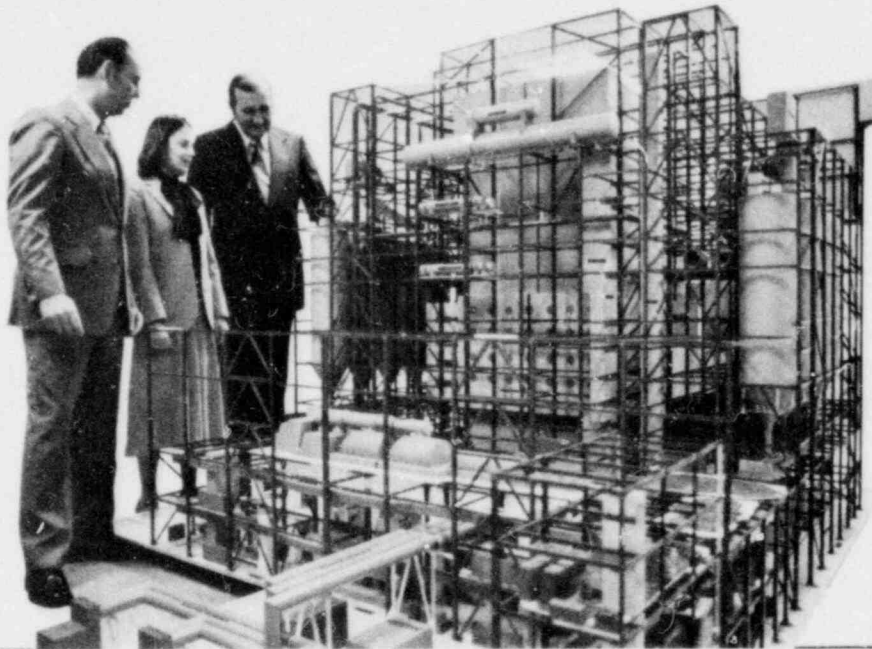


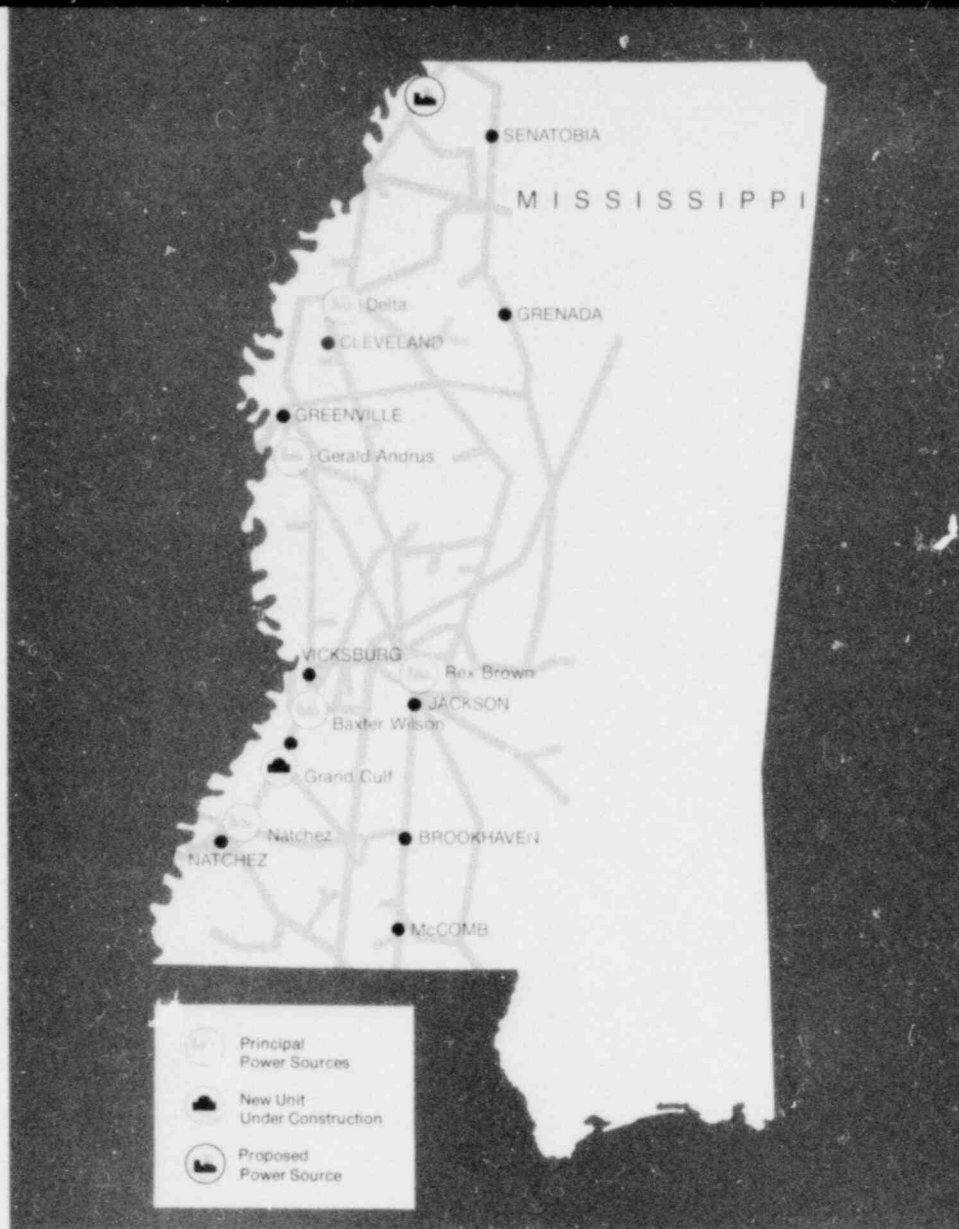
1978 ANNUAL REPORT



MISSISSIPPI POWER & LIGHT COMPANY

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1978 FACTS ABOUT MP&L

Company Chartered	April 12, 1923
Operating Area	45 Counties (See Map)
Population (area served)	1,226,000 (est.)
Number of Employees	1,550
Employee Payroll	\$19,513,000
Customers	297,941
Customers Added During Year	6,795

About Our Cover

The first coal-fired generating plant in the MP&L system is planned to be built in DeSoto County, on the east bank of the Mississippi River near the Tunica County line. Looking over a model of the proposed plant's power block are three Company employees involved in planning the facility. They are, from left: James R. Rider, manager of Fossil Production; Linda Dean, biologist in Production Engineering; and Ben A. Dudding, manager of Production Planning and a member of the Middle South Coal Task Force Committee.

New & Expanded Industries	72
Taxes	\$35,442,000
Plant Investment	\$721,625,000
Generating Capability	2,763,000 kilowatts
Number of Generating Stations	5 (See Map)
Average Cost, Residential KWH	3.88c
Total Miles, Power Lines	18,334
Company-owned 115,000 volt substations ...	125
Number of 500,000 volt (EHV) substations	3
Number of 230,000 volt substations	5

General Offices

Electric Building, Jackson, Mississippi 39205
 Registrar (for preferred stock)
 Deposit Guaranty National Bank, Jackson, Mississippi
 Transfer Agent
 First National Bank of Jackson, Jackson, Mississippi
 This report is prepared for the information of security holders, employees and other interested persons. It is not transmitted in connection with the sale of any security or offer to sell or offer to buy any security.

