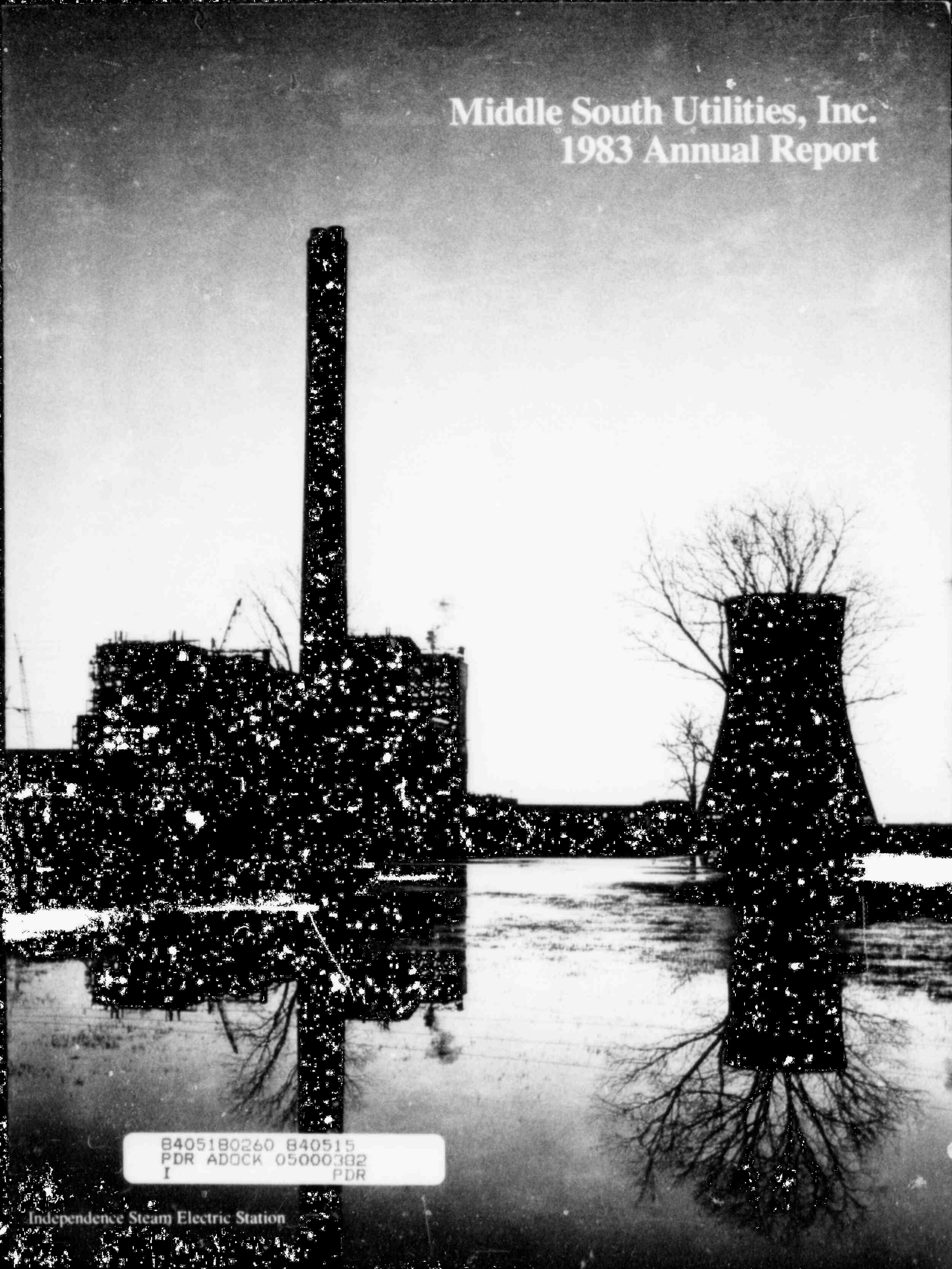
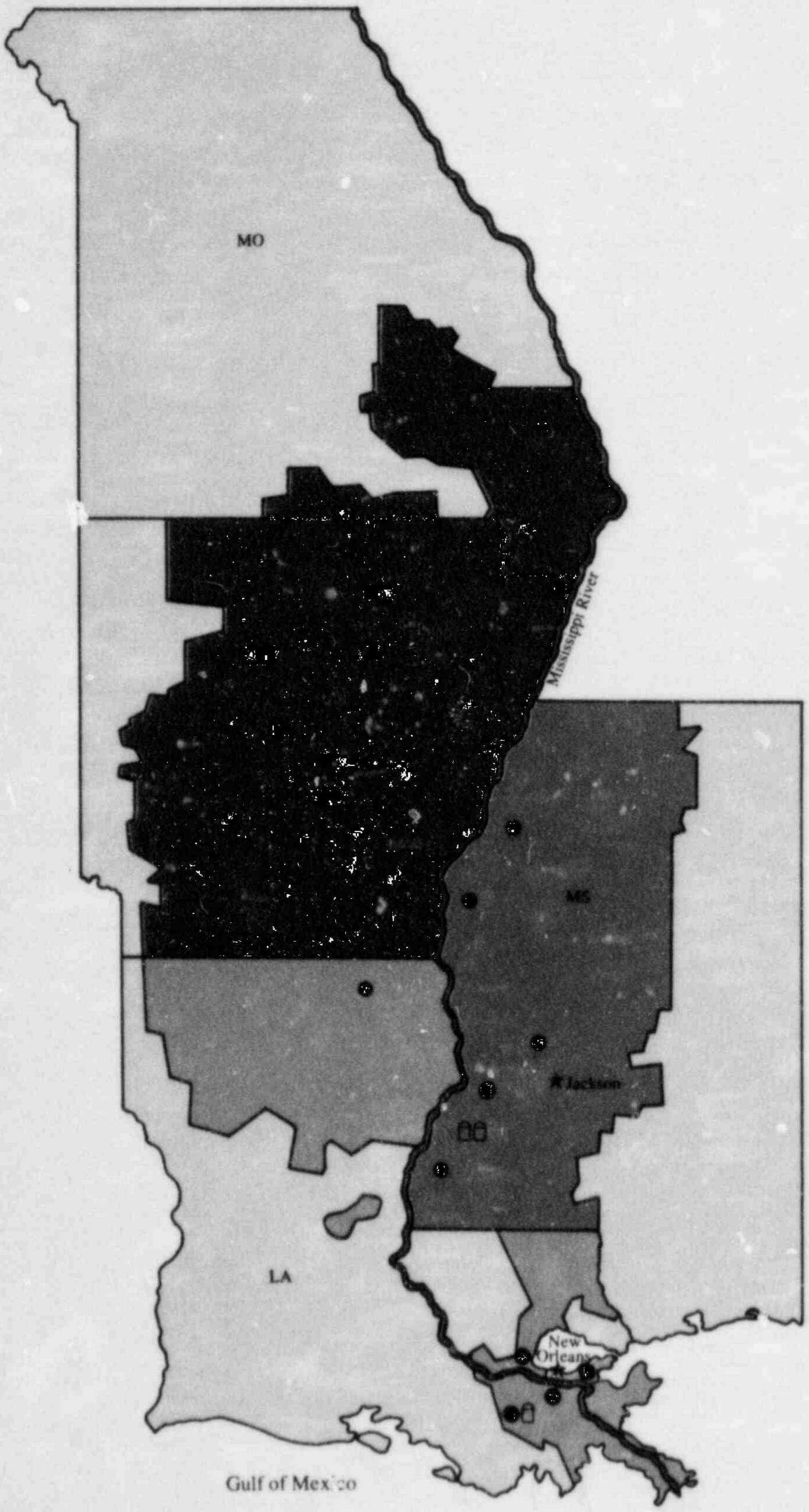
Middle South Utilities, Inc.
1983 Annual Report



