791	39,096	50,393
Cumulative effect of change in accounting - net of tax	0	0	0
Net income (loss)	45,791	39,096 (6)	50,393
Discount on preferred stock redemption	(48)	(1,840)	(2,183)
Preferred and preference stock dividends	205	330	1,329
Income (loss) applicable to common stock	$45,634	$40,606	$51,247
Operating income	$104,573	$109,135	$127,156
Financial Condition ($000's)			
Plant in service-net	$1,222,174	$1,258,306	$1,277,910
Construction work in progress	25,448	40,998	41,817
Plant-related regulatory asset	0	0	0
Other property and investments	58,441	49,091	53,355
Current assets	165,027	163,350	137,277
Deferred charges and regulatory assets	360,635	449,150	475,258
Total Assets	$1,831,725	$1,960,895	$1,985,617
Common stock equity	$438,963	$440,016	$439,981
Preferred, preference stock and preferred securities	54,351	54,461	60,539
Long-term debt excluding current portion	644,670	759,680	845,684
Noncurrent liabilities (7)	119,868	138,816	65,747
Current portion of long-term debt	100,000	69,900	40,800
Notes payable	37,751	10,965	0
Other current liabilities (7)	130,993	129,007	102,336
Deferred income tax liabilities and other	305,129	358,050	430,530
Total Capitalization and Liabilities	$1,831,725	$1,960,895	$1,985,617

(1) Operating Revenues, for years prior to 1992, include wholesale power exchange contract sales that were reclassified from Fuel and Capacity expenses in accordance with Federal Energy Regulatory Commission requirements.

(2) Includes reclassification of certain Commercial and Industrial customers.

(3) Includes the effect of charges of $6.4 million, before-tax, for additional amortization of conservation & load management costs.

(4) Includes the effect of credits of $6.7 million, before-tax, to provide tax provision for fossil generation decommissioning.

(5) Includes the effect of charges of $23.0 million, before-tax, associated with voluntary early retirement programs.

1994	1993	1992	1991	1990	1989	1988
$252,386	$238,185	$226,455	$226,751	$211,891	$205,183	$200,170
250,771 (2)	256,559	253,456 (2)	255,782	234,704	219,852	208,801
104,242 (2)	97,466	97,010 (2)	91,895	94,526	92,855	96,665
11,469	11,349	11,065	10,886	10,536	9,943	9,732
618,868	603,559	587,986	585,314	551,657	527,833	515,368
34,927	45,931	75,484	84,236	85,657	77,925	63,263
2,953	3,533	3,855	3,821	3,332	3,348	3,570
656,748	653,023	667,325	673,371	640,646	609,106	582,201
99,589	98,694	108,084	123,010	119,285	128,739	121,425
27,765	39,356	55,169	61,858	69,117	62,681	53,837
44,769	47,424	43,560	44,668	42,827	50,234	35,465
58,165	56,287	50,706	48,181	36,526	35,618	24,069
1,172	1,780	10,415	10,415	4,173	10,415	10,415
193,098	203,427 (8)	183,426	178,912	176,419	144,867	133,407
27,403	27,955	27,362	27,223	25,595	24,506	23,948
32,458	29,977	31,869	28,673	24,648	20,294	21,695
484,419	504,900	510,591	522,940	498,590	477,354	424,261
0	7,497	15,959	17,970	21,503	0	0
3,463	4,067	3,232	5,190	3,443	65,443	75,656
(1,907)	71	18,545	2,697	22,654	(219,742)	(23,369)
73,772	80,030	88,666	90,296	94,056	91,126	90,022
10,301	12,260	12,882	9,847	15,468	22,849	12,069
84,073	92,290	101,548	100,143	109,524	113,975	102,091
0	0	0	0	0	0	0
44,937	33,309	48,712	47,231	43,493	37,963	44,045
(3,214)	(6,322)	(12,558)	(19,299)	(17,409)	(101,135)	(14,548)
41,723	26,987	36,154	27,932	26,084	(63,172)	29,497
48,089	40,481	56,768	48,213	54,048	(73,350)	78,639
(1,294)	0	0	7,337	0	0	0
46,795	40,481 (9)	56,768	55,550	54,048	(73,350)	78,639
0	0	0	0	0	0	0
3,323	4,318	4,338	4,530	4,751	8,233	11,348
$43,472	$36,163	$52,430	$51,020	$49,297	($81,583)	$67,291
$127,392	$114,814	$108,022	$103,200	$98,563	$93,789	$113,895
$1,268,145	$1,243,426	$1,224,058	$1,219,871	$1,209,173	$562,473	$560,930
57,669	77,395	59,809	54,771	50,257	675,831	812,246
0	0	0	0	0	81,768	88,339
53,267	58,096	65,320	79,009	90,006	91,648	83,860
157,309	187,981	247,954	164,839	161 066	170,823	166,270
538,601	567,394	556,493	554,365	553,986	605,696	653,4'8
$2,074,991	$2,134,292	$2,153,634	$2,072,855	$2,064,488	$2,188,239	$2,365,063
$428,028	$423,324	$422,746	$401,771	$379,812	$362,584	$473,674
44,700	60,945	60,945	62,640	69,700	70,000	104,900
708,340	875,268	893,457	909,998	899,993	868,884	862,287
59,458	62,666	44,56[illegible]	110,217	110,850	117,200	119,165
193,133	143,333	92,833	37,500	41,667	18,667	3,667
67,000	0	84,099	13,000	15,000	45,000	0
122,084	117,343	114,757	114,280	138,173	133,459	115,043
452,248	451,413	440,230	423,449	409,293	572,445	687,227
$2,074,991	$2,134,292	$2,153,634	$2,072,855	$2,064,488	$2,188,239	$2,365,063

(6) Includes the effect of charges of $13.4 million, after-tax, associated with voluntary early retirement programs.

(7) Amounts for years prior to 1996 were reclassified in 1996.

(8) Includes the effect of a reorganization charge of $13.6 million, before-tax, associated with a voluntary early retirement program.

(9) Includes the effect of a reorganization charge of $7.8 million, after-tax.

1994	1993	1992	1991	1990	1989	1988
$252,386	$238,185	$226,455	$226,751	$211,891	$205,183	$200,170
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(1,29[illegible])	0	0	7,337	0	0	0
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59,458	62,666	44,567	110,217	110,850	117,200	119,165
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67,000	0	84,099	13,000	15,000	45,000	0
122,084	117,343	114,757	114,280	138,173	133,459	115,043
452,248	451,413	440,230	423,449	409,293	572,445	687,227
$2,074,991	$2,134,292	$2,153,634	$2,072,855	$2,064,488	$2,188,239	$2,365,063

(6) Includes the effect of charges of $13.4 million, after-tax, associated with voluntary early retirement programs.
(7) Amounts for years prior to 1996 were reclassified in 1996.
(8) Includes the effect of a reorganization charge of $13.6 million, before-tax, associated with a voluntary early retirement program.
(9) Includes the effect of a reorganization charge of $7.8 million, after-tax.

Selected Financial Data (continued)

	1997	1996	1995
Common Stock Data			
Average number of shares outstanding	13,975,802	14,100,806	14,089,835
Number of shares outstanding at year-end	13,997,824	14,101,291	14,100,091
Earnings(loss) per share (average) - basic	$3.27	$2.88	$3.64
Earnings(loss) per share (average) - diluted	$3.26	$2.87	$3.63
Recurring earnings(loss) per share (average) (1)	$3.11	$3.94	$3.61
Book value per share	$31.56	$31.20	$31.20
Average return on equity			
Total	10.45%	9.20%	11.84%
Utility	11.54%	11.51%	13.04%
Dividends declared per share	$2.88	$2.88	$2.82
Market Price:			
High	$45.9375	$39.750	$38.500
Low	$24.5000	$31.375	$29.500
Year-end	$45.9375	$31.375	$37.375
Net cash provided by operating activities, less dividends ($000's)	$127,807	$103,943	$120,033
Capital expenditures, excluding AFUDC	$33,436	$47,174	$59,363
Other Financial and Statistical Data			
Sales by class (MWh's)			
Residential	1,903,096	1,891,988	1,890,575
Commercial	2,253,488	2,258,501	2,273,965
Industrial	1,170,815	1,141,109	1,126,458
Other	48,717	48,291	48,435
Total	5,376,116	5,339,889	5,339,433
Number of retail customers by class (average)			
Residential	280,283	279,024	278,326
Commercial	29,228	28,666	28,550
Industrial	1,697	1,652	1,599
Other	1,163	1,141	1,122
Total	312,371	310,483	309,597
Revenue per kilowatt hour by class (cents)			
Residential	13.65	14.04	13.79
Commercial	11.05	11.67	11.42
Industrial	8.79	9.54	9.50
Average large industrial customers time of use rate (cents)	8.12	8.26	8.53
System requirements (MWh)	5,631,296	5,640,957	5,647,690
Peak load - kilowatts	1,173,160	1,044,620	1,156,740
Generating capability- peak(kilowatts)	1,356,100	1,522,350	1,434,102
Load factor	54.80%	61.64%	55.74%
Fuel generation mix percentages			
Coal	44	38	37
Oil	15	8	7
Nuclear	25	37	37
Cogeneration	9	9	9
Gas	2	3	5
Hydro	5	5	5
Revenues - retail sales ($000's)			
Base	$621,874	$642,106	$637,219
Fuel adjustment clause	1,697	7,770	1,889
Sales provision adjustment	0	0	0
Total	$623,571	$649,876	$639,108
Revenues - retail sales per kWh (cents)			
Base	11.57	12.02	11.93
Fuel adjustment clause	0.03	0.15	0.04
Sales provision adjustment	0.00	0.00	0.00
Total	11.60	12.17	11.97
Fuel and energy cost per kWh (cents)	1.95	1.69	1.71
Fossil	2.39	2.41	2.22
Nuclear	0.61	0.46	0.85
Number of employees at year-end	1,175	1,287	1,358
Total payroll($000 'S)	$68,640	$69,276	$72,984

(1) Recurring earnings(loss) per share (average) is not a generally accepted accounting principle measurement. Management provides this measurement for informational purposes only.
(2) Includes reclassification of certain Commercial and Industrial customers.

1994	1993	1992	1991	1990	1989	1988
14,085,452	14,063,854	13,941,150	13,899,906	13,887,748	13,887,748	13,887,748
14,086,691	14,083,291	14,033,148	13,932,348	13,887,748	13,887,748	13,887,748
$3.09	$2.57	$3.76	$3.67	$3.55	($5.87)	$4.85
$3.08	$2.56	$3.74	$3.66	$3.55	($5.87)	$4.85
$3.28	$3.13	$3.17	$2.90	$3.55	($5.87)	$4.85
$30.39	$30.06	$30.12	$28.84	$27.35	$26.11	$34.11
10.19%	8.45%	12.67%	13.01%	13.39%	-18.88%	14.75%
12.50%	10.97%	14.46%	13.39%	13.97%	20.21%	32.91%
$2.76	$2.66	$2.56	$2.44	$2.32	$2.32	$2.32
$39.500	$45.875	$42.000	$39.125	$34.125	$34.250	$27.500
$29.000	$38.500	$34.125	$30.000	$26.875	$24.750	$19.125
$29.500	$40.250	$41.500	$39.000	$31.125	$34.250	$26.875
$94,807	$104,547	$109,020	$73,865	$39,189	$31,437	$40,607
$63,044	$94,743	$66,390	$63,157	$64,018	$77,041	$83,735
1,892,955	1,844,041	1,799,456	1,851,447	1,826,700	1,883,363	1,870,318
2,285,942 (2)	2,359,023	2,303,216 (2)	2,347,757	2,259,340	2,254,099	2,174,200
1,135,831 (2)	1,036,547	997,168 (2)	980,071	1,060,751	1,109,119	1,186,336
48,718	50,715	52,984	55,118	58,013	60,427	61,303
5,363,446	5,290,326	5,152,824	5,234,393	5,204,804	5,307,008	5,292,157
275,441	273,752	273,936	274,064	275,637	276,385	274,884
28,394 (2)	28,968	28,848 (2)	29,768	29,808	29,526	28,826
1,538 (2)	959	1,017 (2)	268	319	347	367
1,127	1,175	1,35[illegible]	1,361	1,352	1,316	1,267
306,500	304,854	305,159	305,461	307,116	307,574	305,344
13.33	12.92	12.58	12.25	11.60	10.89	10.70
10.97	10.88	11.00	10.89	10.39	9.75	9.60
9.18	9.40	9.73	9.38	8.91	8.37	8.15
8.69	8.89	8.84	8.64	8.06	7.58	7.14
5,652,657	5,630,581	5,475,664	5,541,477	5,501,495	5,603,502	5,581,897
1,130,780	1,114,900	1,034,440	1,145,820	1,054,600	1,094,400	1,132,100
1,462,290	1,515,420	1,402,800	1,474,1[illegible]	1,449,600	1,289,800	1,271,500
57.07%	57.65%	60.26%	55.21%	59.55%	58.45%	56.13%
35	31	34	34	43	39	37
14	16	17	21	24	37	41
32	38	35	29	20	11	11
9	8	8	9	9	9	7
4	1	1	4	3	3	0
6	6	5	3	1	1	4
$619,097	$605,887	$608,176	$607,997	$589,346	$577,611	$574,422
(229)	(2,328)	(41,221)	(37,497)	(45,900)	(49,778)	(59,054)
0	0	21,031	14,814	8,211	0	0
$618,868	$603,559	$587,986	$585,314	$551,657	$527,833	$515,368
11.54	11.45	11.80	11.62	11.32	10.88	10.85
0.00	(0.04)	(0.80)	(0.72)	(0.88)	(0.93)	(1.11)
0.00	0.00	0.41	0.28	0.16	0.00	0.00
11.54	11.41	11.41	11.18	10.60	9.95	9.74
1.76	1.75	2.43	2.67	2.63	2.78	2.53
2.14	2.08	2.98	3.11	2.89	2.98	2.74
0.94	1.23	1.42	1.62	1.55	0.89	0.87
1,377	1,490	1,554	1,571	1,587	1,627	1,620
$75,441	$75,305	$74,052	$71,888	$69,237	$65,175	$62,387

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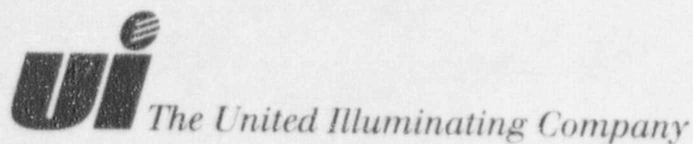

• Notice of 1998 Annual Meeting
• Proxy Statement

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Please sign and return your proxy promptly.

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THE UNITED ILLUMINATING COMPANY

NOTICE OF ANNUAL MEETING OF THE SHAREOWNERS

TO THE SHAREOWNERS:

Notice is hereby given that the Annual Meeting of the Shareowners of The United Illuminating Company will be held at the New Haven Lawn Club, 193 Whitney Avenue, New Haven, Connecticut, on Wednesday, May 20, 1998 at ten o'clock in the forenoon, for the following purposes:

1. To elect a Board of Directors for the ensuing year.

2. To vote on the approval of the employment, by the Board of Directors, of Price Waterhouse LLP as the firm of independent public accountants to audit the books and affairs of the Company for the fiscal year 1998.

3. To consider and act on a proposal to amend the Company's Certificate of Incorporation relative to the number of members of the Board of Directors.

4. To transact such other business as may properly come before the meeting or any adjournments thereof.

The Board of Directors has fixed the close of business on March 12, 1998 as the record date for determination of the shareowners of the Company entitled to notice of, and to vote at, the meeting and any adjournments thereof.

Regardless of whether you plan to attend the meeting, please fill in, sign, date and return promptly the enclosed proxy in the accompanying envelope, which requires no postage if mailed in the United States.

Dated at New Haven, Connecticut, this 27th day of March, 1998.