To Our Stockholders and Members of Our Organization

The Company's operating results for 1978 were generally good, due to some favorable factors which, unfortunately, are not assured to continue in the future.

Among the positive forces influencing our 55th year were such things as; a relatively stable fuel cost and supply; continued restraint on spending and operating on a closely controlled budget; and weather conditions which resulted in above average consumption of electricity by our customers. Another positive factor and one expected to continue was the high productivity and excellent performance of Company employees.

Under such conditions the Company's basic rate level, last changed in December, 1975, was sufficient to produce an adequate rate of return on investment necessary to keep the Company financially sound and able to meet its franchise obligation to its customers.

The successful results attained during the year do not mean that problems facing our Company and all electric utilities diminished. In fact, the problems outlined in these last several annual reports continued to grow. Despite enactment of the so-called National Energy Act in 1978, the nation does not yet have a clearly defined energy program. Conditions on the international front at year's end and in early 1979 were disheartening. The situation in Iran and other oil producing nations served to cloud the world energy picture. The Organization of Petroleum Exporting Countries (OPEC) has announced a 14.5% price increase during 1979. At home, there is little being done to actually speed up the use of coal and nuclear resources to meet energy demands in the near future, and the energy "crisis" time-clock continues to tick away. On top of this, inflationary pressures on costs for capital, material and supplies continue to mount and it seems inevitable that before too long the cumulative effect of these increases will require the Company to again request an increase in its rate level.

MP&L, along with other utilities, must constantly contend with rising costs, unrealistic government regulations, red-tape, and growing restrictions on freedom of operation which impede providing service to customers. We are proud of the fact that our Company has met every demand of customers for electricity, required for their jobs, homes, businesses, industries and farms. Despite the trying conditions under which we must operate, MP&L power continues to be, in our opinion, the biggest bargain in the family budget. The average cost of MP&L residential electricity for 1978 was 3.88 cents per kilowatt hour, compared with 4.02 cents per kilowatt hour in 1945. Few, if any, other items in the family budget hold such a record.

Coal Fired Plant

To meet the future electricity needs of our customers, MP&L in 1978 took a number of positive steps. The biggest

was initiating plans for building a 700-megawatt coal-fired plant in DeSoto County. The Mississippi Public Service Commission, in early 1979 granted a Certificate of Public Convenience and Necessity to construct the \$800-million facility, and other required permits are in the process of being secured. On site construction is expected to start by 1981, with completion scheduled in 1985. It will be the first coal-fired plant in the MP&L system, and is in line with the policy announced by Middle South Utilities, Inc., of which MP&L is a part, to develop a "balanced mix" of coal and nuclear fueled generating stations to provide baseline power in the system in the future.

No Rate Increase

Fortunately, MP&L's standard rate schedules generated sufficient revenue to cover costs during the year, and no increase in rates was required. On the other hand, there was a slight decrease in customers bills during the year, when the Mississippi Legislature enacted a measure eliminating the five percent sales tax on energy sold by utilities to residential customers. This saving was immediately reflected in customers' bills. Also, in early 1979, a change in the federal corporate income tax law allowed for a small reduction, one-half of one percent, on bills of residential, commercial and industrial customers. MP&L constantly monitors its financial situation, and an application for rate adjustments is made only if and when conditions make such an application essential to maintain the Company's ability to continue to attract capital on reasonable terms.

Operating Revenues

MP&L operating revenues for the year amounted to \$400,276,000, the highest in history. The figure compares with \$365,346,000 for 1977. The revenue increase was due in part to recovery of increased costs for fuel and purchased power, but most of the improvement was due to customer growth and increased energy sales.

Expenses Up

Operating Expenses for the year also increased, amounting to \$353,279,000 for 1978, compared with \$322,338,000 for the previous year. This was 10 percent, or \$30,941,000 more than the year before. The largest part of the expense was the \$248,210,000 spent for fuel and purchased power, an increase of 11 percent over 1977. Fuel oil purchased for Company plants showed a 14 percent increase, or 15,127,773 barrels as compared with 13,330,777 barrels in 1977.

Revenue Distribution

The tabulation below shows the distribution of the Company's revenue dollars collected in 1978:

	(In Thousands)	%
Fuel	\$208,161	52.00
Purchased power	40,049	10.01
Total Fuel & Purchased Power	248,210	62.01
Taxes	35,442	8.85
Payroll	19,513	4.87
Depreciation	20,528	5.13
Other Expenses & Deductions	27,044	6.76
Cost of Capital:		
Cost of Debt (Interest)	20,694	5.17
Net Income (Cost of Preferred) & Common Stock)	28,845	7.21*
TOTAL REVENUE	\$400,276	100.00%

*.60% paid as preferred dividends, 4.45% paid as common dividends, and 2.16% reinvested in facilities to serve customers.

Unusual circumstances contributing to net income during 1978 were: (1) high sales to other utilities resulting from weather conditions and the coal strike, (2) unusual temperatures in the Company service area, and (3) other non-recurring factors.

Total energy sales by the Company for the year amounted to 12.83 billion kilowatt-hours, an 11% increase over 1977. Sales to ultimate customers increased 6% over the previous year, and totaled 7.2 billion kilowatt-hours. Residential usage for the year was up 5%, commercial up 8%, and industrial up 6%.

Peak demand on Company lines occurred at 4:00 p.m. on August 24, 1978, and was 1,899,000 kilowatts, an increase of 115,000 kilowatts over 1977.

The increase in industrial demand for the year reflects the continued industrial development taking place in the 45-county area in which MP&L operates. Total new and expanded industries in the area for the year numbered 72, with 35 being new location and 37 being expansions of present industries. The new and expanded plants will add 3,038 new employees to the state's industrial force.

Customers Increase

At year's end, total customers on Company lines numbered 297,941, for an increase of 6,795 over the year before. Customers by classification were: residential, 255,174, commercial, 37,405; industrial, 3,245; government and municipal, 2,049; cooperatives and municipal, 66; and other public utilities, 2.

Residential customers continued to lead all other classifications in electricity usage, 2.9 billion kilowatt-hours. The average usage by residential customers was 11,330 kilowatt-hours, an increase of 292 kilowatt-hours over 1977.

Marketing programs under the direction of the Creation or Services Department received special recognition by the industry during 1978. The "Zip Up" campaign, a basic program for energy conservation, was among the top three programs in the nation competing for the coveted Edison Award presented

each year by the Edison Electric Institute. The program was also honored by being judged the best complete campaign in marketing and conservation in the nation's oldest advertising contest among utilities, sponsored by the Public Utilities Communicators Association. It also was named as first-place winner in contests sponsored by the Greater Jackson Advertising Club and the 7th District of the Advertising Federation of America.