Independence Steam Electric Station

Corporate Identification



Middle South Utilities, Inc. *is an investor-owned public utility holding company that owns all the outstanding common stock of four operating companies. Those companies are Arkansas Power & Light Company, Louisiana Power & Light Company, Mississippi Power & Light Company, and New Orleans Public Service Inc. Other principal subsidiaries of Middle South Utilities, Inc. are Middle South Services, Inc., a service company, Middle South Energy, Inc., which owns the major portion of a 2.5 million kilowatt generating facility, Grand Gulf Nuclear Station, now under construction in Mississippi, and Electec, Inc., a diversified subsidiary which markets the capabilities, expertise, and resources of the System companies.*

System Fuels, Inc. is a fuels procurement subsidiary of the four operating companies. Associated Natural Gas Company is a gas distribution subsidiary of Arkansas Power & Light Company.

The Middle South Utilities System

Major Generating Station

- ● **Gas & Oil**
- **Nuclear** (Operating)
- **Nuclear** (Under Construction)
- ■ **Coal** (Operating)
- □ **Coal** (Under Construction)

Service Area

- AP&L
- LP&L
- MP&L
- NOPSI

Abbreviations: In this report, references to companies in the Middle South Utilities System are as follows:

MSU or the Company	Middle South Utilities, Inc.
AP&L	Arkansas Power & Light Company
LP&L	Louisiana Power & Light Company
MP&L	Mississippi Power & Light Company
NOPSI	New Orleans Public Service Inc.
MSS	Middle South Services, Inc.
SFI	System Fuels, Inc.
MSE	Middle South Energy, Inc.
Associated	Associated Natural Gas Company
System	The companies of the Middle South Utilities System

Performance Highlights

	1983	1982	% Increase
Total Operating Revenues (millions)	**$ 2,910**	$ 2,846	2.2
Total Operating Expenses (millions)	**$ 2,465**	$ 2,411	2.2
Fuel, Purchased Power, & Purchased Gas Costs (millions)	**$ 1,474**	$ 1,550	(4.9)
Operating Income (millions)	**$ 444**	$ 435	2.1
Allowance for Funds Used During Construction (millions)	**$ 426**	$ 353	20.7
Net Income (millions)	**$ 378**	$ 311	21.5
Rate of Return on Average Common Equity	**13.79%**	13.30%	
Earnings per Common Share	**$ 2.46**	$ 2.33	5.6
Dividends Paid per Common Share	**$ 1.70**	$ 1.66	2.4
Retail Electric Customers at Year-end	**1,613,797**	1,586,874	1.7
Retail Electric Energy Sales (million kwh)	**48,350**	49,353	(2.0)
System Peak Load (megawatts)	**10,870**	10,382	4.7
Net Utility Plant at Year-end (billions)	**$ 10.2**	$ 8.9	14.6
Construction Expenditures (millions)	**$ 1,454**	$ 1,393	4.4
Average Number of Common Shares Outstanding (thousands)	**153,383**	133,193	15.2

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About the Cover

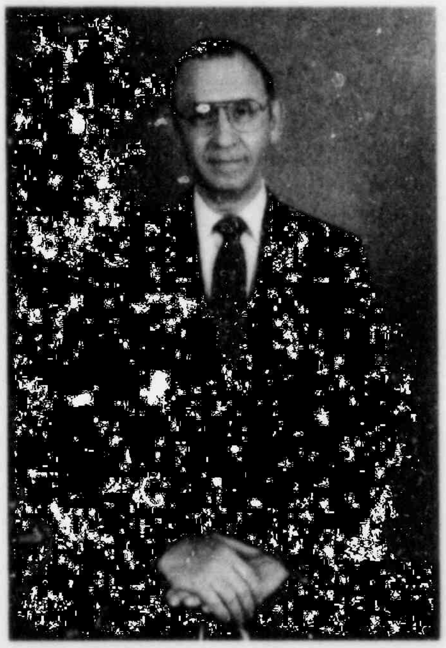
The Independence Steam Electric Station near Newark, Arkansas, pictured on the cover, consists of two coal-fueled units and is majority owned by MSU System operating companies. Unit 1 of the station began commercial operation in January 1983 and quickly achieved a high standard of operating efficiency. Unit 2 is expected to be in commercial operation by January 1985.

Chairman's Letter to Stockholders

Dear Fellow Stockholders:

1983 was a tough transitional year for the Middle South Utilities System. We experienced mixed financial performance, but achieved significant progress toward the construction of new plants for a better fuel balance and more reliable and adequate supply of electricity for the future economic growth of our region.