By Order of the Board of Directors,

KURT MOHLMAN, *Treasurer and Secretary*

YOUR VOTE IS IMPORTANT

In order to save the Company the expense of further solicitation to ensure that a quorum is present at the Annual Meeting, please mail your proxy promptly - regardless of the number of shares you own, and regardless of whether you plan to attend the meeting.

A diagram showing the location of the New Haven Lawn Club appears on the inside of the back cover of the Proxy Statement.

PROXY STATEMENT

This statement and the accompanying proxy form are furnished on or about March 27, 1998, to security holders of record as of the close of business on March 12, 1998, in connection with the solicitation of proxies for use at the Annual Meeting of the Shareowners of The United Illuminating Company to be held at the New Haven Lawn Club, 193 Whitney Avenue, New Haven, Connecticut, on Wednesday, May 20, 1998 at 10:00 a.m. for the purposes set forth in the accompanying Notice of Annual Meeting of the Shareowners. The mailing address of the principal executive offices of the Company is 157 Church Street, P.O. Box 1564, New Haven, Connecticut 06506. The solicitation is made by the Company, and the expense of printing and mailing proxy material will be borne by the Company. The Company will request banks, brokers and other custodians, nominees and fiduciaries to send proxy material to beneficial owners of shares and to secure their voting instructions, if necessary, and the Company will reimburse them for their reasonable expenses in so doing. Directors, officers and employees of the Company may also solicit proxies personally or by telephone, but no compensation will be paid specifically for any such solicitation. In addition, Georgeson & Company, Inc. of New York, New York, has been retained to aid in the solicitation of proxies by similar methods at a cost to the Company of approximately $11,500, plus expenses.

SHAREOWNERS ENTITLED TO VOTE:

At the close of business on March 12, 1998, the record date for the meeting, 14,334,922 shares of Common Stock of the Company were outstanding and will be entitled to vote at the meeting, each share being entitled to one vote, on each matter coming before the meeting as set forth in the accompanying Notice of Annual Meeting of the Shareowners and commented on in this Proxy Statement. All votes on each matter coming before the meeting will be counted and tabulated by Inspectors of Proxies and Tellers appointed by the President of the Company pursuant to its Bylaws.

Common Stock shareowners who are participants in the Company's Automatic Dividend Reinvestment and Common Stock Purchase Plan (DRP) will receive proxy forms that will include the shares in their accounts under the DRP. The Bank of New York, the Company's agent under the DRP, has authorized the Company to vote shares held in the DRP according to the instructions received on such proxy forms.

Shares of Common Stock for which a proxy in the form that accompanies this Proxy Statement is properly signed and returned (a) will be voted or not voted, in accordance with the choice indicated on the proxy, to fix the number of directors for the ensuing year at twelve and elect as directors the twelve persons named in this Proxy Statement (or such other person or persons as the present Board of Directors shall determine, if one or more of the twelve persons named is unable to serve); (b) will be voted for or against, or not voted, in accordance with the choice indicated on the proxy, with respect to the proposal to approve the employment of Price Waterhouse LLP as independent public accountants for the fiscal year 1998; (c) will be voted for or against, or not voted, in accordance with the choice indicated on the proxy, with respect to the proposal to amend the Certificate of Incorporation of the Company; and (d) will be voted in accordance with the discretion of the person or persons voting them with respect to such other matters, if any, as may come before the meeting. The Company is not aware of any such other matters to be presented at the meeting.

Any proxy may be revoked by the shareowner at any time prior to its use. A proxy may be revoked by filing with the Secretary of the Company a written notice of revocation or a properly signed proxy bearing a later date. A shareowner who attends the meeting in person may, if he or she wishes, vote by ballot at the meeting, thereby canceling any proxy vote previously given.

Under Connecticut law and the Company's Bylaws, shareowners holding a majority of the shares of Common Stock represented at the meeting, in person or by proxy, will constitute a quorum for purposes of considering and acting upon the matters set forth in the accompanying Notice of Annual Meeting of the Shareowners. Assuming that a quorum is present at the meeting, directors will be elected by a plurality of the votes cast at the meeting. Withholding authority to vote for a director nominee will not prevent that director nominee from being elected. Cumulative voting for directors is not permitted under Connecticut law unless a corporation's certificate of incorporation provides for cumulative voting rights; and the Company's Certificate of Incorporation contains no

provision for such rights. Under Connecticut law, assuming that a quorum is present at the meeting, action on approval of the employment of independent public accountants, action on approval of the proposal to amend the Certificate of Incorporation, and action on any other matter that may come before the meeting, will be approved if the votes cast in favor of the action exceed the votes cast against approval of the action. Proxies marked to abstain from voting with respect to any such action will not have the legal effect of voting against approval of such action.

PRINCIPAL SHAREOWNERS:

Statements filed with the Securities and Exchange Commission (SEC), pursuant to Section 13(d) of the Securities Exchange Act of 1934 (the 1934 Act), by the following persons disclose beneficial ownership of shares of the Company's Common Stock (percentages are of the 14,334,922 shares outstanding as of the close of business on March 12, 1998): (1) Rhoda L. Chase, 400,000 shares, or approximately 2.79%; (2) her daughter, Cheryl A. Chase, 79,000 shares, or approximately 0.55%; (3) her son, Arnold L. Chase, 225,000 shares, or approximately 1.57%; (4) The Darland Trust, a trust for the benefit of Cheryl A. Chase and her children, and its trustee, Rothschild Trust Cayman Limited, 146,000 shares, or approximately 1.02%; (5) David T. Chase, husband of Rhoda and father of Cheryl and Arnold, 850,000 shares, or approximately 5.93%, which are the same shares listed in (1), (2), (3) and (4) of this sentence; and (6) American Ranger, Inc. (American Ranger), 200,000 shares, or approximately 1.40%. American Ranger is a wholly-owned subsidiary of D.T. Chase Enterprises, Inc. (DTCE) and is owned and controlled by David, Rhoda, Arnold and Cheryl Chase, trusts for the benefit of Arnold Chase and his children, and trusts for the benefit of Cheryl Chase and her children. David, Rhoda, Arnold and Cheryl Chase, American Ranger and DTCE all have as a business address One Commercial Plaza, Hartford, CT 06103. In the statements filed with the SEC, none of the shareholders listed above except David T. Chase has admitted beneficial ownership of any shares of the Company's Common Stock not held in their individual names, and all of them have disclaimed membership in any "group" with respect to the Common Stock for purposes of Section 13(d) of the 1934 Act.

There is no other person or group of persons known to the Company to be the beneficial owner of more than 5% of the shares of its Common Stock as of the close of business on March 12, 1998.

NOMINEES FOR ELECTION AS DIRECTORS:

It is intended that shares of Common Stock represented by proxies who are authorized to vote for the election of a Board of Directors on the form that accompanies this Proxy Statement will be voted to fix the number of directors at twelve and (unless instructed otherwise on the form) in favor of the persons listed below for election as directors of the Company. While it is not anticipated that any of the persons listed below will be unable to serve as a director, if that should occur, the proxies will be voted for such other person or persons as the present Board of Directors shall determine. All of the nominees listed below were elected directors at the last annual meeting.

Name, Principal Occupation, Other Corporate Affiliations and Principal Occupations During the Past Five Years of Nominee	*Age*[(1)]	*Director Since*
Thelma R. Albright President, Carter Products Division, Carter-Wallace, Inc., Cranbury, New Jersey. From 1994 through 1995, Ms. Albright was General Manager and Executive Vice President of Revlon Beauty Care Division. From 1992 through 1993 Ms. Albright was Executive Vice President of Marketing of Carter-Wallace, Inc. Also, Director, CTFA (Cosmetics, Toiletry and Fragrance Association) and NDMA (Non-Prescription Drug Manufacturers Association).	51	1995
Marc C. Breslawsky President and Chief Operating Officer, Pitney Bowes, Inc., Stamford, Connecticut. Also, Director, Pitney Bowes, Inc., Pitney Bowes Credit Corp., C.R. Bard, Inc., the Family Foundation of North America, Connecticut Business and Industry Association and United Way of Eastern Fairfield County; Member, Board of Governors, the Landmark Club; and Trustee, Norwalk Hospital.	55	1995

Name, Principal Occupation, Other Corporate Affiliations and Principal Occupations During the Past Five Years of Nominee	*Age*[1]	*Director Since*
David E. A. Carson President, Chief Executive Officer and Director, People's Bank, Bridgeport, Connecticut, and President, Chief Executive Officer and Trustee, People's Mutual Holdings, Bridgeport, Connecticut. Also, Chairman, Bridgeport Public Education Fund, Business Advisory Committee of Connecticut Commission on Children and Bridgeport Area Foundation; Trustee, Connecticut Public Broadcasting; and Director, Mass Mutual Institutional Funds, MML Series Investment Funds, American Skandia Trust, Old State House, Hartford, Connecticut, The Bushnell, Hartford, Connecticut, and Hartford Stage Company.	63	1993
John F. Croweak Chairman of the Board of Directors, Anthem Blue Cross & Blue Shield of Connecticut, Inc., North Haven, Connecticut. Prior to his retirement in 1997, Mr. Croweak served as Chairman of the Board of Directors and Chief Executive Officer of Anthem Blue Cross & Blue Shield of Connecticut, Inc. and its predecessor, Blue Cross & Blue Shield of Connecticut, Inc. Also, Director, The New Haven Savings Bank, Quinnipiac College and Anthem, Inc., Indianapolis, Indiana.	61	1987
J. Hugh Devlin Managing Director, SG-Barr Devlin, New York, New York. From 1975 through 1988, Mr. Devlin was a Managing Director of Morgan Stanley & Co., Inc., during which time he served as head of its Public Utility Group. From January 1989 to April 1990, Mr. Devlin served as Advisory Director of Morgan Stanley & Co., Inc. Also, Trustee, Meridian Health System.	55	1989
Robert L. Fiscus Vice Chairman of the Board of Directors and Chief Financial Officer, The United Illuminating Company. Mr. Fiscus served as President and Chief Financial Officer of the Company during the period May 1991 to February 1998. Also, Chairman of the Board of Directors, Griffin Health Services Corporation; Director, The Aristotle Corporation, Bridgeport Area Foundation, Bridgeport Regional Business Council, United Way of Greater New Haven and Susquehanna University; Governor, University of New Haven; and Trustee, Central Connecticut Coast Young Men's Christian Association, Inc.	60	1992
Richard J. Grossi Chairman of the Board of Directors and Chief Executive Officer, The United Illuminating Company. Also, Director, The New Haven Savings Bank, Anthem Blue Cross & Blue Shield of Connecticut, Inc., Connecticut Business and Industry Association and University of Connecticut Foundation; Trustee, Yale-New Haven Hospital; and Chairman of the Executive Committee of the Seabrook Joint Owners.	62	1988
Betsy Henley-Cohn Chairman of the Board of Directors, Joseph Cohn & Son, Inc., New Haven, Connecticut. Also, Chairwoman of Birmingham Utilities, Inc.; and Director, The Aristotle Corporation and Citizens Bank of Connecticut.	45	1989

Name, Principal Occupation, Other Corporate Affiliations and Principal Occupations During the Past Five Years of Nominee	*Age*[1]	*Director Since*
John L. Lahey President, Quinnipiac College, Hamden, Connecticut. Also, Director, Council for the Advancement and Support of Education and Long Wharf Theater; Trustee, Yale-New Haven Hospital; Vice Chairman and Director, Regional Plan Association Board, New York, New York; Co-Chairman, Connecticut Committee of the Regional Plan Association Board; and Member, Greater New Haven Regional Leadership Council and Accreditation Committee of the American Bar Association.	51	1994
F. Patrick McFadden, Jr. Vice Chairman, Citizens Bank of Connecticut, New Haven, Connecticut. From 1993 through 1997, Mr. McFadden was President, Chief Executive Officer and Director, The Bank of New Haven and BNH Bancshares, Inc. Also, Chairman of the Board of Directors, Yale-New Haven Health Services Corporation.	60	1987
Frank R. O'Keefe, Jr. Retired; former President, Long Wharf Capital Partners, Inc. 1988-1990; retired Chairman and Chief Executive Officer, Armtek Corporation 1986-1988; President and Chief Operating Officer, Armstrong Rubber Company 1980-1986; and Director, Aetna Inc. and Southern New England Telecommunications Corporation.	68	1989
James A. Thomas Associate Dean, Yale Law School. Also, Trustee, Yale-New Haven Hospital and People's Mutual Holdings; and Director, People's Bank and Sea Research Foundation.	59	1992

(1) Age at May 20, 1998. The Board of Directors has adopted a policy pursuant to which a director will not be a candidate for re-election after his or her 70th birthday.

The Board of Directors held 9 meetings during 1997. The average attendance record of the directors was 93.7% for meetings of the Board of Directors and its committees held during 1997.

Ms. Henley-Cohn and Messrs. Croweak, Grossi and McFadden serve on the Executive Committee of the Board of Directors. The Executive Committee, a standing committee that has and may exercise all the powers of the Board of Directors when it is not in session, met twice during 1997.

Ms. Albright and Messrs. Carson, Devlin, Lahey, McFadden, O'Keefe and Thomas serve on the Audit Committee of the Board of Directors. The Audit Committee, a standing committee that oversees the Company's financial accounting and reporting practices; evaluates the reliability of the Company's system of internal controls; assures the objectivity of independent audits; explores other issues that it deems may potentially affect the Company and its employees; and makes recommendations in these regards to the officers and to the Board of Directors, held three meetings during 1997.

Msses. Albright and Henley-Cohn and Messrs. Breslawsky, Croweak and Thomas serve on the Compensation and Executive Development Committee of the Board of Directors. The Compensation and Executive Development Committee, a standing committee that reviews the performance of the officers of the Company; reviews and recommends to the Board of Directors the levels of compensation and other benefits paid and to be paid to the officers of the Company; reviews and administers incentive compensation programs for the officers of the Company; recommends to the Board of Directors changes in said programs; reviews the recommendations of management for its succession planning and the selection of officers of the Company; and reviews the investment standards, policies and objectives established for, and the performance and methods of, the Company's pension plan investment managers, held four meetings during 1997.

Ms. Albright and Messrs. Breslawsky, Carson, Croweak and Lahey serve on the Strategic Direction Committee of the Board of Directors. The Strategic Direction Committee, a standing committee that assists the Chief Executive Officer and senior management with the development of an overall strategic plan for the Company, taking into account the key strategic issues facing the Company and the electric utility industry and providing a focus for defining and implementing the annual goals and projects comprising the Company's corporate business and operational plans, held three meetings during 1997.

Ms. Henley-Cohn and Messrs. Carson, Devlin, McFadden, O'Keefe and Thomas serve on the Committee on Directors. The Committee on Directors, a standing committee that recommends policy with respect to the composition, organization, practices and compensation of the Board of Directors and performs the nominating function for the Board, held two meetings in 1997. The Committee on Directors will consider nominees for election as directors recommended by shareowners upon the timely submission of the names of such nominees with their qualifications and biographical information forwarded to the Committee in care of the Treasurer and Secretary of the Company.

CORPORATE GOVERNANCE STANDARDS

The Board of Directors has approved the following Corporate Governance Standards for the discharge of its duties to the Company and its shareowners:

The Board of Directors (the Board) of The United Illuminating Company (the Company) will discharge its duties in accordance with both the letter and the spirit of all of the laws and governmental regulations that are applicable to the Company and its operations, including the Standards of Conduct prescribed for individual Directors by the Connecticut Business Corporation Act. This is the Board's primary governance standard; and the following requirements and proscriptions, which are reviewed by the Board annually and are subject to revision from time to time, are intended to serve as supportive standards in this regard.

Board Members

- The entire Board will be elected annually.
- A Director will not be a candidate for reelection after his or her seventieth birthday.
- As a general rule, former executive officers of the Company will not be candidates for election as Directors.
- A Director will not be a candidate for election to a sixth term unless he or she is the beneficial owner, directly or indirectly, of at least 1,200 shares of the Company's Common Stock.