In addition to the "Zip Up" program, the Company continued its aggressive campaign to acquaint customers and the public with the proven heat pump and E3 home construction programs. A continuing educational campaign on using energy wisely was carried out through distribution of thousands of pamphlets, the speakers bureau, workshops, and films.

Construction

Construction expenditures for 1978 amounted to \$24,386,000, a slight increase over the previous year, but still below the average for the past decade of expansion. During the year the Company completed conversion of former gas-fired plants to burn fuel oil.

A major project for the year, unplanned at the beginning of the year, was the repair of damage caused by tornadic winds to the 500,000 Extra High Voltage (EHV) substation and related facilities at the Grand Gulf Nuclear Station. The April 17th storm did extensive damage to the substation with restoration work costing approximately \$4-million. Repair is well underway and a major portion of this substation was energized in December, 1978.

Other construction during the year included: completion of the 115,000 volt transmission line from Franklin 500,000 EHV substation to Liberty; purchasing of rights-of-way for the 500,000 EHV transmission line from Grand Gulf to the Baxter Wilson Steam Electric Station in Vicksburg, and completing 70% of the foundation work by year's end; completion and energizing the 230,000 volt Robinson Road substation, to serve the growing load in the southwestern part of Jackson, including the huge Metrocenter shopping facility, and the enlarged Hinds General Hospital. The Robinson Road substation represented an investment of approximately \$1.5 million.

In addition to the above projects, preliminary planning and work was carried out on a number of projects slated for the near future. Among them are: the proposed DeSoto County coal-fired plant; a 230,000 volt transmission line from Indianola to Tillatoba; conversion of the 115,000 volt transmission line from Tillatoba to Batesville to a 230,000 volt line; a 24-mile 115,000 volt transmission line from Silver Creek to Magee; and acquiring property and designing an EHV substation at McAdams, with a 230,000 volt transmission line to Pickens and two 115,000 volt lines to tie to the 115,000 volt transmission circuit south of Kosciusko. Other 115,000 volt lines in various stages of design are from Bovina to North Vicksburg, from the Jackson Airport to Brandon, from the Natchez substation to South Natchez, and from the Franklin EHV substation to Brookhaven.

Grand Gulf Progress

The first unit of the Grand Gulf Nuclear Station, the largest industrial project in the history of Mississippi, was

approximately 73 percent complete at year's end. The \$2.3 billion project is being financed and will be owned by Middle South Energy, Inc., a generating subsidiary of Middle South Utilities, Inc. It is being built, and will be maintained and operated by MP&L.

Each unit of the Grand Gulf facility will have a capability of generating 1,250,000 kilowatts, or a total capacity from both units of 2,500,000 kilowatts. Peak construction employment is 4,000. Total construction payroll for both units is expected to be \$550 million. The first unit is slated for commercial operation in 1981, with the second unit to be completed in 1984. The plant will have a permanent staff of some 250, with the annual operating payroll to be approximately \$4,570,000.

A guided visitors tour on weekends was initiated during the summer at the site. The tour included assembling at a huge tent to see an education exhibit and program to acquaint visitors with nuclear energy. The actual tour of the site was made in old-fashioned surreys pulled by tractors. Some 3,500 visitors made the tours during the summer.

Management Promotions

People are the key ingredient to any successful industry operation and MP&L is fortunate in having the highest type of employees in its Company family. MP&L provides stable employment for approximately 1,550 men and women in the 15-county area of western Mississippi, with the average length of service of employees being 13.2 years.

During the year, a number of promotions and changes were made among personnel in order to strengthen the management team. Three veteran employees were made vice-presidents. They are: Donald E. Meiners, of Customer Services; J. S. Frame, of Personnel and Administrative Services; and Frank S. York, Jr., Chief Financial Officer; and Secretary.

James P. McGaughy was promoted to Director of Power Production, including both nuclear and fossil, in the general office Production Department. Other department promotions were: James R. Rider to Manager of Fossil Production; Lamar Nail to Manager of Production Engineering; and Ben Dudding to Manager of Production Planning.

Robert N. Henry, former Manager at Indianola, was named

Director of the new Distribution Construction and Operations Management System, and he was succeeded at Indianola by Robert E. Gramling.

In the power plants, these promotions and changes were made: Richard Denman, to Manager of the Natchez Steam Electric Station; Malcolm Allred, to Manager of the Baxter Wilson Steam Electric Station at Vicksburg; Rex Shannon, to Manager of the Delta Steam Electric Station at Cleveland; Alan Sebren, to Manager of the Gerald Andrus Steam Electric Station at Greenville; and A. T. Johnson, to Manager of the Rex Brown Steam Electric Station in Jackson.

At the Grand Gulf Nuclear Station, Kenneth (Ken) McCoy was promoted to Manager; Larry Dale was promoted to Assistant Nuclear Project Manager; and Gaines E. Osborne was promoted to Nuclear Construction Supervisor.

Looking To Future

Unfortunately, the future of MP&L and the electric industry is dependent upon forces over which we or the industry have little if any control—the government. As controls and edicts are handed down by bureaus and agencies set up by legislative act, it becomes increasingly more difficult to operate and to serve our customers efficiently. History clearly teaches that the greatest good to the greatest number of people comes from business and industry operating under the traditional free enterprise system. Your Company will continue to oppose restrictions to our freedom, while at the same time redoubling its efforts to render the best possible service at the lowest possible cost to customers.

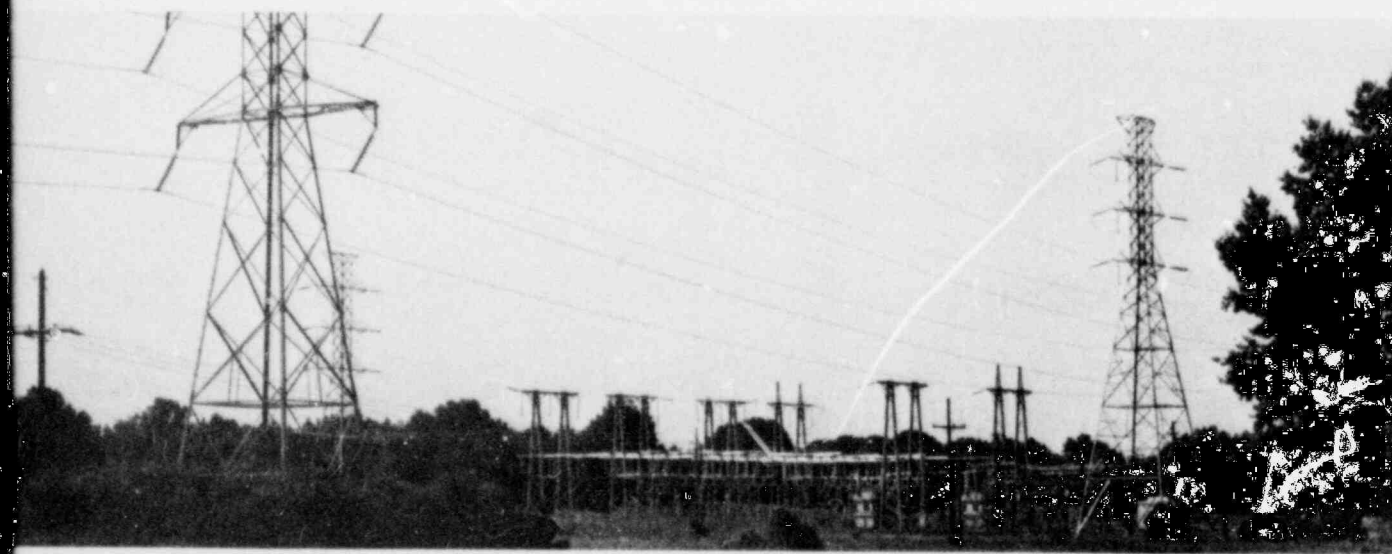
Achievements of this past year, as well as any progress we may make in the future, are dependent upon the support of our customers and the dedication and loyalty of our employees, board of directors and investors making this Company possible. We face the future optimistically, believing that the current energy problems can be solved if we are allowed to work together in an atmosphere of freedom.