The nation's economic recovery did not occur with equal intensity



across the country, and we were well into the third quarter of the year before the sustained improvement in the economy of our area was reflected in our customers' electric energy usage. The industry average for electricity generation began to improve steadily in January, and by September, the cumulative national average was ahead of 1982. The Middle South System generation pattern was not so bright. As seen in the graph on page 3, a sustained positive growth in electric energy demand above the 1982 level did not occur for our System until July, and our cumulative electricity demand never reached the 1982 level.

These late year gains, however, make us optimistic about the future. There is a close link between a utility's ability to provide adequate levels of reliable service and the economic growth of that utility's service area. One gauge used by private sector economic planners in determining where to locate or expand business is the availability of reliable electric energy at a reasonable cost.

Our System operating companies enhance the potential for economic development of their service areas by providing reliable electric service at rates that are well below the national average. Actions taken by the System in 1983 further strengthen our capabilities in this regard, as seen by these achievements:

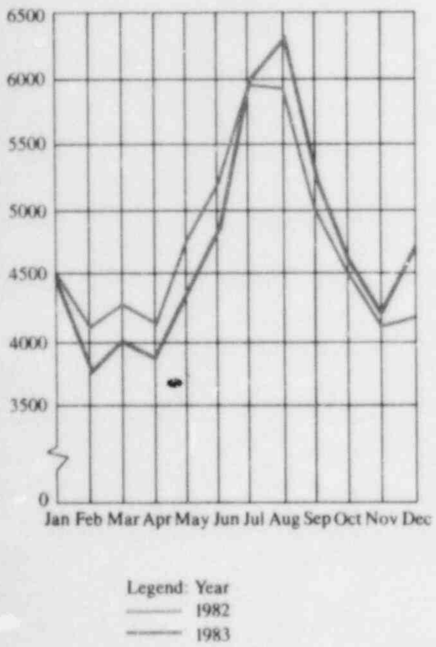
- In January, the System's coal generation was expanded by 472 megawatts through System companies' ownership of 56.5 percent of Unit 1 which came on line at the Independence Steam Electric Station near Newark, Arkansas, and quickly established a high performance record. Construction of a second unit is moving ahead well and should be completed by the beginning of 1985.
- In July, the transit operations of New Orleans Public Service Inc. were transferred to the Regional Transit Authority, a state agency, freeing NOPSI to concentrate its efforts on electric and gas service.
- In November, low-power testing was successfully completed ahead of schedule at Grand Gulf Nuclear Station Unit 1 near Port Gibson, Mississippi, and the project is prepared for a full-power operating license and achievement of commercial operation.
- In December, the percentage of reactor operators passing licensing examinations at the Waterford 3 nuclear facility near Taft, Louisiana, was among the highest recorded in the industry, moving this facility toward its full-power license and commercial operation in late 1984.
- In December, a new Middle South Utilities, Inc. subsidiary, Electec, Inc., was chartered in Louisiana to develop diversified business opportunities using the resources of the System companies.

As a nation, we are moving toward greater electrification. Electric power provided just one-sixth of our country's total energy consumption in 1950, but by year-end 1983, electricity demand had risen to one-third of total energy consumption. Electric utility industry experts maintain that continuation of this trend will require the construction of an estimated 300 additional generating plants by the end of this century to meet the nation's growing electric energy demand, as well as to replace facilities that will have reached the end of their useful life.

Lessons of the past have taught us that an energy system based on domestic fuel supplies is the most secure and reliable. And the only plentiful energy resources of proven availability and adequate supply for the future are nuclear and coal. However, expanding total generating capacity or replacing older generat-

MSU System Energy Demand

Comparison of 1982 and 1983 Gigawatt-Hours



Note: A gigawatt-hour is 1 million kilowatt-hours.

ing units with either coal- or nuclear-fueled capacity has become even more capital intensive than it was in earlier decades.

It is estimated that when they are finished, approximately $5.8 billion will have been spent for the additional coal-fueled capacity from Independence Unit 2 and the two nuclear units, Grand Gulf 1 and Waterford 3. These have been costly undertakings, but we expect that the future will prove them to have been sound economic investments in providing the System with reasonably priced, reliable electric energy.