Board Committees

- Committees of the Board, and members of committees of the Board, will be appointed by affirmative vote of Directors holding a majority of the Directorships.
- The membership of the Audit Committee and the Compensation and Executive Development Committee will consist entirely of independent Directors.
- The Committee on Directors will assess, annually, the effectiveness of the Board.

Functioning of the Board

- Directors will receive materials relative to agenda items as far in advance of Board meetings as feasible.
- When the Chief Executive Officer of the Company serves as the Chairman of the Board, the senior independent Director, in terms of service, will preside at meetings of the Board at which the Chairman of the Board and Chief Executive Officer is not in attendance, and at executive sessions of independent Directors of the Board, and will also serve as an ex officio member of the Committee on Directors of the Board.
- The Board will review and approve, annually, a strategic plan and an operating plan for the Company.

Officers

- The Board will evaluate, annually, in an executive session of independent Directors of the Board, the performance of the Chief Executive Officer of the Company.
- The Chief Executive Officer will report, annually, to the Compensation and Executive Development Committee of the Board, and to the Board, regarding succession planning and management development.
- Acceptance by any officer of the Company of a compensated appointment to the governing body of another business entity will be subject to prior approval by the Board.
- Officers of the Company will be required to be beneficial owners, directly or indirectly, of shares of the Common Stock of the Company in amounts and within time periods determined by the Chief Executive Officer of the Company.
- Incentive compensation plans will link compensation directly and objectively to measurable goals set in advance by the Board on the recommendation of the Compensation and Executive Development Committee of the Board.
- Awarded stock options will not be repriced, except in the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, distribution of assets or other change in the corporate structure or shares of the Company.

STOCK OWNERSHIP OF DIRECTORS AND OFFICERS:

The following table sets forth the number of shares of Common Stock of the Company beneficially owned, directly or indirectly, by each director, by each of the five most highly compensated officers during 1997 and by all directors and officers as a group, as of March 12, 1998:

Name of Individual or Number of Persons in Group	*Shares Beneficially Owned Directly or Indirectly*(1)(2)(3)
Thelma R. Albright	1,944
Marc C. Breslawsky	3,557
David E.A. Carson	6,602
John F. Croweak	3,094
J. Hugh Devlin	5,727
Robert L. Fiscus	31,818
Richard J. Grossi	13,249
Betsy Henley-Cohn	3,460
John L. Lahey	1,555
F. Patrick McFadden, Jr.	3,437
Frank R. O'Keefe, Jr.	4,409
James A. Thomas	1,904
James F. Crowe	6,806
Albert N. Henricksen	2,956
Anthony J. Vallillo	2,148
22 Directors and Officers as a group, including those named above	111,582

(1) Based on reports furnished by the directors and officers. The shares include, in some instances, shares held by the immediate families of directors and officers or entities controlled by directors and officers, the reporting of which is not to be construed as an admission of beneficial ownership. Each of the persons included in the foregoing table has sole voting and investment power as to the shares of Common Stock beneficially owned, directly or indirectly, by him or her, except for the following (i) as to which such powers are shared: 16,646 shares with respect to Mr. Fiscus, 4,265 shares with respect to Mr. Grossi, 110 shares with respect to Mr. Thomas, 668 shares with respect to Mr. Crowe, 405 shares with respect to Mr. Henricksen and 22,939 shares

with respect to all directors and officers as a group, (ii) as to which such powers are held by other people or entities: 141 shares with respect to Mr. Carson, 700 shares with respect to Mr. Fiscus, 5,723 shares with respect to Mr. Grossi, 2,035 shares with respect to Ms. Henley-Cohn, 650 shares with respect to Mr. O'Keefe, 50 shares with respect to Mr. Thomas, 10 shares with respect to Mr. Crowe, and 9,516 shares with respect to all directors and officers as a group.

(2) The number of shares includes those held for the benefit of officers in the Company's Employee Stock Ownership Plan and, in the cases of Robert L. Fiscus, 10,500 shares, and all directors and officers as a group, 16,300 shares, that may be acquired currently through the exercise of stock options under the Company's 1990 Stock Option Plan.

(3) Includes Stock Units, for which neither investment nor voting power is held as follows: 1,722 shares with respect to Ms. Albright, 3,457 shares with respect to Mr. Breslawsky, 6,191 shares with respect to Mr. Carson, 2,211 shares with respect to Mr. Croweak, 5,227 shares with respect to Mr. Devlin, 378 shares with respect to Ms. Henley-Cohn, 212 shares with respect to Mr. Lahey, 1,968 shares with respect to Mr. McFadden, 3,545 shares with respect to Mr. O'Keefe and 744 shares with respect to Mr. Thomas. These Stock Units are in stock accounts under the Company's Directors' Deferred Compensation Plan, described below at "Director Compensation". Stock Units in stock accounts under this plan are payable, in an equivalent number of shares of the Company's Common Stock, upon termination of service on the Board of Directors.

The number of shares of Common Stock beneficially owned by each of the persons included in the foregoing table is less than 1% of the 14,334,922 shares of Common Stock outstanding as of March 12, 1998. The number of shares of Common Stock beneficially owned by all of the directors and officers as a group represents approximately 0.8% of the outstanding shares of Common Stock as of March 12, 1998.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and officers, and persons who own more than ten percent of a registered class of the Company's equity securities, to file with the Securities and Exchange Commission (SEC) and The New York Stock Exchange initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Directors, officers and greater-than-ten-percent shareowners are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on review of reports furnished to the Company and written representations that no other reports were required, during the fiscal year ended December 31, 1997 all Section 16(a) filing requirements applicable to its directors, officers and greater-than-ten-percent shareowners were complied with, except that, due to an administrative error at the Company, the year-end reports of changes in ownership filed by the non-employee directors, which were due to be filed with the SEC on or before February 17, 1998, were not filed until February 28, 1998.

EXECUTIVE COMPENSATION

The following table shows the annual and long-term compensation, for services in all capacities to the Company for the years 1997, 1996 and 1995, of the only person who served as the chief executive officer during 1997 and of the four other most highly compensated persons during 1997 who were serving as executive officers at December 31, 1997:

Name and Principal position	Year	Annual Compensation[1] Salary($)	Bonus($)[2]	Long-Term Compensation LTIP Payouts($)[3]	All Other Compensation[4]
Richard J. Grossi Chairman of the Board of Directors and Chief Executive Officer	1997 1996 1995	$324,000 $318,000 $318,000	$125,000 $125,000 $150,000	$119,700	$6,925 $6,287 $5,364
Robert L. Fiscus President and Chief Financial Officer	1997 1996 1995	$220,400 $218,400 $220,500	$70,000 $66,000 $80,000	$59,850	$7,360 $6,692 $5,676
James F. Crowe Group Vice President	1997 1996 1995	$177,600 $176,600 $178,000	$55,000 $51,000 $60,000	$42,750	$6,830 $6,235 $5,380
Anthony J. Vallillo Group Vice President	1997 1996 1995	$170,000 $125,875 $106,000	$55,000 $36,000 $31,000	$6,840	$6,144 $5,701 $4,292
Albert N. Henricksen Group Vice President	1997 1996 1995	$140,600 $136,900 $130,000	$38,000 $37,000 $40,000	$13,680	$6,401 $5,871 $5,164

(1) None of the persons named received any cash compensation in any of the years shown other than the amounts appearing in the columns captioned "Salary," "Bonus," "LTIP Payouts" and "All Other Compensation." None of these persons received, in any of the years shown, any cash-equivalent form of compensation, other than through participation in the Company's group life, health and hospitalization plans, which are available on a uniform basis to all salaried employees of the Company and the dollar value of which, together with the dollar value of all other non-cash perquisites and other personal benefits received by such person, did not exceed the lesser of $50,000 or 10% of the total salary and bonus compensation received by him for such year.

(2) The amounts appearing in this column are awards earned in the years 1995, 1996 and 1997 pursuant to the Company's Executive Incentive Compensation Program described below.

(3) The amounts appearing in this column are the amounts earned for the 1995-1997 performance period under the Company's 1993 Dividend Equivalent Program. Under this program, which was terminated when the Long-Term Incentive Program described below was established in 1996, each officer of the Company was awarded a number of Dividend Equivalent Units (Units) prior to the 1995 commencement of the performance period and, due to the ranking of the Company's total shareowner return during the performance period relative to the total shareowner returns of a preselected peer group of companies, the officer earned a number of Units and a cash payment equal to that number of Units multiplied by the sum of all dividends paid per share on the Company's Common Stock during the performance period. The cash payments were made in February, 1998.

(4) The amounts appearing in this column are cash contributions by the Company to its Employee Stock Ownership Plan (ESOP) on behalf of each of the persons named for (i) a match of pre-tax elective deferral contributions by him to the Company's 401(k) Plan from his salary and bonus compensation (included in the columns captioned "Salary" and "Bonus"), and (ii) an additional contribution by the Company equal to 25% of the dividends paid on his shares in the ESOP.

The Company's Executive Incentive Compensation Program was established in 1985 for the purposes of (i) helping to attract and retain executives and key managers of high ability, (ii) heightening the motivation of those executives and key managers to attain goals that are in the interests of shareowners and customers, and (iii) encouraging effective management teamwork among the executives and key managers of the Company. Under this program, cash awards may be made each year to officers and key employees based on their achievement of pre-established performance levels with respect to specific shareowner goals, customer goals and individual goals for the preceding year, and upon an assessment of the officers' performance as a group with respect to strategic opportunities during that year. Eligible officers and key employees, performance levels and specific goals are determined each year by directors who are not employees of the Company, and incentive awards are paid following action by the Board of Directors after the close of the year. Incentive awards are made from individual target incentive award amounts, which are prescribed percentages of the individual participants' salaries, ranging from 20% to 35% depending on each participant's payroll salary grade. A participant may, by achieving his or her pre-established performance levels with respect to specific shareowner goals, customer goals and individual goals for a year, become eligible for an incentive award of up to 150% of his or her target incentive award amount for that year.

The Company's Long-Term Incentive Program was established in 1996 for the purposes of (i) promoting the long-term success of the Company by attracting, retaining and providing financial incentives to key employees who are in a position to make significant contributions toward that success, (ii) linking the interests of these key employees to the interests of the shareowners, and (iii) encouraging these key employees to maintain proprietary interests in the Company and achieve extraordinary job performance level Under the program, an initial three-year Performance Period commenced on January 1, 1996, three-year Performance Periods commenced on January 1, 1997 and January 1, 1998, and a series of three-year Performance Periods will commence on January 1, 1999 and on each January 1 thereafter to and including January 1, 2005. The Board of Directors designates the officers of the Company, if any, who will be participants in the program for each Performance Period, the number of Contingent Performance Shares to be awarded each officer-participant for that Performance Period, and a peer group of companies comparable to the Company for that Performance Period. Each Contingent Performance Share is a share unit, equivalent to one share of the Company's Common Stock, credited to an officer-participant's performance share account in the program on a conditional basis at the beginning of a Performance Period. At the end of each Performance Period, the number of Performance Shares earned for the Performance Period is calculated on the basis of the Company's total shareowner return during the Performance Period relative to the peer group of companies preselected by the Board of Directors for that Performance Period. Total shareowner return for the Company, and for each member of the peer group, for a Performance Period is measured by the formula:

$$\frac{\text{Change in Market Price from Beginning to End of Period} + \text{Dividends Declared During the Period}}{\text{Market Price at Beginning of Period}}$$

If the Company's total shareowner return for the Performance Period ranks at the ninetieth percentile among the total shareowner returns of the peer group companies, the number of Performance Shares earned by the officer-participant is equal to the number of Contingent Performance Shares awarded to that officer-participant at the commencement of the Performance Period. If the Company's total shareowner return ranks below the thirtieth percentile among those of the peer group companies, no Performance Shares are earned for the Performance Period. If the Company's total shareowner return ranks between the thirtieth and the ninetieth percentiles, the number of Performance Shares earned is calculated from a scale rising from 15% to 100%. On each dividend payment date with respect to the Company's Common Stock, the earned Performance Shares in an officer-participant's Performance Share account are credited with an additional number of Performance Shares in an amount equal to the dividend payable on the earned Performance Shares in the account divided by the market price of the Company's Common Stock on the dividend payment date. Upon the termination of an officer-participant's employment by the Company, the officer-participant is paid, in cash, an amount equal to the number of earned Performance Shares in his or her Performance Share account multiplied by the market price of the Company's Common Stock on the employment termination date. An officer-participant is also entitled to payment at any time, in cash, of the value of the earned Performance Shares in his or her Performance Share account, provided that the officer-participant is in compliance with the minimum stock ownership requirement for such officer prescribed by the Board of Directors at that time. In 1997, for the 1997-1999 three-year Performance Period, the Board of Directors awarded Messrs.

Grossi, Fiscus, Crowe, Vallillo and Henricksen 11,500, 6,500, 5,000, 5,000 and 3,000 Contingent Performance Shares, respectively, under the Long-Term Incentive Program.

The Company has entered into employment agreements with Messrs. Grossi, Fiscus and Crowe, each of which will continue in effect until terminated by the Company on three years' notice or by the officer on six months' notice. These agreements provide that the annual salary rates of Messrs. Grossi, Fiscus and Crowe will be $318,000, $218,400 and $176,600, respectively, subject to upward revision by the Board of Directors at such times as the salary rates of other officers of the Company are reviewed by the directors, and subject to downward revision by the Board of Directors contemporaneously with any general reduction of the salary rates of other officers of the Company, except in the event of a change in control of the Company. The salaries paid to Messrs. Grossi, Fiscus and Crowe in 1995, 1996 and 1997, shown on the above table, were paid pursuant to these agreements. Each of these agreements also provides that when the officer's employment by the Company terminates after he has served in accordance with its terms, the Company will pay him an annual supplemental retirement benefit in an amount equal to the excess, if any, of (A) over (B), where (A) is 2.2% of his highest three-year average total salary and bonus compensation from the Company times the number of years (not to exceed thirty) of his service deemed as an employee of the Company, and (B) is the annual benefit payable to him under the Company's pension plan. If the Company terminates the officer's employment without cause, he will be paid the actuarial present value of this supplemental retirement benefit and, if the termination occurs in connection with a change in control of the Company, the officer will be entitled to either a severance payment of two years compensation at his then-current salary and bonus rate, or an increase of a total of six years of age and/or service in the calculation of his retirement benefit, at his election. Mr. Grossi has given the Company notice of the termination of his employment agreement at the end of 1998.

The Company has also entered into employment agreements with Messrs. Vallillo and Henricksen, each of which will continue in effect until terminated by the Company at any time or by the officer on six months' notice. These agreements provide that the annual salary rates of Messrs. Vallillo and Henricksen will be $140,000 and $136,900, respectively, subject to upward revision by the Board of Directors at such times as the salary rates for other officers of the Company are reviewed by the Directors, and subject to downward revision by the Board of Directors contemporaneously with any general reduction of the salary rates of other officers of the Company, except in the event of a change in control of the Company. The salaries paid to Messrs. Vallillo and Henricksen in 1996 and 1997, shown on the above table, were paid pursuant to these agreements. Each of these agreements also provides that when the officer's employment by the Company terminates after he has served in accordance with its terms, the Company will pay him an annual supplemental retirement benefit in an amount equal to the excess, if any, of (A) over (B), where (A) is 2.0% of his highest three-year average total salary and bonus compensation from the Company times the number of years (not to exceed 30) of his service as an employee of the Company, and (B) is the annual benefit payable to him under the Company's pension plan. If the Company terminates the officer's employment without cause, he will be paid the actuarial present value of this supplemental retirement benefit and either a severance payment of two years compensation at his then-current salary and bonus rate, or an increase of a total of six years of age and/or service in the calculation of his retirement benefit, at his election.

A trust fund has been established by the Company for the funding of the supplemental retirement benefits accruing under the employment agreements with Messrs. Grossi, Fiscus, Crowe, Vallillo and Henricksen, and to ensure the performance of the Company's other payment obligations under each of these employment agreements in the event of a change in control of the Company.