Sincerely,



Donald C. Lutken

President & Chief Executive Officer

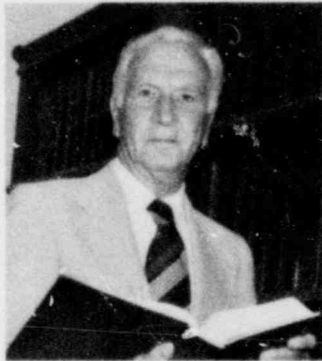


major transmission project completed during the year was this 230,000 volt substation and facilities in south Jackson.

Board of Directors



Donald C. Lutken
Jackson
President and
Chief Executive Officer



G. Lawrence Adams
Natchez
Attorney-at-Law



Norman B. Gillis, Jr.
McComb
Attorney-at-Law



Robert M. Hearin
Jackson
Board Chairman
Chief Executive
First National Bank



J. Herman Hines
Jackson
Board Chairman
Chief Executive
Deposit Guaranty Nat'l. Bank



Russ M. Johnson*
Jackson
Retired Chairman
Deposit Guaranty Nat'l. Bank



J. H. Johnston, Jr., M.D.
Jackson



Robert E. Kennington, II
Grenada
Chairman
Chief Executive
Grenada Banking System



Floyd W. Lewis
New Orleans
President
Middle South Utilities, Inc.



Richard D. McRae
Jackson
President, McRae's, Inc.



LeRoy P. Percy
Greenville
Pharmer



Dr. Walter Washington
Alcorn
President
Alcorn State University



Robert M. (Bob) Williams, Jr.
Southaven
Partner
Reeves-Williams Builders

*Member of Advisory Board

Mississippi Power & Light Company

1978 Financial Review

Summary of Significant Accounting Policies

A. SYSTEM OF ACCOUNTS

The accounts of the Company are maintained in accordance with the system of accounts prescribed by the Federal Energy Regulatory Commission.

B. REVENUES

The Company records revenues as billed to its customers on a cycle billing basis. Revenue is not accrued for energy delivered but not billed at the end of the fiscal period. The rates of the Company include fuel adjustment clauses under which fuel costs above or below the base levels allowed in the various rate schedules are permitted to be billed or required to be credited to customers.

C. UTILITY PLANT AND DEPRECIATION

Utility plant is stated at original cost. The costs of additions to utility plant include contracted work, direct labor and materials, allocable overheads and an allowance for the composite cost of funds used during construction. The costs of units of property retired are removed from utility plant, and such costs plus removal costs, less salvage, are charged to accumulated depreciation. Maintenance and repairs of property and replacement and renewal of items determined to be less than units of property are charged to operating expenses. Principally all of the utility plant is subject to the lien of the Company's first mortgage bond indenture.

Depreciation is computed on the straight-line basis at rates based on the estimated service lives of the various classes of property. Depreciation provided in 1978 and 1977 amounted to approximately 3.3% and 3.4%, respectively, on average depreciable property.

D. PENSION PLAN

The Company has a pension plan covering substan-

tially all of its employees. Pension costs in 1978 and 1977 amounted to \$2,402,000 and \$1,705,000, respectively, including amortization of unfunded prior service costs over a period of 20 years. The policy of the Company is to fund pension costs as accrued.

E. INCOME TAXES

The Company joins its parent in filing a consolidated Federal income tax return. Income taxes are allocated to the Company generally in proportion to its contribution to the consolidated tax liability.

Deferred income taxes are provided for differences between book and taxable income to the extent permitted by the regulatory bodies for rate-making purposes.

Investment tax credits utilized are deferred and amortized over the average useful life of the related property.

F. ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION

In accordance with the regulatory system of accounts, the Company capitalizes, as an appropriate cost of utility plant, an allowance for funds used during construction. This allowance (a non-cash item) represents the net cost of funds used to finance construction. The effective rates of such allowances were 7.35% and 6.92% for 1978 and 1977, respectively.

G. RESERVES

It is the policy of the Company to provide reserves for uninsured property risks and for claims for injuries and damages through charges to operating expense on an accrual basis. Accruals for these reserves have been allowed for rate-making purposes.

MISSISSIPPI POWER & LIGHT COMPANY

We have examined the balance sheets of Mississippi Power & Light Company as of December 31, 1978 and 1977 and the related statements of income, retained earnings, and source of funds for utility plant additions for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned financial statements present fairly the financial position of the Company at December 31, 1978 and 1977 and the results of its operations and source of funds for utility plant additions for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

February 2, 1979
New Orleans, Louisiana

DELOITTE HASKINS & SELLS

Mississippi Power & Light Company
Balance Sheet
December 31, 1978 and 1977

ASSETS	1978	1977
	In Thousands	
UTILITY PLANT:		
Electric plant	\$ 708,217	\$ 681,620
Construction work in progress	10,820	15,660
Electric plant acquisition adjustments	2,588	2,769
Total	721,625	700,049
Less accumulated depreciation	197,299	177,324
Utility plant—net	524,326	522,725
OTHER PROPERTY AND INVESTMENTS—At cost:		
Investment in associated company (Note 3)	10,269	11,339
Other	930	956
Total	11,199	12,295
CURRENT ASSETS:		
Cash (Note 2)	445	2,196
Special deposits	891	770
Temporary investments, at cost which approximates market	24,500	22,000
Accounts receivable:		
Customer and other—less allowance		
for doubtful accounts of \$154,000	16,261	15,083
Associated companies	4,724	3,410
Materials and supplies—at average cost:		
Fuel	5,439	4,365
Other	7,185	6,022
Other	6,683	2,473
Total	66,128	56,319
DEFERRED DEBITS:		
Advances for gas purchases	—	1,070
Unamortized debt expense	1,149	1,207
Other	1,010	1,369
Total	2,159	3,646
TOTAL	\$ 603,812	\$ 594,985

See Notes to Financial Statements.