STOCK OPTION EXERCISES IN 1997 AND YEAR-END OPTION VALUES

The following table shows aggregated Common Stock option exercises during 1997 by the chief executive officer and each of the other four most highly compensated executive officers of the Company, including the aggregate value of gains realized on the dates of exercise. In addition, this table shows the number of shares covered by both exercisable and non-exercisable options as of December 31, 1997. Also reported are the values as of December 31, 1997 for "in-the-money" options, calculated as the positive spread between the exercise price of existing options and the year-end fair market value of the Company's Common Stock. The Company has never awarded stock appreciation rights (SARs) to any employee.

Aggregated Option Exercises in Last Fiscal Year and FY-End Option Values[1]

Name	Shares Acquired on Exercise(#)	Value Realized($)[2]	Number of Securities Underlying Unexercised Options at FY-End(#)[1] Exercisable	Not Exercisable[3]	Value of Unexercised In-the-Money Options at FY-End ($)[4] Exercisable	Not Exercisable[3]
Richard J. Grossi	40,000	$388,229	34,000	7,000	$393,000	$111,562
Robert L. Fiscus	35,000	$355,352	37,000	3,500	$500,250	$ 55,781
James F. Crowe	36,000	$360,000	5,000	2,500	$ 31,875	$ 39,844
Anthony J. Vallillo	1,200	$ 13,050	800	400	$ 5,100	$ 6,375
Albert N. Henricksen	6,000	$ 72,500	1,600	800	$ 10,200	$ 12,750

(1) The Company has never awarded stock or stock appreciation rights (SARs) to any employee.
(2) Fair market value at exercise date less exercise price.
(3) The shares represented could not be acquired by the person named as of December 31, 1997.
(4) Fair market value of shares at December 31, 1997 ($45 15/16) less exercise price.

RETIREMENT PLANS

The following table shows the estimated annual benefits payable as a single life annuity under the Company's qualified defined benefit pension plan on retirement at age 65 to persons in the earnings classifications and with the years of service shown. Retirement benefits under the plan are determined by a fixed formula, based on years of service and the person's average annual earnings from the Company during the three years during which the person's earnings from the Company were the highest, applied uniformly to all persons.

Average Annual Earnings During the Highest 3 Years of Service[1][2]	Estimated Annual Benefits Payable at Age 65[3] 20 Years[4]	25 Years[4]	30 Years[4]	35 Years[4]	40 Years[4]
$100,000	$ 37,117	$ 46,397	$ 46,997	$ 47,597	$ 48,197
$150,000	$ 57,117	$ 71,397	$ 71,997	$ 72,597	$ 73,197
$200,000	$ 74,929	$ 94,112	$114,432	$115,032	$115,632
$250,000	$ 87,831[2]	$110,598[2]	$114,432[2]	$115,032[2]	$115,632[2]
$300,000	$ 87,831[2]	$110,598[2]	$114,432[2]	$115,032[2]	$115,632[2]
$350,000	$ 87,831[2]	$110,598[2]	$114,432[2]	$115,032[2]	$115,632[2]
$400,000	$ 87,831[2]	$110,598[2]	$114,431[2]	$115,032[2]	$115,632[2]
$450,000	$ 87,831[2]	$110,598[2]	$114,431[2]	$115,032[2]	$115,632[2]

(1) Earnings include annual salary and cash bonus awards paid pursuant to the Company's Executive Incentive Compensation Program. See "Executive Compensation" above.
(2) Internal Revenue Code Section 401(a)(17) limits earnings used to calculate qualified plan benefits to $160,000 for 1998. This limit was used in the preparation of this table. (In addition, qualified plan benefits cannot exceed an Internal Revenue Code Section 415(b) limit of $125,000 for 1998). The Board of Directors has adopted a supplemental executive retirement plan that permits the Directors to award supplemental retirement benefits to Messrs. Grossi, Fiscus, Crowe, Vallillo and Henricksen and to other officers individually selected by the Directors in amounts sufficient to prevent these Internal Revenue Code limitations from adversely affecting their retirement benefits determined by the pension plan's fixed formula.
(3) The amounts shown in the table are not subject to any deduction for Social Security or other offset amounts.
(4) As of their last employment anniversary dates, Messrs. Grossi, Fiscus, Crowe, Vallillo and Henricksen had accrued 40, 25, 33, 29, and 34 years of service, respectively.

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BOARD OF DIRECTORS
COMPENSATION AND EXECUTIVE DEVELOPMENT COMMITTEE
REPORT ON EXECUTIVE COMPENSATION

All of the members of the Compensation and Executive Development Committee of the Board of Directors (the Committee) are non-employee Directors.

The Committee formulates all of the objectives and policies relative to the compensation of the officers of the Company, subject to approval by the entire Board of Directors; and the Committee recommends to the Board of Directors all of the elements of the officers' compensation arrangements, including the design and adoption of compensation programs, the identity of program participants, salary grades and structure, annual payments of salaries and any awards under the annual incentive compensation program and the long-term incentive program.

The Company's basic executive compensation program consists of three components: annual salaries, bonuses under an annual incentive compensation program, and long-term incentive program awards. The overall objective of this program is to attract and retain qualified executives and to produce strong financial performance for the benefit of the Company's shareowners while providing a high level of customer service and value for its customers. Accordingly, all of the Committee's decisions, in 1997 and in prior years, have ultimately been based on the Committee's assessment of the Company's overall performance relative to other electric utilities of comparable size, the compensation practices and programs of other companies that are most likely to compete with the Company for services of executive officers, the Company's strategic objectives, and the challenges it faces.

The Committee formulates annual salary ranges for officers by periodic comparisons to rates of pay for comparable positions in other electric utilities as reported in the Edison Electric Institute's Executive Compensation Survey (the EEI Survey). Within the applicable range, each individual officer's annual salary is then set at a level that will compensate the officer for day-to-day performance, in the light of the officer's level of responsibility, past performance, prior year's salary and bonus, and potential future contributions to the Company's strategic objectives.

As described in detail above at "Executive Compensation", the Company's annual bonus program and its long-term incentive program have somewhat different purposes. Under the annual Executive Incentive Compensation Program, cash awards may be made each year to officers based on their achievement of performance levels formulated by the Committee with respect to (1) specific shareowner goals, (2) specific customer goals, (3) specific team/individual goals, and (4) a qualitative assessment of the officers' performance as a group with respect to strategic opportunities of the Company during that year. The Company's Long-Term Incentive Program rewards officers for achieving a return to shareowners over three-year periods of time. The Long-Term Incentive Program links long-term incentive awards to total return to shareowners compared to a peer group of electric utilities. Although this program is designed to provide strong incentives for superior future performance, it also encourages officers to continue serving the Company, because the earning of each incentive award is conditioned upon the officer's continued service for the award's three-year performance period.

For 1997, the annual bonus opportunities of the Company's officers were targeted by the Committee such that the combination of each officer's 1997 salary and annual Executive Incentive Compensation Program award, assuming that pre-established performance goals were met, would approximate, on average, the 50th percentile of compensation for comparable positions as reported in the 1996 EEI Survey. Goals were established to focus the officers' attention on a "balanced scorecard," covering financial, operational, customer and human resource measures. A prerequisite threshold level of recurring income for Common Stock was specified in order for any bonus to be earned. For 1997, the pre-established performance goals, accounting for 50% of each officer's bonus award, included measures of: recurring income for Common Stock, recurring cash available to pay down debt, gigawatt-hour sales, utility costs, customer satisfaction, reliability, safety, innovation and training. For each of the business unit leaders, the President and the Chief Executive Officer, 30% of the bonus award for 1997 was based on the achievement of business unit "balanced scorecard" goals. The remaining 20% of each officer's bonus award for 1997 was based on the Committee's qualitative assessment of the performance of the Company's officers as a group with respect to 1997 strategic opportunities. For 1997, this assessment focused on the officers' achievements in the

development and implementation of a comprehensive plan to prepare for the eventuality of either retail customer choice or some other form of competition that is more intense than the current framework. The comprehensive plan was to include items such as: addressing the issues of (i) price, (ii) past investment costs and (iii) ratio of Common Stock equity to total capitalization; and meeting the objectives of the Company's becoming competitive in both the customer and financial markets.

Some of the officers' achievements with respect to 1997 pre-established performance goals were especially strong, including 150% of the recurring cash available to pay down debt goal, 150% of the gigawatt-hour sales goal, and 150% of the customer satisfaction and reliability goals. The recurring income for Common Stock goal was achieved at just over the threshold level, and the utility costs goal did not achieve the threshold level. For the remaining goals, innovation, safety and training, achievements were 66%, 142% and 145%, respectively. Business unit leader, President and Chief Executive Officer achievements of business unit goals ranged between 100% and 145% of the several goals.

Overall, the Committee's bonus awards for 1997 under the Executive Incentive Compensation Program ranged between 108% and 126% of the pre-established targeted awards, depending on the individual officer's achievements, reflecting a strong performance by the Company's officers.

Under the Company's Long-Term Incentive Program, a total of 37,100 Contingent Performance Shares were awarded in 1997 to 10 officers of the Company for the three-year Performance Period 1997-1999.

It is not expected that any compensation paid to an executive officer during 1998 will become non-deductible under Internal Revenue Code Section 162(m) (the "million dollar pay cap").

CHIEF EXECUTIVE OFFICER COMPENSATION FOR 1997

In March of 1997, the Committee recommended, and the Board of Directors approved, a 1997 annual salary of $324,400 for Mr. Grossi, as Chairman of the Board of Directors and Chief Executive Officer of the Company. This annual salary was below the median salary for this officership position at other electric utilities of comparable size, as reported in the 1996 EEI Survey; but it was consistent with the Committee's judgment that a greater proportion of the targeted combination of base salary and targeted annual performance bonus should be shifted to the performance bonus component of his compensation. Mr. Grossi's annual bonus performance target for 1997 under the Executive Incentive Compensation Program was set at $113,540, consisting of a prerequisite threshold level recurring income for Common Stock goal and pre-established goals with respect to recurring cash available to pay down debt, gigawatt-hour sales, utility costs, customer satisfaction, reliability, innovation, safety, training, business unit, and strategic opportunities, as detailed above. At the conclusion of 1997, the Committee recommended, and the Board of Directors approved, a 1997 bonus award of $125,000 to Mr. Grossi, representing 110% of his targeted annual performance bonus. As described above, achievements with respect to recurring cash available to pay down debt and gigawatt-hour sales for 1997 were at 150% of target goals, and recurring income for Common Stock and utility costs goal achievements were slightly above threshold and below threshold, respectively. The Committee's qualitative assessment of the performance of the officers as a group with respect to strategic opportunities during 1997 was positive and, in the judgment of the Committee, reflected favorably on Mr. Grossi's leadership.

COMPENSATION AND EXECUTIVE DEVELOPMENT COMMITTEE

Marc C. Breslawsky, Chair
Thelma R. Albright
John F. Croweak
Betsy Henley-Cohn
James A. Thomas

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COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

No director of the Company who served as a member of the Compensation and Executive Development Committee during 1997 was, during 1997 or at any time prior thereto, an officer or employee of the Company. During 1997, no director of the Company was an executive officer of any other entity on whose Board of Directors an executive officer of the Company served, except that John F. Croweak, a director of the Company and a member of the Compensation and Executive Development Committee of the Company's Board of Directors, served as Chairman of the Board of Directors and Chief Executive Officer of Blue Cross & Blue Shield of Connecticut, Inc. and its successor, Anthem Blue Cross & Blue Shield of Connecticut, Inc., and Richard J. Grossi, Chairman of the Board of Directors and Chief Executive Officer of the Company, served as a director of Blue Cross & Blue Shield of Connecticut, Inc. and its successor, Anthem Blue Cross & Blue Shield of Connecticut, Inc.

DIRECTOR COMPENSATION

Directors who are employees of the Company receive no compensation for their service as directors of the Company.

The remuneration of non-employee directors of the Company includes a retainer fee of $4,000 per quarter year (the retainer fee for the first quarter of the calendar year is payable in shares of Common Stock or by credit to a stock account under the Non-Employee Directors' Common Stock and Deferred Compensation Plan described below), plus a fee of $1,000 for each meeting of the Board of Directors or committee of the Board of Directors attended. Committee chairpersons receive an additional fee of $500 per quarter year. Non-employee directors are also provided travel/accident insurance coverage in the amount of $200,000.

The Company's Non-Employee Directors' Common Stock and Deferred Compensation Plan (the "Plan") has two features: a mandatory Common Stock feature; and an optional Deferred Compensation feature. Each non-employee director has two accounts in the Plan: a stock account, for the accumulation of units that are equivalent to shares of Common Stock ("Stock Units"), and on which amounts equal to cash dividends on the shares of Common Stock represented by Stock Units in the account accrue as additional Stock Units; and a cash account for the accumulation of director's fees payable in cash that the director elects to defer, on which interest accrues at the prime rate in effect at the beginning of each month at Citibank, N.A.

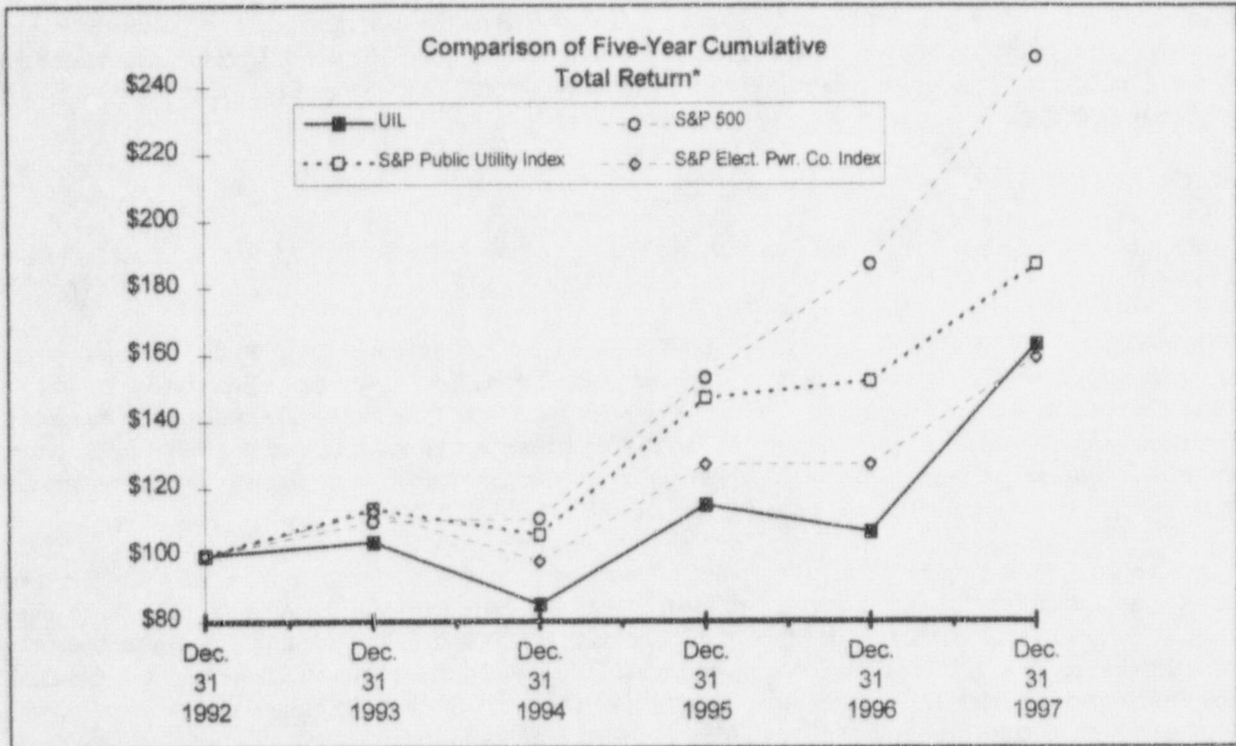
Under the Common Stock feature of the Plan, a credit of Stock Units to each non-employee director's stock account in the Plan is made on or about the first day of March in each year, unless the director elects to receive shares of Common Stock in lieu of having an equivalent number of Stock Units so credited to his or her stock account. Each annual credit consists of a number of whole and fractional Stock Units equal to the sum of 200 plus the quotient resulting from dividing one-fourth of the annual retainer fee by the market value of the Common Stock on the date of the credit.

Under the Deferred Compensation feature of the Plan, a non-employee director may elect to defer receipt of all or part of (i) three-quarters of his or her annual retainer fee, (ii) his or her committee chairperson fees, and/or (iii) his or her meeting fees, which are payable in cash. All amounts deferred are credited when payable, at the director's election, to either the director's cash account or to the director's stock account (in a number of whole and fractional Stock Units based on the market value of the Common Stock on the date the fee is payable) in the Plan.

All amounts credited to a non-employee director's cash account or stock account in the Plan are at all times fully vested and nonforfeitable, and are payable only upon termination of the director's service on the Board of Directors. At that time, the cash account is payable in cash and the stock account is payable in an equivalent number of shares of Common Stock of the Company.

SHAREOWNER RETURN PRESENTATION

Set forth below is a line graph comparing the yearly change in the Company's cumulative total shareowner return on its Common Stock with the cumulative total return on the S&P Composite-500 Stock Index, the S&P Public Utility Index and the S&P Electric Power Companies Index for the period of five fiscal years commencing 1993 and ending 1997.



	1992	1993	1994	1995	1996	1997
UIL	$100	$104	$ 85	$115	$107	$163
S&P 500	100	110	111	153	187	249
S&P Pub. Uty.	100	114	106	147	152	187
S&P El. Co.	100	113	98	127	127	159

* Assumes that the value of the investment in the Company's Common Stock and each index was $100 on December 31, 1992 and that all dividends were reinvested. For purposes of this graph, the yearly change in cumulative shareowner return is measured by dividing (i) the sum of (A) the cumulative amount of dividends for the year, assuming dividend reinvestment, and (B) the difference in the fair market value at the end and the beginning of the year, by (ii) the fair market value at the beginning of the year. The changes displayed are not necessarily indicative of future returns measured by this or any method.

EMPLOYMENT OF INDEPENDENT PUBLIC ACCOUNTANTS:

The Board of Directors of the Company, at a meeting held on December 8, 1997, and in accordance with the recommendation of its Audit Committee, voted to employ the firm of Price Waterhouse LLP to make an audit of the books and affairs of the Company for the fiscal year 1998. One or more representatives of Price Waterhouse LLP will attend the annual meeting, will be afforded the opportunity to make a statement if they desire to do so, and will be available to answer questions that may be asked by shareowners.

If the shareowners do not, by the affirmative vote of a majority of the shares of Common Stock represented at the meeting, approve the employment of Price Waterhouse LLP as independent public accountants, their employment will be reconsidered by the Board of Directors.

PROPOSAL TO AMEND THE CERTIFICATE OF INCORPORATION RELATIVE TO THE NUMBER OF DIRECTORS:

The Company is a "specially chartered" Connecticut corporation, which means that it has been incorporated by the Connecticut legislature instead of being incorporated under the State's general business corporation statutes. One of the consequences of this special status is that the Company's Certificate of Incorporation – its charter document on file with the Secretary of the State of Connecticut – includes a provision governing the number and qualifications of its directors that appears in a 1939 Special Act of the Connecticut legislature: "The government and direction of the affairs of said corporation shall be vested in a board of not less than three nor more than twelve directors, who shall be stockholders." The Company's Bylaws – its internal governance document – state that the number of directors within this 3 – 12 range is to be fixed by vote of the shareowners.

The statutory limitation of twelve on the number of directors has been problematic when, with twelve directors in office, the Board of Directors has had reason to add a new member. The current situation with respect to Nathaniel D. Woodson's joining the Company as a senior executive officer exemplifies this problem. With a full complement of twelve directors in office and standing for reelection, it has not been possible to elect Mr. Woodson to the Board of Directors, although the authority and responsibilities he has assumed as President of the Company clearly call for his being a director.

A comprehensive revision of Connecticut's general business corporation statutes, which became effective January 1, 1997, affords the Company a means of resolving this problem. These statutes are generally applicable to the Company (in addition to the Special Acts that apply only to the Company). Under these statutes, the Company's shareowners can amend the Company's Certificate of Incorporation to remove from it the problematic provisions of the Special Act of 1939 (and its predecessor, a Special Act of 1899) and substitute for them a provision specifying an expanded range in the number of directors and permitting the Bylaws to control the number of directors within the specified range. Since the Company's Bylaws can be amended by the Board of Directors from time-to-time, the substitute provision can be used by the Board of Directors to remedy a "full Board" problem by amending the Bylaws to specify an increased number of directors (within the limit set by the shareowners in the substitute provision), thereby creating a vacant seat on the Board of Directors, to which an additional individual can be elected by the other directors or by the shareowners. The Board of Directors has recommended that the shareowners approve an amendment to the Company's Certificate of Incorporation implementing these changes, by approving the following resolution that will be submitted to the meeting:

> RESOLVED: That the Certificate of Incorporation of the Company be and it hereby is amended by deleting therefrom Section seven of the Resolution of the Senate and House of Representatives of the General Assembly of the State of Connecticut, approved June 15, 1899, entitled "INCORPORATING THE NEW HAVEN ILLUMINATING COMPANY", and Section three of the Resolution of the Senate and House of Representatives of the General Assembly of the State of Connecticut, approved May 26, 1939, entitled "AN ACT AMENDING THE CHARTER OF THE UNITED ILLUMINATING COMPANY", and by adding a new Section 5 to said Certificate of Incorporation, reading as follows:
>
> Section 5. All corporate powers of the Company shall be exercised by or under the authority of, and the business and affairs of the Company shall be managed under the direction of, a Board of Directors consisting of not less than three nor more than fifteen individuals, with the number fixed in, and increased or decreased from time-to-time by amendment of, the Bylaws of the Company, each of which individuals shall be a shareowner of the Company.

If the shareowners adopt this resolution, an appropriate Certificate of Amendment will be filed with the Secretary of the State of Connecticut amending the Company's Certificate of Incorporation. The Board of Directors will then amend the Bylaws of the Company to increase the number of members of the Board of Directors from twelve to thirteen and elect Mr. Woodson to fill the vacant seat on the Board of Directors and to serve (as do all of the directors of the Company) until the 1999 Annual Meeting of the Shareowners.

The adoption of this resolution will be approved if the number of votes cast in favor of the proposal to amend the Certificate of Incorporation exceeds the number of votes cast against the proposal. Proxies marked to abstain from voting with respect to this action will not have the legal effect of voting against the proposal.

The Board of Directors recommends a vote FOR the proposed amendment to the Company's Certificate of Incorporation.

DATE FOR SUBMISSION OF PROPOSALS BY SECURITY HOLDERS:

Shareowners who intend to present proposals for action at the 1999 Annual Meeting of the Shareowners of the Company are advised that such proposals must be received at the principal executive offices of the Company by November 30, 1998 in order to be included in the Company's proxy statement and form of proxy for that meeting.

The Company has filed with the Securities and Exchange Commission, pursuant to Rule 13a-1 of the Commission under Section 13 of the Securities Exchange Act of 1934, an Annual Report (Form 10-K) for the fiscal year ended December 31, 1997. The Company will provide a copy of said Form 10-K, including the financial statements and the schedule thereto, without charge, to each person from whom the Board of Directors has solicited a proxy for use at the Annual Meeting of the Shareowners of the Company as set forth in the foregoing Proxy Statement, on the written request of such person directed to Kurt Mohlman, Treasurer and Secretary, The United Illuminating Company, 157 Church Street, P.O. Box 1564, New Haven, Connecticut 06506. Copies of said Form 10-K furnished without charge will not include all of the exhibits thereto. The Company will furnish a copy of any such exhibit upon the payment of a fee to defray the Company's expense (10 cents per page, plus postage) of furnishing it.

By Order of the Board of Directors

March 27, 1998

KURT MOHLMAN, *Treasurer and Secretary*

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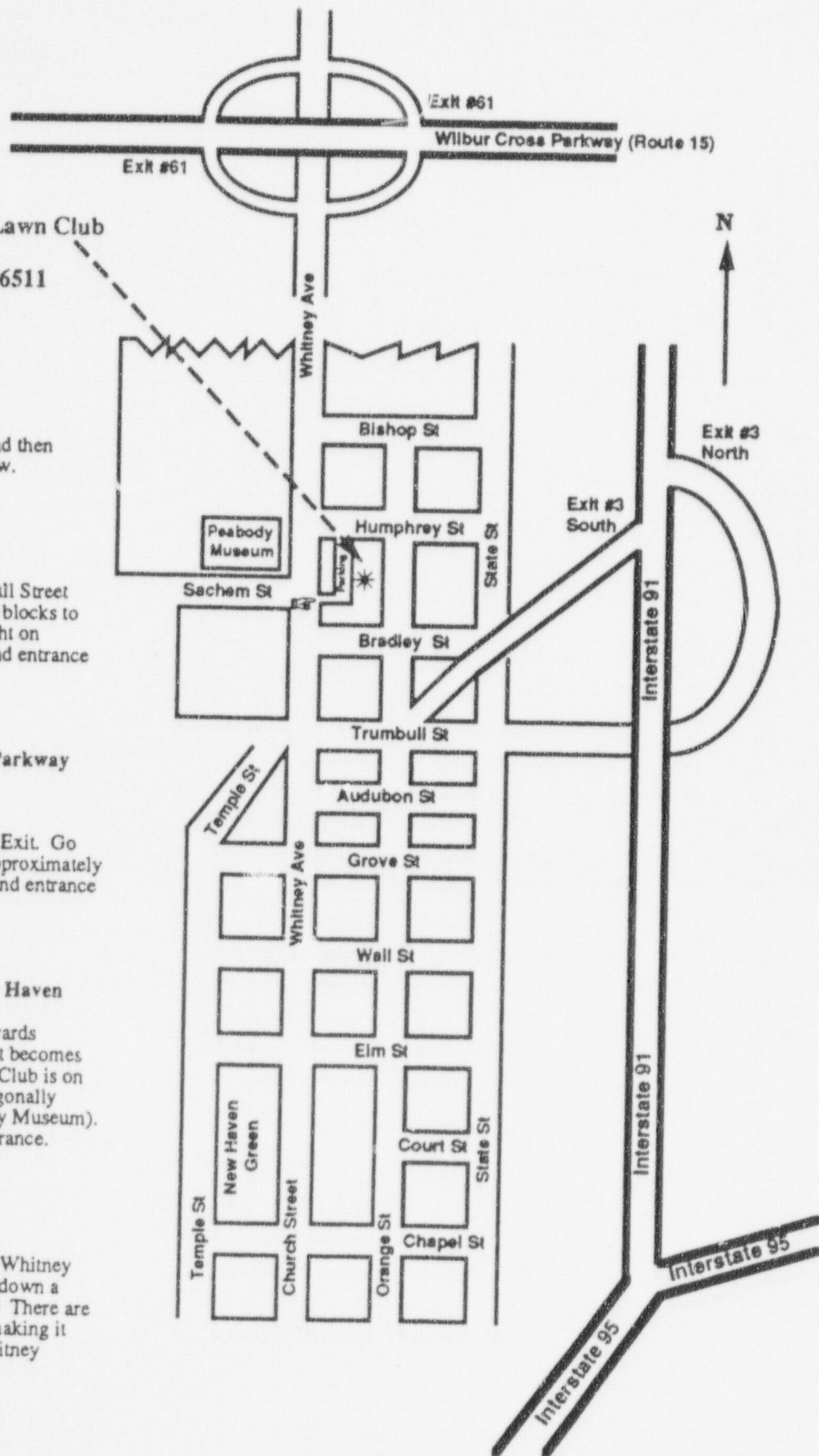
Directions to The New Haven Lawn Club

193 Whitney Ave
New Haven, CT 06511
(203)777-3494



From I-95

Follow signs to I-91 and then follow directions below.

From I-91

Take Exit #3 (Trumbull Street Exit). Go straight two blocks to Whitney Avenue. Right on Whitney. Club sign and entrance on right.

From Wilbur Cross Parkway (Route 15)

Exit 61
Take Whitney Avenue Exit. Go towards New Haven approximately five miles. Club sign and entrance on left.

From Downtown New Haven

Take Church Street towards Hamden. Church Street becomes Whitney Avenue. The Club is on the right hand side (diagonally across from the Peabody Museum). Small sign at Club's entrance.

Please note:
The Club is set back on Whitney Avenue. (You must go down a long driveway to see it.) There are buildings in front of it making it difficult to see from Whitney Avenue.

The United Illuminating Company
157 Church Street
P.O. Box 1564
New Haven, CT 06506-0901
203 499 2591
www.uinet.com

Investor Information

Transfer, Registrar and Dividend Disbursing Agent
The Bank of New York
Telephone Inquiries:
1-888-269-8845
E-Mail Address:
Shareowner-svcs@bankofny.com
Website Address:
http://stock.bankofny.com

Address Shareowners Inquiries To:
The Bank of New York
Shareholder Relations Department-11E
P.O. Box 11258
Church Street Station
New York, NY 10286

Send Certificates For Transfer and Address Changes To:
The Bank of New York
Receive and Deliver Department - 11W
P.O. Box 11002
Church Street Station
New York, NY 10286

Annual Meeting Date
The Company's Annual Meeting will be held at:
The New Haven Lawn Club
193 Whitney Avenue
New Haven, CT on
Wednesday, May 20, 1998,
beginning at 10:00 a.m.