LIABILITIES	1978	1977
	In Thousands	
CAPITALIZATION:		
Preferred stock (Page 6)	\$ 38,077	\$ 38,077
Common stock, no par value (stated value \$23 per share) authorized 5,000,000 shares; outstanding 4,540,000 shares	104,420	104,420
Paid-in surplus	5	5
Retained earnings (Note 4)	64,618	55,954
Total	207,120	198,456
Long-term debt (Page 6)	271,374	279,073
Total	478,494	477,529
CURRENT LIABILITIES:		
Long-term debt currently maturing	7,905	382
Accounts payable:		
Associated companies	6,776	7,269
Other	11,122	7,398
Customer deposits	8,303	7,284
Taxes accrued	15,528	24,230
Interest accrued	6,961	6,609
Dividends declared	596	596
Other	1,649	2,226
Total	58,840	55,994
DEFERRED CREDITS:		
Accumulated deferred income taxes	47,369	41,890
Accumulated deferred investment tax credits	16,478	17,385
Other	344	326
Total	64,191	59,601
RESERVES	2,287	1,861
TOTAL	<u>\$ 603,812</u>	<u>\$ 594,985</u>

See Notes to Financial Statements.

Mississippi Power & Light Company

Statement of Income

For the years ended December 31, 1978 and 1977

	1978	1977
	In Thousands	
OPERATING REVENUES	\$ 400,276	\$ 365,346
OPERATING EXPENSES:		
Operation:		
Fuel	208,161	181,168
Power purchased	40,049	42,471
Other	32,102	28,262
Maintenance	16,997	15,446
Depreciation	20,528	19,728
Taxes other than income taxes	14,950	14,299
Income taxes (Note 1)	20,492	20,964
Total	353,279	322,338
OPERATING INCOME	46,997	43,008
OTHER INCOME AND DEDUCTIONS:		
Allowance for other funds used during construction	826	1,098
Miscellaneous—net	2,286	1,027
Income taxes (Note 1)	(916)	(113)
Total	2,196	2,012
INTEREST CHARGES:		
Interest on long-term debt	19,842	19,931
Other interest—net of debt premium	852	565
Allowance for borrowed funds used during construction	(346)	(503)
Total	20,348	19,993
NET INCOME	\$ 28,845	\$ 25,027

Statement of Retained Earnings

For the years ended December 31, 1978 and 1977

RETAINED EARNINGS, JANUARY 1	\$ 55,954	\$ 50,381
ADD—Net income	28,845	25,027
Total	84,799	75,408
DEDUCT:		
Dividends—cash:		
Preferred stock	2,384	2,384
Common stock	17,797	17,070
Total	20,181	19,454
RETAINED EARNINGS, DECEMBER 31 (Note 4)	\$ 64,618	\$ 55,954

See Notes to Financial Statements.

Mississippi Power & Light Company **Statement of Source of Funds For Utility Plant Additions**

For the years ended December 31, 1978 and 1977

1978 1977

In Thousands

SOURCE OF FUNDS:

From operations:

Net income	\$ 28,845	\$ 25,027
Depreciation	20,528	19,728
Deferred income taxes and investment tax credit adjustments—net	4,572	4,459
Allowance for funds used during construction	(1,172)	(1,601)
Total	52,773	47,613

Less—dividends declared:

Preferred stock	(2,384)	(2,384)
Common stock	(17,797)	(17,070)

Funds retained in business	32,592	28,159
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From decrease (Increase) in working capital

(excluding short-term securities and current maturities of long-term debt)	(11,986)*	5,518
Investments in associated company	1,070	(2,595)
Miscellaneous—net	4,144	2,501
Total	25,820	33,583

Financing transactions:

First mortgage bonds (retirements)	—	(8,498)
Other long-term debt	(106)	1,235
Short-term securities— net	(2,500)	(4,295)
Total	(2,606)	(11,558)

UTILITY PLANT ADDITIONS (excludes allowance for funds

used during construction)	\$ 23,214	\$ 22,025
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*The increase in working capital in 1978 is primarily due to a decrease in accrued income taxes.

See Notes to Financial Statements.

Mississippi Power & Light Company **Schedule of Preferred Stock and Long-Term Debt**

December 31, 1978 and 1977

December 31, 1978 and 1977	Shares		Current Call Price
	Authorized	Outstanding	Per Share
PREFERRED STOCK			
Cumulative, \$100 Par Value			
4.36% Series	60,000	59,920	\$ 103.86
4.56% Series	44,476	43,888	107.00
4.92% Series	100,000	100,000	102.88
9.16% Series	75,000	75,000	108.64
7.44% Series	100,000	100,000	106.53
Other Series	325,000	—	
Total	704,476	378,808	
		In Thousands	
Stated at \$100 a Share		\$ 37,881	
Premium on Preferred Stock		196	
Total		\$ 38,077	

LONG-TERM DEBT

	1978	1977
First Mortgage Bonds:	In Thousands	
3½% Series due 1979	\$ —	\$ 7,500
27½% Series due 1980	7,500	7,500
35½% Series due 1983	12,000	12,000
4½% Series due 1988	15,000	15,000
45½% Series due 1995	20,000	20,000
5½% Series due 1996	25,000	25,000
63½% Series due 1996	10,000	10,000
95½% Series due 1999	20,000	20,000
9¼% Series due 2000	17,500	17,500
7¾% Series due 2002	15,000	15,000
7¾% Series due 2003	30,000	30,000
8¼% Series due 2003	20,000	20,000
97½% Series due 2004	25,000	25,000
107½% Series due 2005	25,000	25,000
	242,000	249,500
Principal Amount of Capitalized Lease—		
8%, due serially through 1993	7,977	8,282
Pollution Control Bonds:		
7½% due 2004	9,400	9,400
8½% due 2004	8,575	8,575
5% to 8½% due 1978 to 1995	2,200	2,024
Unamortized Premium on Debt	1,222	1,292
Total (Annual sinking fund requirements, which may be met by certification of property additions at the rate of 167% of such requirements, amount to \$2,537,000 for 1979.)	\$ 271,374	\$ 279,073

Notes to Financial Statements

1. INCOME TAXES

Income tax expense consists of the following:

	1978	1977
	In Thousands	
Current		
Federal	\$14,568	\$14,981
State	1,352	1,524
Total	15,920	16,505
Deferred - Net		
Liberalized depreciation	5,139	5,300
Other	340	(1,046)
Total	5,479	4,254
Investment tax credit adjustments - net	(907)	205
Total charged to operations	20,492	20,964
Charged to other income	916	113
Total	\$21,408	\$21,077

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

	1978		1977	
	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income
Computed at statutory rate	\$24,122	48.0%	\$22,130	48.0%
Increases (reductions) in tax resulting from:				
Tax savings due to filing consolidated return	(1,900)	(3.8)	(1,800)	(3.9)
Other - net	(814)	(1.6)	747	1.6
Recorded income tax expense	\$21,408	42.6%	\$21,077	45.7%

Unused investment tax credits at December 31, 1978 amounted to \$5,556,000, of which \$2,831,000 may be carried forward through 1984 and \$2,725,000 through 1985. Certain reclassifications of previously reported amounts have been made to reflect current classifications.

The Federal income tax returns for the years 1971 through 1974 have been examined and assessments, which have been protested, have been proposed by the Internal Revenue Service. The years subsequent to 1974 are subject to examination. Management is of the opinion that adequate provisions have been made for any taxes that may ultimately be assessed.

2. LINES OF CREDIT AND SHORT-TERM BORROWINGS

The Company has arrangements, not requiring commitment fees, with certain banks providing for short-term borrowings of up to \$22,000,000 as of December 31, 1978. The lines of credit were unused at December 31, 1978 and 1977.

There were no short-term borrowings during 1978. During the twelve months ended December 31, 1977, the maximum aggregate amount of short-term borrowings outstanding at the end of any month was \$8,700,000. The average amount of short-term borrowings outstanding during the twelve months ended December 31, 1977, (based on the average of the sum of daily outstanding principal balances) approximated \$904,000 of commercial paper. The approximate average interest rate (determined by dividing the actual interest expense on short-term borrowings during the year by the average short-term borrowings) was 5.5% for commercial paper.

3. COMMITMENTS AND CONTINGENCIES

The Company's construction program contemplates expenditures of approximately \$54,000,000 in 1979.

The Company has a 19% interest in System Fuels, Inc. (SFI), a jointly-owned subsidiary of four of the principal operating subsidiaries of Middle South Utilities, Inc. (SFI stockholders). SFI operates on a non-profit basis in planning and implementing programs for the procurement of fuel supplies for the generating units of these operating companies; its costs are recovered through charges for fuel delivered.

The Company has made loans to SFI to further its fuel supply business under certain loan agreements which provide for SFI to borrow from its stockholders up to \$149,400,000. As of December 31, 1978 the Company had loaned \$10,265,250 to SFI pursuant to the loan agreements, and the Company's share of the unused loan commitment is approximately \$15,793,000. Loans mature in 10 and 25 years from the date of borrowing.

In connection with certain financing arrangements by SFI totaling \$113,702,000 at December 31, 1978, the Company and the other SFI stockholders have covenanted and agreed severally in accordance with their respective shares of ownership of SFI's common stock, that they will take any and all action necessary to keep SFI in a sound financial condition and to place SFI in a position to discharge, and to cause SFI to discharge, its obligations.

SFI has entered into a contract with a joint venture for a supply of coal from a mine to be developed in Wyoming which is expected to provide 150 to 210 million tons over a period of 26 to 42 years.

4. RETAINED EARNINGS

The indenture provisions relating to the Company's long-term debt provide for restrictions on the payment of cash dividends on common stock. As of December 31, 1978, \$43,003,000 of retained earnings are free from such restrictions.

5. TRANSACTIONS WITH AFFILIATES

The Company buys from and sells electricity to the operating subsidiaries of Middle South Utilities, Inc., its parent, under rate schedules filed with the Federal Energy Regulatory Commission. In addition, the Company purchases fuel from System Fuels, Inc.

Operating revenues include revenues from sales to affiliates amounting to \$82,899,000 in 1978 and \$74,186,000 in 1977. Operating expenses include fuel cost and purchased power charges from affiliates totaling \$164,360,000 in 1978 and \$157,093,000 in 1977.

6. QUARTERLY RESULTS (Unaudited)

Unaudited operating results by quarters follow (in thousands):

	Quarter Ended			
1978	March	June	September	December
Operating revenues	\$104,034	\$ 81,894	\$119,694	\$ 94,654
Operating income	12,059	7,629	14,839	12,470
Net income	7,564	2,826	10,349	8,106
1977				
Operating revenues	\$ 84,325	\$ 83,455	\$106,601	\$ 90,965
Operating income	11,397	8,731	14,207	8,673
Net income	6,949	4,231	9,534	4,313

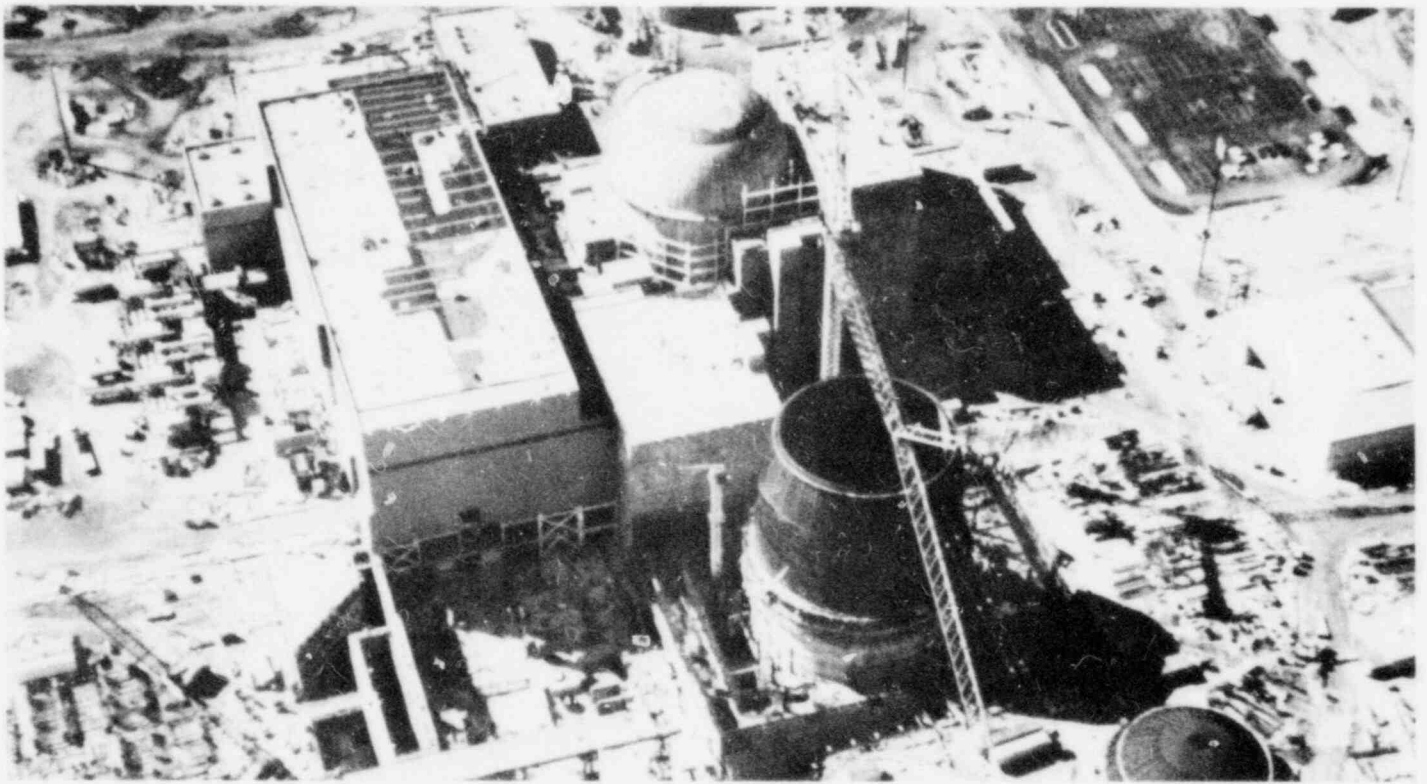
The business of the Company is subject to seasonal fluctuations with peak periods occurring during the summer months. Accordingly, earnings information for any three-month period should not be considered as a basis for estimating the results of operations for a full year.