Dividend Reinvestment Plan
Common Stock shareowners of record interested in obtaining information regarding the benefits of participating in UI's dividend reinvestment plan may write to:
The Bank of New York
Shareholder Relations Dept - 11E
P.O. Box 11258
Church Street Station
New York, NY 10286

Investor Relations Hotline:
For information on UI's earnings, press releases, media articles and dividend information, including ex-dividend dates and dividend payment dates, call:
From within the New Haven Area:
(203) 499-3333 or
From outside the New Haven Area:
1-800-7-CALL UI
(1-800-722-5584)

Analysts:
Equity Contact: Kurt Mohlman at
(203) 499-2591 or mohlmak@uinet.com
Debt Contact: Susan Allen at
(203) 499-2409 or allens@uinet.com
The United Illuminating Company
P. O. Box 1564
New Haven CT 06506-0901
Fax: (203) 499-2594 or (203) 499-2414
Internet Address:
bbct65a@prodigy.com

General Counsel
Wiggin & Dana

Stock Listing
New York Stock Exchange;
Common Stock

Massachusetts Municipal Wholesale Electric Company

Financial Statements with Supplementary Information

December 31, 1997, 1996 and 1995

With Independent Auditors' Report Thereon

Massachusetts Municipal Wholesale Electric Company

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INDEPENDENT AUDITORS' REPORT

The Board of Directors

Massachusetts Municipal Wholesale Electric Company

We have audited the accompanying statements of financial position of Massachusetts Municipal Wholesale Electric Company (a Massachusetts public corporation) as of December 31, 1997, 1996 and 1995 and the related statements of operations and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Massachusetts Municipal Wholesale Electric Company as of December 31, 1997, 1996 and 1995, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

March 11,1998

Massachusetts Municipal Wholesale Electric Company

Statements of Financial Position

December 31, 1997, 1996 and 1995
(In Thousands)

ASSETS	1997	1996	1995
Electric Plant			
In Service (Note 4)	$ 1,239,161	$ 1,237,306	$ 1,234,808
Accumulated Depreciation	(414,028)	(371,762)	(327,459)
	825,133	865,544	907,349
Nuclear Fuel - Net of Amortization	11,452	13,500	13,814
Total Electric Plant	836,585	879,044	921,163
Special Funds (Notes 2 and 7)	226,141	223,702	202,096
Current Assets			
Cash and Temporary Investments (Note 7)	1,307	1,390	1,259
Accounts Receivable	9,234	6,213	8,044
Unbilled Revenues	5,593	6,620	5,561
Inventories	14,463	13,873	13,815
Prepaid Expenses	7,023	12,393	6,018
Total Current Assets	37,620	40,489	34,697
Total Special Funds and Current Assets	263,761	264,191	236,793
Deferred Charges			
Amounts Recoverable Under Terms of the Power Sales Agreements (Note 2)	208,314	212,853	213,572
Unamortized Debt Discount and Expenses	27,147	29,865	32,739
Nuclear Decommissioning Trusts	12,072	9,676	7,763
Other	3,340	4,473	6,167
	250 873	256,867	260,241
	$ 1,351,219	$ 1,400,102	$ 1,418,197
LIABILITIES			
Long-Term Debt			
Bonds Payable (Note 3)	$ 1,222,735	$ 1,264,050	$ 1,303,465
Current Liabilities			
Current Maturities of Long-Term Debt (Note 3)	41,315	39,415	37,750
Accounts Payable	12,241	16,068	8,622
Accrued Expenses	14,712	14,623	10,596
Member and Participant Advances and Reserves	47,302	55,338	49,001
	115,570	125,444	105,969
Deferred Credits	12,914	10,608	8,763
Commitments and Contingencies (Note 6)			
	$ 1,351,219	$ 1,400,102	$ 1,418,197

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

Massachusetts Municipal Wholesale Electric Company

Statements of Operations

Years Ended December 31, 1997, 1996 and 1995
(In Thousands)

	1997	1996	1995
Revenues (Note 2)	$ 242,502	$ 211,217	$ 212,173
Interest Income	14,553	14,494	13,780
Total Revenues and Interest Income	$ 257,055	$ 225,711	$ 225,953
Operating and Service Expenses:			
Fuel Used in Electric Generation	$ 27,824	$ 16,997	$ 24,129
Purchased Power	45,421	45,389	40,398
Other Operating	36,796	30,660	28,741
Maintenance	19,206	11,645	9,561
Depreciation	44,699	44,607	44,492
Taxes Other Than Income	6,298	6,443	6,348
	180,244	155,741	153,669
Interest Expense:			
Interest Charges	72,854	74,470	76,732
Interest Charged to Projects During Construction (Note 2)	(45)	(62)	(104)
	72,809	74,408	76,628
Total Operating Costs and Interest Expense	253,053	230,149	230,297
Gain on Cancelled Units - Net (Note 4)	-	(6,737)	(156)
Decrease (Increase) in Amounts Recoverable Under the Power Sales Agreements (Note 2)	4,002	2,299	(4,188)
	$ 257,055	$ 225,711	$ 225,953

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

Massachusetts Municipal Wholesale [illegible]ctric Company

Statements of Cash Flows

Years Ended December 31, 1997, 1996 and 1995

(In Thousands)

	1997	1996	1995
Cash flows from operating activities:			
Total Revenues and Interest Income	$ 257,055	$ 225,711	$ 225,953
Total Costs and Expenses, net	(253,053)	(223,412)	(230,141)
Adjustments to arrive at net cash provided by operating activities:			
Depreciation and Decommissioning	46,405	45,977	45,677
Amortization	6,693	7,956	10,633
Change in current assets and liabilities:			
Accounts Receivable	(3,021)	1,831	(3,017)
Unbilled Revenues	1,027	(1,059)	(457)
Inventories	(590)	(58)	1,782
Prepaid Expenses	5,370	(6,375)	1,395
Accounts Payable	(3,827)	7,446	97
Accrued Expenses and Other	687	5,855	(2,246)
Member and Participant Advances and Reserves	(8,036)	6,337	12,522
Net cash provided by operating activities	48,710	70,209	62,198
Cash flows from investing activities:			
Construction Expenditures and Purchases of Nuclear Fuel	(6,363)	(7,673)	(9,693)
Interest Charged to Projects During Construction	(45)	(62)	(104)
Net Increase in Special Funds	(2,439)	(21,606)	(19,266)
Change in net Unrealized Gain (Loss) on Special Funds	537	(1,579)	4,833
Decommissioning Trust Payments, net	(2,396)	(1,913)	(1,654)
Other	1,328	505	384
Net cash used for investing activities	(9,378)	(32,328)	(25,500)
Cash flows from financing activities:			
Payment for Bond Issue Costs	-	-	(8)
Payments for Principal of Long-Term Debt	(39,415)	(37,750)	(36,420)
Net cash used for financing activities	(39,415)	(37,750)	(36,428)
Net increase (decrease) in cash and temporary investments	(83)	131	270
Cash and Temporary Investments at Beginning of Year	1,390	1,259	989
Cash and Temporary Investments at End of Year	$ 1,307	$ 1,390	$ 1,259
Cash paid during the year for interest (Net of amount capitalized as shown above)	$ 69,854	$ 71,313	$ 73,317

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

Notes to Financial Statements

Years Ended December 31, 1997, 1996 and 1995

(1) Nature of Operations

The Massachusetts Municipal Wholesale Electric Company (MMWEC) is a public corporation and a political subdivision of the Commonwealth of Massachusetts formed to be a joint action agency and to develop a bulk power supply for its member Massachusetts municipal electric systems and other utilities. MMWEC is authorized to construct, own, or purchase ownership interests in, and to issue revenue bonds to finance, electric facilities (Projects) secured by revenues derived from Power Sales Agreements (PSAs) with its members and other utilities. The power supply program consists of power purchase arrangements, power brokering services, planning and financial services, and the Projects relating to generating facilities built and operated by MMWEC and other regional utilities.

A Massachusetts city or town having a municipal electric system, authorized by majority vote of the city or town, may become a member of MMWEC by applying for admission and agreeing to comply with the terms and conditions of membership as the MMWEC By-Laws may require. As of December 31, 1997, twenty-seven Massachusetts municipal electric systems were members. During 1997, five member municipal electric systems notified MMWEC of their intent to terminate their membership in 1998. Termination of membership does not relieve a system of its PSA obligations.

(2) Significant Accounting Policies

MMWEC presents its financial statements in accordance with generally accepted accounting principles as promulgated by the Financial Accounting Standards Board which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Interest Charged to Projects During Construction

MMWEC capitalizes interest as an element of the cost of electric plant and nuclear fuel in process. A corresponding amount is reflected as a reduction of interest expense. The amount of interest capitalized is based on the cost of debt, including amortization of debt discount and expenses, related to each Project, net of investment gains and losses and interest income derived from unexpended Project funds.

Nuclear Fuel

Nuclear fuel, net of amortization, includes MMWEC's ownership interest of fuel in use, in stock and in process for Millstone Unit 3 and Seabrook Station. The cost of nuclear fuel is amortized to Fuel Used in Electric Generation based on the relationship of energy produced in the current period to total expected energy production for fuel in the reactor. A provision for fuel disposal costs is included in Fuel Used in Electric Generation based upon disposal contracts with the Department of Energy (DOE).

In addition, Fuel Used in Electric Generation includes the annual assessment, under the Energy Policy Act of 1992, for the cost of decontamination and decommissioning of uranium enrichment plants operated by the DOE. Billings from the DOE will occur over the next 10 years. At December 31, 1997, MMWEC's share of Millstone Unit 3 and Seabrook Station unbilled assessments was $400,000 and $607,000, respectively. The amounts are included in Other Deferred Charges and Deferred Credits on the Statements of Financial Position.

(2) **Significant Accounting Policies** (continued)

Special Funds

The composition of Special Funds is as follows:

Fund	1997	1996 (In Thousands)	1995
Bond Fund Interest, Principal and Retirement Account to pay principal and interest on bonds	$ 37,507	$ 30,636	$ 21,939
Bond Fund Reserve Account set at the maximum annual interest obligation to make up any deficiencies in the Bond Fund Interest, Principal and Retirement Account	79,942	79,740	81,331
Reserve and Contingency Fund to make up deficiencies in the Bond Fund and pay for renewals and extraordinary costs	21,559	19,748	17,787
Revenue Fund to receive revenues and disburse them to other funds	67,669	73,616	60,605
Working Capital Funds to maintain funds to cover operating expenses	19,464	19,962	20,434
Total Special Funds	$ 226,141	$ 223,702	$ 202,096

The Special Funds, other than certain Working Capital Funds, are restricted as to their use by the General Bond Resolution (GBR), which also prescribes investment thereof. Investments are limited to direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by the United States, certificates or receipts representing direct ownership of future interest or principal payments on direct obligations of, or obligations where the principal of, and interest are guaranteed by the United States, certain federal government agency securities, new housing authority bonds issued by public agencies or municipalities, tax-exempt obligations rated in the three highest rating categories or shares of investment companies which solely invest in such obligations, time deposits and certificates of deposits issued by banks insured by the Federal Deposit Insurance Corporation (FDIC) which deposits are either fully insured by the FDIC, collateralized by government securities or are issued by a party whose long-term unsecured debt is rated in one of the three highest long-term rating categories, and repurchase agreements provided that a specific written repurchase agreement governs the transaction and the security underlying the repurchase agreement is held by an independent third party. Also included are bonds or other obligations of any state of the United States or any agency or local government unit of a state which have been advance refunded and are not callable, domestic dollar denominated money market mutual funds rated in the two highest rating categories, participation units in the combined investments fund

(2) **Significant Accounting Policies** (continued)
Special Funds (continued)

created under Massachusetts laws for the purposes of investment by local governments, and shares of investment companies which are authorized to invest in assets or securities comprised of government securities, agency securities, new housing bonds, tax-exempt bonds, and repurchase agreements noted above. Certain Special Funds held in trust under Power Purchase Agreements, working capital arrangements and agency contracts not governed by the GBR are more restricted as to which of the aforementioned investments can be purchased.

Cash and Temporary Investments

Certain cash and temporary investment amounts used for power purchases and working capital requirements of MMWEC are not governed by the GBR. In addition to the investment securities delineated in the GBR, MMWEC invests in repurchase agreements with banks where MMWEC has established accounts.

Revenues and Unbilled Revenues

Revenues include electric sales for resale provided under MMWEC's power supply program which consists of billings under the PSAs, Power Purchase Agreements and related power brokering arrangements. MMWEC provides its members with power supply planning and related services which are billed as Service Revenues. Amounts which are not yet billed are included in Unbilled Revenues on the Statements of Financial Position. These and additional details of revenues are as follows:

Revenues	1997	1996 (In Thousands)	1995
Electric sales for resale	$ 237,795	$ 207,414	$ 208,091
Service	1,653	1,803	2,082
PSNH Settlement	2,000	2,000	2,000
Gain on land taken by eminent domain	1,054	-	-
Total Revenues	$ 242,502	$ 211,217	$ 212,173

Inventories

Fuel oil and spare parts inventory are recorded and accounted for by the average cost method. At December 31, 1997, 1996 and 1995, fuel oil inventory was valued at $4.6, $4.4 and $2.9 million, and spare parts inventory amounted to $9.8, $9.5 and $10.9 million, respectively.

Amounts Recoverable Under Terms of the Power Sales Agreements

Billings to Project Participants are designed to recover costs in accordance with the PSAs. The billings are structured on a Project-by-Project basis to provide for debt service, operating funds and reserve requirements. Expenses are reflected in the Statements of Operations in accordance with generally accepted accounting principles. The timing difference between amounts billed versus expensed is charged or credited to Amounts Recoverable Under Terms of the PSAs. Amounts will be

(2) Significant Accounting Policies (continued)
Amounts Recoverable Under Terms of the Power Sales Agreements (continued)

recovered through future billings or an expense will be recognized to offset credit balances. The principal differences include depreciation, fuel amortization, costs associated with canceled Projects, cost of refunding, billing for certain interest, reserves, net unrealized gain or loss on securities available for sale and other costs. Individual Projects have a cumulative deferral of costs which total $212.9, $217.0 and $217.6 million and Projects have cumulative billings in excess of costs which total $4.6, $4.2 and $4.0 million at December 31, 1997, 1996 and 1995, respectively. These amounts have been netted in the Statements of Financial Position.

The December 31, 1997, 1996 and 1995 balances of $208.3, $212.9 and $213.6 million, respectively, reflects the Statements of Operations net decrease (increase) of $4.0, $2.3 and ($4.2) million for the years then ended and the change in net unrealized gain (loss) on securities available for sale of $.6, ($1.6) and $4.8 million for 1997, 1996 and 1995, respectively.

Nuclear Decommissioning Trusts

MMWEC maintains external trust funds, as promulgated by Nuclear Regulatory Commission and state regulations, to provide for the decommissioning activities of Millstone Unit 3 and Seabrook Station. The December 31, 1997 Millstone Unit 3 and Seabrook Station balances of $6.0 and $6.1 million, respectively, are stated at cost and are included as part of the Deferred Charges and Deferred Credits on the Statements of Financial Position. MMWEC's share of the estimated reserve requirement for the prompt dismantling and removal of the Millstone Unit 3 and Seabrook Station, at the expiration of their original operating licenses in 2025 and 2026, is $26 and $55 million, respectively.

Depreciation

Electric plant in service is depreciated using the straight-line method. The aggregate annual provisions for depreciation for 1997, 1996 and 1995 averaged 4% of the original cost of depreciable property.

Interest Rate Protection Agreement

Premiums paid for the purchase of an Interest Rate Protection Agreement are amortized to interest expense over the term of the agreement. Unamortized premiums are included in Other Deferred Charges in the Statements of Financial Position.

(3) Debt

Power Supply System Revenue Bonds

To finance the ownership interests in electric generating facilities under its GBR, MMWEC issued Power Supply System Revenue Bonds (Bonds). The Bonds are secured under the GBR by a pledge of the revenues derived by MMWEC under the terms of the PSAs and from the ownership and operation of the Projects in its power supply system. Pursuant to the PSAs, each Project Participant is obligated to pay its share of the actual costs relating to the generating units planned, under construction or in operation. The Project Participants' obligations are not contingent upon the completion or operational status of the units.

(3) Debt (continued)
Power Supply System Revenue Bonds (continued)

MMWEC financings, other than obligations maturing within one year, require Massachusetts Department of Telecommunications and Energy's authorization. The aggregate balances of defeased debt at December 31, 1997, 1996 and 1995 was $100.6, $285.2 and $285.2 million, respectively.

Bonds Payable consists of serial, term and variable-rate bonds and are comprised of the following issues.

Issue	Net Interest Cost	December 31, 1997	1996	1995
			(In Thousands)	
1987 Series A	8.9%	$ 8,525	$ 9,150	$ 9,720
1992 Series A	7.0%	94,625	96,825	98,905
1992 Series B	7.0%	186,170	191,525	196,600
1992 Series C	6.9%	57,095	58,375	59,585
1992 Series D	6.3%	80,460	82,805	85,045
1992 Series E	6.0%	92,865	100,715	108,195
1993 Series A	5.3%	356,030	367,980	379,515
1993 Series B	5.9%	-	190	370
1994 Series A	5.3%	114,195	114,690	115,175
1994 Series B	5.1%	176,485	183,610	190,505
1994 Series C	Variable	97,600	97,600	97,600
Bonds Payable		1,264,050	1,303,465	1,341,215
Less: Current Maturities		(41,315)	(39,415)	(37,750)
Total Long-Term Debt		$ 1,222,735	$ 1,264,050	$ 1,303,465

The serial and term bonds are generally subject to optional redemption approximately ten years after the issue date, at 103% of the principal amount, descending periodically thereafter to 100%. The aggregate annual principal payments due on the bonds in the next five years are as follows: 1998 - $41,315,000; 1999 - $44,650,000; 2000 -$47,870,000; 2001- $50,580,000 and 2002 - $53,370,000.