7. REPLACEMENT COST (Unaudited)

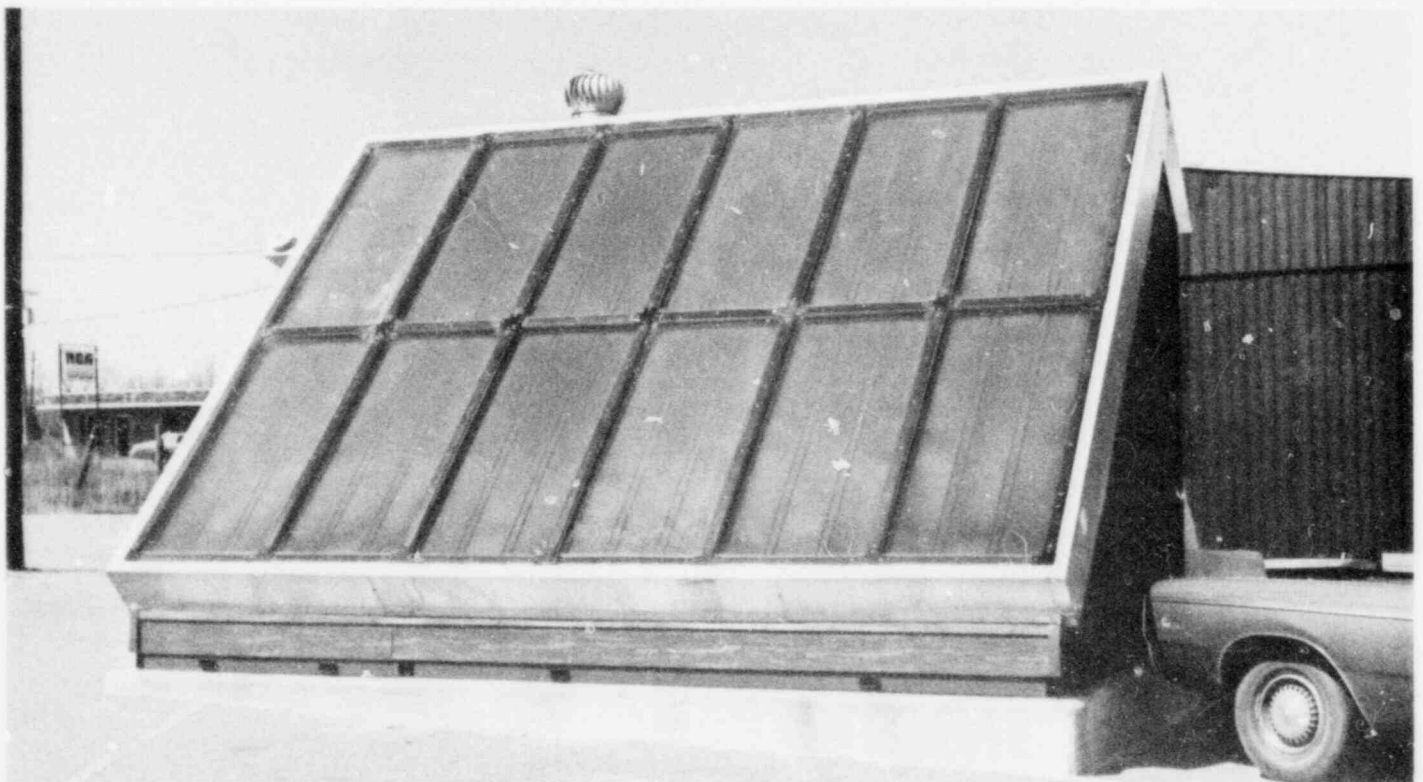
The impact of the rate of inflation experienced in recent years has resulted in replacement costs of productive capacity that are significantly greater than the historical costs of such assets reported in the Company's financial statements. In compliance with reporting requirements, estimated replacement cost information is disclosed in the Middle South Utilities, Inc. annual report to the Securities and Exchange Commission on Form 10K.

8. ACCOUNTING POLICIES

The summary of significant accounting policies on page 1 is an integral part of these notes to financial statements.



Two energy sources are depicted in these photos. At top is an aerial view of the \$2.3 billion Grand Gulf Nuclear Station being constructed by MP&L near Port Gibson. The first unit of the 2,500,000 kilowatt facility was 73% complete at year's end. Below is a major solar energy research project, designed to test the feasibility of using energy from the sun for small residential space and water heating, installed by MP&L at Clinton during the year. The U. S. Department of Energy and the National Aeronautics and Space Administration are cooperating in the solar research.



Executive Staff



Top row, from left: DONALD C. LUTKEN, President and Chief Executive Officer; FRANK S. YORK, JR., Vice-President, Chief Financial Officer and Secretary; second row, from left: NORRIS L. STAMPLEY, Vice-President, Production, System Operations and Construction and Engineering; ALEX McKEIGNEY, Vice-President, Informational Services; third row, from left: W. DONALD COLMER, Vice-President, Public Affairs and Environmental Matters; JOHN D. HOLLAND, Vice-President, Area Affairs; J. S. FRAME, Vice-President, Personnel and Administrative Services; fourth row, from left: DONALD E. MEINERS, Vice-President, Customer Services; THOMAS A. DALLAS, Manager, Engineering, System Operations and Construction; JAMES R. MARTIN, Treasurer; fifth row, from left: GEORGE LEDLOW, Director, Internal Auditing; W. T. WOODS, JR., Manager, General Property and Services; ALLAN H. MAPP, Assistant Treasurer and Assistant Secretary; and MARION TOWNSEND, Chief Engineer.

Division Managers

Top row, from left:

THOMAS M. BOX, Delta, Cleveland;
DAVID I. BRIDGERS, Western, Vicksburg;
BERT M. CANTRELL, Southern, McComb.

Middle row, from left:

JOHN R. CRAFT, Northwestern, Greenville;
ROBERT C. LOFLIN, Southwestern, Natchez; and JAMES L. MOORE, Central, Jackson.

Bottom row, from left:

GRAHAM H. TEMPEL, South Central, Brookhaven;
RAY TOMLINSON, Northern, Senatobia; and HIRAM WALTERS, North Central, Grenada.



Plant Managers

Top row, from left:

MALCOLM ALLRED, Baxter Wilson, Vicksburg;
RICHARD DENMAN, Natchez, Natchez; and A. T. JOHNSON, Rex Brown, Jackson.

Bottom row, from left:

KENNETH McCOY, Grand Gulf Nuclear*, Port Gibson; ALAN SEBREN, Gerald Andrus, Greenville; and REX SHANNON, Delta, Cleveland.

*First unit to be operational in 1981.