The interest rates on the 1994 Series C variable-rate bonds are adjusted from time-to-time. Bondholders may require repurchase of the 1994 Series C bonds at the time of such interest rate adjustment. In 1997, MMWEC substituted the 1994 Series C bonds letter of credit facility with an insurance policy guaranteeing the payment of the principal and interest on the 1994 Series C Bonds and a liquidity facility with a bank providing for the purchase, by the bank, of the 1994 Series C bonds if the bonds cannot be remarketed. The debt service on the 1994 Series C bonds is on a parity with the senior lien fixed-rate bonds to the extent that the debt service on the 1994 Series C bonds is equal to or less than the debt service on the bonds refunded by the 1994 Series C bonds in a given bond year.

(3) Debt (continued)

Debt Service Forward Delivery Agreement

In conjunction with the issuance of the 1994 Series C bonds, MMWEC entered into a seven year Debt Service Forward Delivery Agreement (Forward Agreement) for purposes other than trading. MMWEC makes monthly deposits to the various accounts within the Bond Fund for the semiannual payment of its debt service on its outstanding bonds. In exchange for the right to dictate the investment of such monies, the counterparty pays a fixed amount to MMWEC on a periodic basis, providing MMWEC a fixed yield that could be earned on a security with a five to seven year maturity purchased at the time the contract was executed, while complying with the maturity limitations for investments in the Bond Fund under the terms of the GBR. The counterparty has the right to sell to MMWEC Government Obligations that mature prior to the relevant debt service payment dates during the term of the Forward Agreement.

MMWEC reserves the right to terminate the Forward Agreement in whole or in part in connection with any purchase, redemption or refunding of fixed-rate bonds, counterparty default or counterparty credit rating deterioration to below investment grade. The Forward Agreement provides for the calculation and payment of liquidated damages to the counterparty reflecting market interest rates at the time of the termination compared to the rate levels in the Forward Agreement.

The cash requirement under the Forward Agreement requires MMWEC to make available to the counterparty an average balance of $30.3 million over the seven year term of the agreement in exchange for investments in Government Securities, to be held by MMWEC's trustee, that mature prior to MMWEC's debt payment dates.

The Forward Agreement is not recognized in the Statements of Financial Position to the extent that settlement of cash in exchange for financial instruments has not occurred. To the extent cash has been exchanged for Government Securities, the Government Securities are recorded on the Statements of Financial Position as Special Funds.

Interest Rate Protection Agreement

The 1994 Series C bonds provide a hedge against interest rate risk on the net funding cost of approximately $100 million of short-term floating rate investment assets. MMWEC purchased a $41 million Interest Rate Protection Agreement (Cap Agreement), comprised of an $11 million tranche with a protection rate of 6.85% expiring on June 30, 2000, and a $30 million tranche with a protection rate of 7.25% expiring on June 30, 2002, to limit the interest rate exposure on a portion of the 1994 Series C variable-rate debt to the extent that the variable debt costs exceed the fixed-rate received on the Forward Agreement described above.

MMWEC purchased the right to receive annually an amount by which an index-based interest rate, which approximates the interest rate on the 1994 Series C bonds, exceeds the protection rate in the Cap Agreement. MMWEC has the right to terminate the Cap Agreement if the provider or its guarantor's credit rating falls below a double A and receive payment of liquidation damages designed to enable MMWEC to enter into an equivalent agreement. The cost of the Cap Agreement was paid up front and is included in Other Deferred Charges on the Statements of Financial Position. There are no future MMWEC cash requirements under the terms of the Cap Agreement. The Cap Agreement was purchased for purposes other than trading.

(3) Debt (continued)

Net Revenue Available for Debt Service

In accordance with the provisions of MMWEC's GBR, MMWEC covenants that it shall fix, revise and collect rates, tolls, rents and other fees and charges, sufficient to produce revenues to pay all operating and maintenance expenses and principal of, premium, if any, and the interest on the Bonds and to pay all other obligations against its revenue. Revenues, which include applicable interest earnings from investments, are required to equal 1.10 times the annual debt service for each contract year ending June 30, after deduction of certain operating and maintenance expenses and exclusive of depreciation. For the contract years ended June 30, 1997, 1996, 1995 and prior years, MMWEC met the GBR debt service coverage requirements for the applicable MMWEC Projects.

Debt Service Coverage:	Contract Year Ended June 30, 1997	1996	1995
		(In Thousands)	
Revenues	$171,378	$161,324	$163,777
Other Billings	576	576	577
Reserve and Contingency Fund Billings	11,159	10,972	11,085
Total	183,113	172,872	175,439
Less: Operating & Maintenance Expenses	(60,371)	(52,184)	(53,508)
Available Revenues Net of Expenses	$122,742	$120,688	$121,931
Debt Service Requirement	$111,583	$109,716	$110,846
Coverage (110% Required)	110%	110%	110%

Notes Payable

MMWEC maintains a $5 million revolving line of credit to finance temporarily certain power purchases made by MMWEC for resale under power purchase contracts. The balances outstanding were $0 as of December 31, 1997, 1996 and 1995, respectively, with a maximum outstanding balance of $167,600, $4,000 and $216,000 during 1997, 1996 and 1995, respectively. Interest charged on borrowings under the line of credit is at the bank's prime rate. In addition, a commitment fee of one quarter of 1% per annum is charged on the unused portion of the line based on the average daily principal amount of the loan outstanding.

(4) Electric Generation Facilities and Financing

MMWEC's power supply capacity includes interests in the Stony Brook Peaking and Intermediate units which it operates. MMWEC is a nonoperating joint owner in the W.F. Wyman Unit No. 4, Millstone Unit 3 and Seabrook Station units. Electric Plant In Service also includes MMWEC's Service Operations which totalled $2.7, $2.6 and $2.5 million in 1997, 1996 and 1995, respectively.

(4) **Electric Generation Facilities and Financing** (continued)

Projects	Facility and MMWEC Share of Capability (MW)		Amounts as of December 31, 1997	1996	1995
				(In Thousands)	
Peaking Project	Stony Brook	170.0	$ 56,310	$ 56,588	$ 56,255
Intermediate Project	Stony Brook	311.3	152,786	151,363	150,658
Wyman Project	W.F.Wyman No. 4	22.7	7,361	7,359	7,376
Nuclear Project No. 3	Millstone Unit 3	36.8	129,595	129,296	129,145
Nuclear Mix No. 1	Millstone Unit 3	18.4	51,290	51,140	51,064
Nuclear Mix No. 1	Seabrook Station	1.9	8,589	8,587	8,572
Nuclear Project No. 4	Seabrook Station	49.8	258,925	258,882	258,467
Nuclear Project No. 5	Seabrook Station	12.6	70,859	70,849	70,744
Project No. 6	Seabrook Station	69.0	500,712	500,652	500,077
			$ 1,236,427	$ 1,234,716	$ 1,232,358

MMWEC's investment in Seabrook Station represents a substantial portion of its plant investment and financing. In June 1992, Northeast Utilities acquired Public Service of New Hampshire (PSNH), the lead owner of Seabrook Station, and placed Seabrook Station in a separate single asset subsidiary corporation.

In 1997, the Nuclear Regulatory Commission (NRC) issued a rulemaking indicating that it may deem it necessary to promulgate rules making joint owners of nuclear power plants jointly and severally liable for decommissioning costs. In addition, several bills have been introduced in the New Hampshire Legislature, the effect of which would accelerate decommissioning payments for Seabrook Station and make the Seabrook Station joint owners jointly and severally liable for decommissioning costs. No such statute has been enacted to date.

In addition, MMWEC has a 4.8% ownership interest in the Millstone Unit 3 nuclear unit. Millstone Unit 3 was taken out of service on March 30, 1996 and will remain shut down pending a comprehensive NRC review and an affirmative vote of the NRC Commission to restart the unit. Northeast Utilities' management has indicated that a firm start-up date cannot be determined at this time. MMWEC has been meeting its Millstone Unit 3 sharing agreement obligations. MMWEC, together with certain of the other non-operating joint owners of Millstone Unit 3, filed for arbitration against Connecticut Light and Power and Western Massachusetts Electric Company. MMWEC also filed a complaint against Northeast Utilities and its Trustees, citing negligence, negligent misrepresentation, fraud and violation of state laws, relating to the cause for the shutdown of Millstone 3. MMWEC is seeking recovery of damages it sustained as a result of the continued shutdown.

MMWEC's net costs, including capitalized interest expenses and $119.7 million incurred for the canceled Seabrook Unit 2, have been deferred and are being recovered under the terms of the PSAs. During 1996, MMWEC recorded a gain of $6.7 million in connection with the sale of equipment from Seabrook Unit 2.

In January 1998, Central Maine Power Company (CMP) agreed, subject to Maine Public Utilities Commission approval, to sell its hydro, fossil and biomass power plants to Florida Power & Light. Included in this sale is CMP's 59% share of W.F. Wyman Unit No. 4 for which it is the lead owner. MMWEC owns 3.7% of the W.F. Wyman Unit No. 4.

(5) Benefit Plans

MMWEC has two non-contributory defined benefit pension plans covering substantially all full-time active employees. One plan covers union employees (union plan) and the other plan covers non-union employees (non-union plan). The amount shown below as the Pension Benefit Obligation for MMWEC is a standardized disclosure measure of the present value of pension benefits, adjusted for the effect of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the plans.

The Pension Benefit Obligation was computed as part of an actuarial valuation performed as of January 1, 1997. Significant actuarial assumptions used in the valuation include a weighted-average discount rate of 7.5% a year compounded annually, and projected salary increases of 5.5% a year compounded annually. The Pension Benefit Obligation for both plans is as follows:

	Amounts as of January 1,		
	1997	1996 (In Thousands)	1995
Retirees currently receiving benefits and terminated employees not yet receiving benefits	$ 384	$ 299	$ 324
Current Employees:			
Vested	3,295	2,677	2,391
Non-vested	3,081	2,602	2,110
Total Pension Benefit Obligation	6,760	5,578	4,825
Net assets available for benefits, at market	5,898	4,850	3,598
Unfunded Pension Benefit Obligation	$ 862	$ 728	$ 1,227

Net assets available for benefits, at market, as a percentage of the Pension Benefit Obligation, were 87.3%, 86.9% and 74.6%, as of January 1, 1997, 1996 and 1995, respectively. The unfunded Pension Benefit Obligation as a percentage of covered payroll was 13.9%, 12.2% and 20.6% for the years ended January 1, 1997, 1996 and 1995, respectively.

MMWEC makes annual contributions to the pension plans equal to the amounts recorded as pension expense, which were $896,000, $557,000 and $887,000, for the years ended December 31, 1997, 1996 and 1995, respectively. Contributions as a percentage of MMWEC's covered payroll were 14.3%, 9.0% and 14.6% for the years ended December 31, 1997, 1996 and 1995, respectively. The union plan uses the aggregate actuarial cost method and the non-union plan uses the frozen initial liability actuarial cost method in determining pension expense. In addition to the actuarial assumptions outlined above, the assumed long-term rate of return used in determining pension expense was 8.5%. Pension costs applicable to prior years' service are amortized over thirty years. A ten-year historical trend and other information which is required to be disclosed in accordance with Governmental Accounting Standards Statement No. 5 is not considered material and therefore is not presented.

(5) **Benefit Plans** (continued)

MMWEC contributes to an employee savings plan administered by an insurance company. All full-time employees meeting the service requirements are eligible to participate in this defined contribution plan. Under the provisions of the plan, MMWEC's contributions vest immediately. MMWEC contributed $114,000, $107,000 and $105,000 while the employees contributed $184,000, $175,000 and $169,000 during the years ended December 31, 1997, 1996 and 1995, respectively.

(6) Commitments and Contingencies

Power Purchases

MMWEC entered into agreements for participation in the transmission interconnection between New England utilities and the Hydro-Quebec electric system near Sherbrooke, Quebec (Phase I), which began commercial operation in October 1986. The New England portion of the interconnection was constructed at a total cost of about $140 million, of which 3.65% or $5 million is MMWEC's share to support. MMWEC also entered into similar agreements for participation in the interconnection between New England utilities and the Hydro-Quebec electric system for the expansion of the Hydro-Quebec interconnection (Phase II), which went into commercial operation in November 1990. MMWEC's Phase II equity investment approximates 0.6% or $3.3 million. MMWEC has corresponding agreements with certain of its members and another utility to recover MMWEC's share of the costs associated with the interconnection.

Power Sales Agreements

MMWEC sells the Project Capability of each of its Projects to certain of its members and other utilities (Project Participants) under PSAs.

In 1988, the Vermont Supreme Court ruled that the Project No. 6 PSAs between MMWEC and the Vermont Project Participants were void since inception. Consequently, pursuant to the PSAs, MMWEC increased the remaining Project No. 6 Participants pro rata shares of Project Capability to cover the shortfall (step-up), which action was challenged by certain Massachusetts Participants. The Supreme Judicial Court (SJC) for the Commonwealth of Massachusetts in MMWEC et. al. v. Town of Danvers et. al. noted that "the Project 6 PSAs executed by the defendants are valid and that the step-up provisions therein have been properly invoked."

MMWEC is involved in various legal actions. Based on bond counsels' opinions regarding the validity of the PSAs and general counsel representations regarding the litigation, discussions with such counsel, and other considerations, management believes that the ultimate resolution of the litigation will not have a material, adverse effect on the financial position of MMWEC.

In November 1997, the Commonwealth of Massachusetts enacted legislation to restructure the electric utility industry. MMWEC and the municipal light departments are not specifically subjected to the legislation. However, it is management's belief that industry restructuring and customer choice, promulgated within the legislation, will have an effect on MMWEC and the Participant's operations.

(6) Commitments and Contingencies (continued)
Power Sales Agreements (continued)

MMWEC performed an extensive study of the potential effects of restructuring of the electric utility industry on MMWEC, and in February 1997, the Board of Directors adopted an amendment to the General Bond Resolution permitting MMWEC to collect funds from the Project Participants for purposes of utilizing those funds to mitigate the adverse consequences of competition. Six Project Participants sought a declaratory judgment and an injunction on whether the MMWEC Board of Directors has the authority to adopt the amendment. The court denied the injunction and the issue has been referred to arbitration.

Other Issues

The Price-Anderson Act (the Act), a federal statute amended in 1988 to extend to the year 2002, mandates an industry-wide program of liability insurance for nuclear facilities. The Act now provides approximately $8.9 billion for public liability claims from a single incident at a nuclear facility. The $200 million primary layer of insurance for the liability has been purchased in the commercial market. Secondary coverage of $8.3 billion is to be provided through a $79.3 million per incident assessment of each of the currently licensed nuclear units in the United States. The maximum assessment is $10 million per incident per unit in any year. The maximum assessment is subject to adjustment for inflation every five years. MMWEC's interest in Millstone Unit 3 and Seabrook Station could result in a maximum assessment of $3.8 and $9.2 million, respectively.

Insurance has been purchased from Nuclear Electric Insurance Limited (NEIL) to cover the cost of repair, replacement, decontamination or premature decommissioning of utility property resulting from insured occurrences at Millstone Unit 3 and Seabrook Station. The system is subject to retroactive assessments if losses exceed the accumulated funds available to the insurer. MMWEC is potentially subject to a $.6 and $2.1 million assessment for its participation in Millstone Unit 3 and Seabrook Station, respectively, for excess property damage, decontamination and premature decommissioning.

MMWEC is not currently covered under gradual pollution liability insurance related to MMWEC's Stony Brook power plant. Nothing has come to management's attention concerning any material pollution liability claims made during 1997 or outstanding as of December 31, 1997.

MMWEC has established a trust fund to enhance its Directors' and Officers' liability coverage. The purpose of the fund is to make available funds for the purchase of Directors' and Officers' liability insurance or indemnification of the Directors or Officers.