Mississippi Power & Light Company
Record of Progress 1968 - 1978

	1978	1977	1976
ELECTRIC OPERATING REVENUES (000s OMITTED)			
Residential	\$ 116,705	\$ 106,520	\$ 91,849
Commercial	73,542	69,114	60,855
Industrial	70,306	67,948	58,645
Government & Municipal	11,804	11,158	9,899
Cooperatives & Municipalities	36,591	34,073	25,622
Total From Energy Sales (Miss. Area)	302,948	288,813	246,870
Sales to Other Public Utilities	93,701	77,732	57,298
Total From Energy Sales	396,649	366,545	304,168
Miscellaneous Revenues	3,187	1,441	1,113
Deferred Fuel Adjustment Revenues*	440	(2,640)	3,495
Total Electric Operating Revenues	\$ 400,276	\$ 365,346	\$ 308,776
ELECTRIC ENERGY SALES (MKWH)			
Residential	2,856,736	2,727,718	2,491,067
Commercial	1,811,881	1,647,919	1,537,169
Industrial	2,187,020	2,071,093	1,935,573
Government & Municipal	371,811	344,634	326,275
Cooperatives & Municipalities	1,280,949	1,217,042	1,064,636
Total Energy Sales (Miss. Area)	8,478,397	8,008,406	7,354,720
Sales to Other Public Utilities	4,354,425	3,580,571	2,624,001
Total Electric Energy Sales	12,832,822	11,588,977	9,978,721
ELECTRIC CUSTOMERS (END OF PERIOD)			
Residential	255,174	249,889	245,384
Commercial	37,405	35,922	34,718
Industrial	3,245	3,301	3,247
Government & Municipal	2,049	1,965	1,920
Cooperatives & Municipalities	66	67	67
Total Customers (Miss. Area)	297,939	291,144	285,336
Other Public Utilities	2	2	2
Total Electric Customers	297,941	291,146	285,338
SYSTEM INPUT (MKWH)			
Mississippi Area	9,299,653	8,739,930	7,995,184
Other	8,105,780	7,422,162	6,275,856
Total System Input	17,405,433	16,162,092	14,271,040
PEAK LOAD (MISS. AREA)—KW	1,899,000	1,784,000	1,733,000
LOAD FACTOR (MISS. AREA)—PER CENT	56	56	53
NET PLANT CAPABILITY—KW	2,763,000	2,763,000	2,752,000
CIRCUIT MILES OF ELECTRIC LINES	18,334	18,109	17,859
TOTAL ELECTRIC UTILITY PLANT (000s OMITTED)			
Production	\$ 351,646	\$ 349,195	\$ 338,118
Transmission	146,227	132,966	118,137
Distribution	190,820	180,035	171,935
General & Other	16,254	16,154	15,727
Total Utility Plant Completed	704,947	678,350	643,937
Plant Held for Future Use	3,270	3,270	3,270
Construction Work in Progress	10,820	15,660	28,061
Electric Plant Acquisition Adjustments	2,588	2,769	2,951
Total Utility Plant	\$ 721,625	\$ 700,049	\$ 678,219

*See Item B to Summary of Significant Accounting Policies.

1975	1974	1973	1972	1971	1970	1969	1968
74,296	\$ 67,690	\$ 47,473	\$ 38,096	\$ 32,499	\$ 30,097	\$ 27,353	\$ 24,528
47,484	43,559	31,294	25,701	22,126	20,290	18,507	16,797
42,863	41,743	26,852	22,399	19,439	17,535	17,076	15,979
7,022	6,163	3,975	3,193	2,842	2,707	2,437	2,194
21,399	13,362	9,915	9,884	7,914	7,027	6,299	5,592
93,064	172,517	119,509	99,273	84,820	77,656	71,672	65,090
43,084	10,484	6,684	15,223	9,423	4,911	5,090	4,452
236,148	183,001	126,193	114,496	94,243	82,567	76,762	69,542
838	574	449	374	393	364	342	309
3,071	(5,134)	—	—	—	—	—	—
240,057	\$ 178,441	\$ 126,642	\$ 114,870	\$ 94,636	\$ 82,931	\$ 77,104	\$ 69,851
40,460	2,268,954	2,356,073	2,032,670	1,802,675	1,674,415	1,470,430	1,274,923
57,505	1,356,173	1,380,035	1,213,432	1,091,553	1,007,557	907,912	823,035
51,042	1,793,055	1,787,741	1,677,137	1,624,499	1,464,602	1,410,912	1,351,195
02,319	271,233	262,645	238,624	219,463	210,951	179,178	157,279
90,309	938,205	988,351	1,089,349	966,015	959,649	860,842	765,837
41,635	6,627,620	6,774,845	6,251,212	5,704,205	5,317,174	4,829,274	4,372,269
38,144	487,097	312,454	1,269,927	1,282,153	984,933	1,143,398	870,335
79,779	7,114,717	7,087,299	7,521,139	6,986,358	6,302,107	5,972,672	5,242,604
41,739	237,085	229,761	206,222	198,435	191,529	187,670	183,538
33,801	33,474	33,109	30,629	29,453	28,419	28,109	27,532
3,247	3,267	3,213	3,168	3,209	3,140	3,022	2,990
1,879	1,789	1,731	1,618	1,558	1,514	1,447	1,393
66	63	61	74	75	71	70	67
80,732	275,678	267,875	241,711	232,730	224,673	220,318	215,520
1	1	1	2	3	4	4	4
80,733	275,679	267,876	241,713	232,733	224,677	220,322	215,524
83,971	7,249,896	7,378,216	6,906,300	6,246,040	5,875,777	5,326,174	4,783,640
69,242	4,353,673	4,160,152	5,081,123	4,700,857	4,429,887	4,957,040	3,677,783
53,213	11,603,569	11,538,368	11,987,423	10,946,897	10,305,664	10,283,214	8,461,423
42,000	1,640,000	1,565,000	1,476,000	1,343,000	1,238,000	1,176,000	1,005,000
52	51	54	53	53	54	51	53
52,000	2,752,000	2,002,000	2,002,000	2,002,000	1,231,000	1,231,000	1,231,000
17,713	17,461	17,146	14,279	14,061	13,892	13,783	13,588
99,583	\$ 292,491	\$ 176,217	\$ 166,537	\$ 166,364	\$ 106,419	\$ 106,434	\$ 106,582
18,450	109,960	91,535	91,068	85,074	79,225	79,218	76,988
66,590	158,256	148,492	130,191	124,523	119,198	113,428	108,049
15,366	14,763	14,355	13,598	13,372	13,283	12,401	11,765
99,989	575,470	430,599	401,394	389,333	318,125	311,481	303,384
4,070	1,219	1,144	1,144	594	564	564	511
35,772	16,688	121,908	50,070	12,396	53,257	16,445	3,524
3,113	3,293	3,067	—	—	—	—	—
42,944	\$ 596,670	\$ 556,718	\$ 452,610	\$ 402,323	\$ 371,946	\$ 328,490	\$ 307,419



Mississippi Power & Light Company
Post Office Box 1640
Jackson, Mississippi 39205

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