(7) Investments and Deposits

All bank deposits, which amounted to $1,065,000 at December 31, 1997, are maintained at one financial institution. The Federal Deposit Insurance Corporation currently insures up to $100,000 per depositor. MMWEC's uninsured deposits ranged from zero to $4.2 million during 1997 due to seasonal cash flows, and the timing of daily cash receipts. At December 31, 1997, 1996 and 1995 investments are classified as available for sale and reported at fair value with unrealized gains of

(7) Investments and Deposits (continued)

$1.8, $1.4 and $2.8 million, respectively, and unrealized losses of $76,000, $235,000 and $44,000 excluded from earnings and reported as a component of Amounts Recoverable Under the Terms of the Power Sales Agreement on the Statements of Financial Position. At December 31, 1997, all securities underlying repurchase agreements, and all other investments, were held in MMWEC's name by custodians consisting of the Construction Fund Trustees, Bond Fund Trustee or MMWEC's depository bank. Investments, representing the Special Funds and Cash and Temporary Investments, as well as certain additional amounts disbursed but available for investment, and accrued interest, are presented below:

	1997		1996		1995	
Type of Investment	Amortized Cost Basis	Market Value	Amortized Cost Basis	Market Value	Amortized Cost Basis	Market Value
			(In Thousands)			
Repurchase Agreements	$ 1,523	$ 1,573	$ -	$ -	$ 278	$ 285
Other Investments:						
U.S. Treasury bills	19,215	19,799	18,420	18,917	17,626	18,044
U.S. Treasury notes	83,141	84,049	65,727	66,214	68,811	70,743
U.S. Agency bonds	-	-	-	-	6,707	6,797
Municipal bonds	7,159	7,381	7,252	7,469	7,346	7,672
U.S. Agency discount notes	114,086	114,053	133,054	133,047	100,671	100,671
Total Other Investments	223,601	225,282	224,453	225,647	201,161	203,927
Total Investments	$225,124	$226,855	$224,453	$225,647	$201,439	$204,212

During 1997, 1996 and 1995, the proceeds from the sale of available for sale securities were $.5, $.3 and $2.0 million resulting in gross realized gains of $0, $37 and $0 and gross realized losses of $67, $0 and $84, respectively. The basis on which cost was determined in computing realized gain or loss was specific identification. Including repurchase agreements, the average contractual maturity of the investments in debt securities at December 31, 1997, 1996 and 1995 were 393, 345 and 433 days, respectively.

A portion of temporary investments, made up of funds available from amounts for which the expense has been recognized but not cleared by the bank, approximate $.8, $1.3 and $3.5 million in 1997, 1996 and 1995, respectively, and are included in the total investments noted above.

Due to seasonal cash flows during 1997, 1996 and 1995, MMWEC, from time-to-time, invested in repurchase agreements with its depository bank that were collateralized by securities in MMWEC's name held by the depository bank. MMWEC's practice is to monitor the market value of the underlying securities to ensure that the market value equals or exceeds the amount invested. Management estimated market values of the securities based on independent quoted market prices.

(8) Fair Values of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Investments and Decommissioning Trusts - The fair values estimated are based on quoted market prices for those or similar investments.

Long-Term Debt - The fair value is estimated based on quoted market prices for the same or similar issues.

Interest Rate Protection Agreement - The fair value is based on average quoted market prices of agreements with similar duration and strike prices.

Debt Service Forward Delivery Agreement - The fair value generally reflects the estimated amounts that MMWEC would receive or pay to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains or losses of open contracts.

The estimated fair values of MMWEC's financial instruments are as follows:

	1997		1996		1995	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
			(In Thousands)			
Financial Assets:						
Investments	$ 226,855	$ 226,855	$ 225,647	$ 225,647	$ 204,212	$ 204,212
Decommissioning Trusts	12,072	13,290	9,676	[illegible]837	7,763	7,960
Interest Rate Protection Agreement	375	178	486	275	597	418
Financial Liabilities:						
Long-Term Debt	1,222,735	1,262,465	1,264,050	1,270,771	1,303,465	1,335,963
Unrecognized Financial Instruments:						
Debt Service Forward Delivery Agreement	-	3,313	-	3,326	-	3,969

The carrying amounts for Cash, Accounts Receivable, Notes Payable, Accounts Payable and Accrued Expenses approximate their fair value due to the short-term nature of these instruments.

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

The Board of Directors

Massachusetts Municipal Wholesale Electric Company

We have audited and reported separately herein on the financial statements of Massachusetts Municipal Wholesale Electric Company as of and for the years ended December 31, 1997, 1996 and 1995.

Our audits were made for the purpose of forming an opinion on the basic financial statements of the Massachusetts Municipal Wholesale Electric Company taken as a whole. The supplementary information included in Schedules I through III is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG Peat Marwick LLP

March 11,1998

Schedule I

Massachusetts Municipal Wholesale Electric Company

Project Statements of Financial Position

December 31, 1997
(In Thousands)

ASSETS

	SERVICE	NUCLEAR MIX 1	NUCLEAR PROJ. 3	NUCLEAR PROJ. 4	NUCLEAR PROJ. 5	PROJECT NO. 6	PEAKING	INTERMEDIATE	WYMAN	HYDRO QUEBEC PHASE II	TOTAL
Electric Plant											
In Service	$ 2,734	$ 59,879	$ 129,595	$ 258,925	$ 70,859	$ 500,712	$ 56,310	$ 152,786	$ 7,361	$ -	$1,239,161
Accumulated Depreciation	(2,414)	(19,877)	(45,198)	(66,265)	(18,198)	(129,841)	(33,722)	(94,405)	(4,108)	-	(414,028)
	320	40,002	84,397	192,660	52,661	370,871	22,588	58,381	3,253	-	825,133
Nuclear Fuel-Net of Amortization	-	880	1,507	3,366	859	4,840	-	-	-	-	11,452
Total Electric Plant	320	40,882	85,904	196,026	53,520	375,711	22,588	58,381	3,253	-	836,585
Special Funds											
Bond Fund											
Interest, Principal & Retirement Account	-	3,039	2,285	6,674	1,977	15,219	2,279	5,753	281	-	37,507
Reserve Account	-	6,990	11,549	14,396	4,493	33,437	2,463	6,323	291	-	79,942
Reserve and Contingency Fund	-	3,516	3,143	4,325	1,218	6,482	875	1,701	299	-	21,559
Revenue Fund	-	2,658	4,932	7,862	1,948	20,817	6,658	21,695	1,099	-	67,669
Working Capital Funds	19,496	-	-	-	-	-	-	-	-	(32)	19,464
	19,496	16,203	21,909	33,257	9,636	75,955	12,275	35,472	1,970	(32)	226,141
Current Assets											
Cash & Temporary Investments	1,294	-	-	2	-	3	-	-	-	8	1,307
Accounts Receivable	5,426	20	38	15	4	21	136	3,060	399	115	9,234
Unbilled Revenues	5,593	-	-	-	-	-	-	-	-	-	5,593
Inventories	-	58	-	1,543	391	2,136	2,189	7,884	262	-	14,463
Advances to (from) Projects	1,370	(126)	(227)	(93)	(28)	(309)	712	(1,290)	(9)	-	-
Prepaid Expenses	885	725	1,332	1,516	384	2,100	6	13	62	-	7,023
Total Current Assets	14,568	677	1,143	2,983	751	3,951	3,043	9,667	714	123	37,620
Total Special Funds & Current Assets	34,064	16,880	23,052	36,240	10,387	79,906	15,318	45,139	2,684	91	263,761
Deferred Charges											
Amounts Recoverable (Payable) Under Terms of the Power Sales Agreements	(45)	68,434	90,668	(767)	5,229	37,231	(2,565)	11,319	(447)	(743)	208,314
Unamortized Debt Discount and Expenses	-	2,254	3,588	5,606	2,186	11,850	236	1,428	(1)	-	27,147
Nuclear Decommissioning Trusts	-	2,081	3,978	2,279	577	3,157	-	-	-	-	12,072
Other	21	213	337	676	175	1,006	27	78	65	742	3,340
	(24)	72,982	98,571	7,794	8,167	53,244	(2,302)	12,825	(383)	(1)	250,873
	$ 34,360	$130,744	$ 207,527	$ 240,060	$ 72,074	$ 508,861	$ 35,604	$ 116,345	$ 5,554	$ 90	$1,351,219

LIABILITIES

	SERVICE	NUCLEAR MIX 1	NUCLEAR PROJ. 3	NUCLEAR PROJ. 4	NUCLEAR PROJ. 5	PROJECT NO. 6	PEAKING	INTERMEDIATE	WYMAN	HYDRO QUEBEC PHASE II	TOTAL
Long-Term Debt											
Bonds Payable	$ -	$121,875	$ 197,230	$ 225,675	$ 68,395	$ 476,960	$ 30,270	$ 97,795	$ 4,535	$ -	$1,222,735
Current Liabilities											
Current Maturities of Long-Term Debt	-	5,380	4,145	6,185	1,745	12,460	3,360	7,705	335	-	41,315
Accounts Payable	4,464	109	100	1,546	391	2,141	288	2,879	302	21	12,241
Accrued Expenses	5,150	1,101	1,712	2,495	592	3,232	43	353	34	-	14,712
Member and Participant Advances and Reserves	24,746	90	160	1,678	323	10,632	1,643	7,613	348	69	47,302
	34,360	6,680	6,117	11,904	3,051	28,465	5,334	18,550	1,019	90	115,570
Deferred Credits	-	2,189	4,180	2,481	628	3,436	-	-	-	-	12,914
	$ 34,360	$130,744	$ 207,527	$ 240,060	$ 72,074	$ 508,861	$ 35,604	$ 116,345	$ 5,554	$ 90	$1,351,219

Massachusetts Municipal Wholesale Electric Company

Project Statements of Operations

Year Ended December 31, 1997
(In Thousands)

	SERVICE	NUCLEAR MIX 1	NUCLEAR PROJ. 3	NUCLEAR PROJ. 4	NUCLEAR PROJ. 5	PROJECT NO. 6	PEAKING	INTERMEDIATE	WYMAN	HYDRO QUEBEC PHASE II	TOTAL
Revenues	$ 45,548	$ 18,061	$ 27,441	$ 31,430	$ 8,880	$ 59,538	$ 7,934	$ 41,090	$ 2,005	$ 575	$242,502
Interest Income	1,140	1,059	1,551	2,104	632	4,984	763	2,116	126	78	14,553
Total Revenues and Interest Income	$ 46,688	$ 19,120	$ 28,992	$ 33,534	$ 9,512	$ 64,522	$ 8,697	$ 43,206	$ 2,131	$ 653	$257,055
Operating and Service Expenses:											
Fuel Used in Electric Generation	$ -	$ 79	$ 29	$ 1,775	$ 455	$ 2,617	$ 1,135	$ 20,787	$ 947	$ -	$ 27,824
Purchased Power	44,806	-	-	-	-	-	-	-	-	615	45,421
Other Operating	1,815	3,715	6,832	6,179	1,609	10,018	1,459	4,823	346	-	36,796
Maintenance	22	3,188	6,137	2,907	736	4,027	289	1,812	88	-	19,206
Depreciation	34	1,943	4,105	9,329	2,551	17,996	2,263	6,247	231	-	44,699
Taxes Other Than Income	5	446	794	1,286	326	1,782	390	1 078	191	-	6,298
	46,682	9,371	17,897	21,476	5,677	36,440	5,536	34,747	1,803	615	180 244
Interest Expense:											
Interest Charges	6	6,390	10,812	13,170	4,132	30,707	1,917	5,492	228	-	72,854
Interest Charged to Projects During Construction	-	(1)	-	(14)	(4)	(26)	-	-	-	-	(45)
	6	6,389	10,812	13,156	4,128	30,681	1,917	5,492	228	-	72,809
Total Operating Costs and Interest Expense	46,688	15,760	28,709	34,632	9,805	67,121	7,453	40,239	2,031	615	253,053
Decrease (Increase) in Amounts Recoverable Under the Power Sales Agreements	-	3,360	283	(1,098)	(293)	(2,599)	1,244	2,967	100	38	4,002
	$ 46,688	$ 19,120	$ 28,992	$ 33,534	$ 9,512	$ 64,522	$ 8,697	$ 43,206	$ 2,131	$ 653	$257,055

Massachusetts Municipal Wholesale Electric Company

Project Statements of Cash Flows

Year Ended December 31, 1997
(In Thousands)

	SERVICE	NUCLEAR MIX 1	NUCLEAR PROJ. 3	NUCLEAR PROJ. 4	NUCLEAR PROJ. 5	PROJECT NO. 6	PEAKING	INTERMEDIATE	WYMAN	HYDRO QUEBEC PHASE II	TOTAL
Cash flows from operating activities:											
Total Revenues and Interest Income	$ 46,688	$ 19,120	$ 28,992	$ 33,534	$ 9,512	$ 64,522	$ 8,697	$ 43,206	$ 2,131	$ 653	$257,055
Total Costs and Expenses, net	(46,688)	(15,760)	(28,709)	(34,632)	(9,805)	(67,121)	(7,453)	(40,239)	(2,031)	(615)	(253,053)
Adjustments to arrive at net cash provided by operating activities:											
Depreciation and Decommissioning	34	2,163	4,513	9,762	2,662	18,596	2,249	6,195	231	-	46,405
Amortization	-	314	383	1,931	556	3,145	67	294	3	-	6,693
Change in current assets and liabilities:											
Accounts Receivable	315	-	-	35	9	52	(136)	(2,907)	(399)	10	(3,021)
Unbilled Revenues	1,027	-	-	-	-	-	-	-	-	-	1,027
Inventories	-	2	-	44	11	62	(733)	98	(74)	-	(590)
Prepaid Expenses	(564)	168	175	2,112	534	2,925	-	(1)	21	-	5,370
Accounts Payable	(89)	(32)	147	(2,808)	(712)	(3,793)	(1,155)	4,349	246	20	(3,827)
Accrued Expenses & Other	(1,659)	468	849	412	95	528	46	1	6	(59)	687
Member & Participant Advances and Reserves	(72)	(1,182)	(3,231)	(1,967)	(554)	(2,074)	(95)	1,186	(50)	3	(8,036)
Net cash provided by (used for) operating activities	(1,008)	5,261	3,119	8,423	2,308	16,842	1,487	12,182	84	12	48,710
Cash flows from investing activities:											
Construction Expenditures and Purchases of Nuclear Fuel	(212)	(237)	(352)	(1,612)	(408)	(2,232)	273	(1,578)	(5)	-	(6,363)
Interest Charged to Projects During Construction	-	(1)	-	(14)	(4)	(26)	-	-	-	-	(45)
Net (Increase) Decrease in Special Funds	502	363	1,544	(522)	(183)	(2,426)	1,414	(3,375)	248	(4)	(2,439)
Change in net Unrealized Gain on Special Funds	47	29	71	66	37	244	21	24	(2)	-	537
Decommissioning Trust Payments	-	(324)	(605)	(557)	(140)	(770)	-	-	-	-	(2,396)
Other	577	99	188	122	31	169	-	142	-	-	1,328
Net cash provided by (used for) investing activities	914	(71)	846	(2,517)	(667)	(5,041)	1,708	(4,787)	241	(4)	(9,378)
Cash flows from financing activities:											
Payments for Principal of Long-Term Debt	-	(5,190)	(3,965)	(5,905)	(1,640)	(11,800)	(3,195)	(7,395)	(325)	-	(39,415)
Net cash used for financing activities	-	(5,190)	(3,965)	(5,905)	(1,640)	(11,800)	(3,195)	(7,395)	(325)	-	(39,415)
Net increase (decrease) in cash and temporary investments	(94)	-	-	1	1	1	-	-	-	8	(83)
Cash and Temporary Investments at Beginning of Year	1,388	-	-	1	-	1	-	-	-	-	1,390
Cash and Temporary Investments at End of Year	$ 1,294	$ -	$ -	$ 2	$ 1	$ 2	$ -	$ -	$ -	$ 8	$ 1,307
Cash paid during the year for interest (Net of amount capitalized as shown above)	$ 5	$ 6,096	$ 10,391	$ 12,617	$ 3,929	$ 29,603	$ 1,825	$ 5,167	$ 221	$ -	$ 69,854