We are confident that these nuclear units will be successfully licensed and put into commercial operation. Our standards of construction are meeting or exceeding all licensing requirements. And, we are training and obtaining certification for the necessary plant personnel to operate the units safely and efficiently.

These units will bring us significantly closer to our goal of reducing the System's over-dependence on natural gas and oil as generating fuels.

The System operating companies that will receive power from Grand Gulf Unit 1 are considering proposals to phase into rates the costs associated with constructing the unit. Under the proposals being considered, a portion of the costs associated with Grand Gulf energy would be deferred for the first few years of operation and would be recovered in rates during subsequent years. If the operating companies' proposals, which include earning a reasonable cash return on the deferred charges are accepted, the phase-in will both moderate the impact on customer rates and protect the shareholders' investment. This approach would be favorable to the region's potential for continued economic development which is important to future earnings and financial health.

Our greatest challenges and opportunities in 1984 and beyond are those associated with getting our new coal and nuclear facilities into commercial service for safe and efficient power production. Then we face the financial urgency of gaining adequate and timely ratemaking treatment that will allow us to recover the costs associated with constructing the units. Assuming that both of these objectives are met, the Company's need for external financing will decrease dramatically in 1985, and our ability to generate funds internally should improve.

The progress of your Company during 1983 toward achieving its corporate goals could not have been made without the talent and dedication of its employees and the support of its stockholders. I invite you to learn more of our plans and achievements as discussed in the remainder of this report.

Most sincerely,

Floyd W. Lewis
Chairman/President

1983 In Review

Actions taken by Middle South Utilities System companies during 1983, along with the economic recovery, have strengthened our capabilities to continue building the generating capacity needed for reliable electric service and to support the economic development of the Middle South region.

Financial Review

The System's 1983 financial results reflect the transitional aspects of the Company's region moving from a recessionary economy to one of growth, and the effects of sizable construction expenditures necessary to reduce the System's over-dependence on gas and oil as generating fuels.

Consolidated Net Income and Earnings Improve

The Company's consolidated net income for 1983 was $378 million, a 21.5 percent increase over the 1982 net income of $311 million. Earnings per share rose 5.6 percent to $2.46 on a 15.2 percent greater average number of common shares outstanding, compared with $2.33 in 1982.

These improvements are attributable to increases in rates totaling $114.1 million on an annual basis during the year, of which $9.1 million were being collected subject to possible refund; management's continued emphasis on controlling costs; and an increase in the allowance for funds used during construction. The 166 million shares of MSU common stock outstanding at year-end were held by 217,654 stockholders of record.

Operating Revenues and Expenses Increase

The System's 1983 operating revenues of $2.9 billion represent an increase of 2.2 percent over 1982, while operating expenses of $2.47 billion were just slightly higher than the $2.41 billion of 1982. The System's costs of fuel, purchased power, and natural gas purchased for resale, which are substantially recovered under approved pass-through adjustment clauses in rate schedules, are reflected in revenues. These expenses during 1983 were $1.5 billion, 4.9 percent less than 1982.

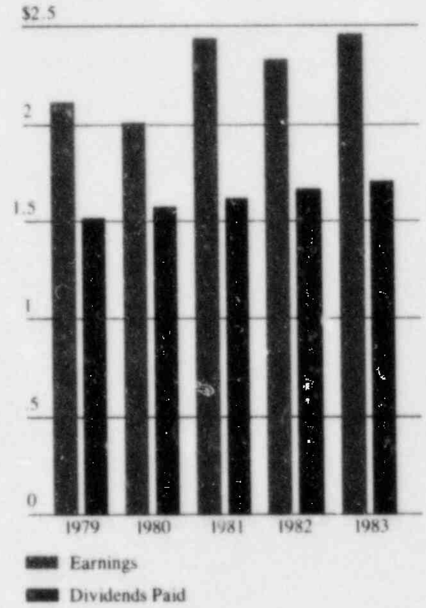
Gas revenues for 1983 increased by 11.9 percent compared with 1982 to $193.3 million, or approximately 6.6 percent of the Company's total operating revenues. The increase was due almost totally to collection from customers of increasing prices charged by our gas suppliers under applicable regulation.

Customer Peak Demand Exceeds Forecast

The System's peak electric demand — the one hour in the year in which customers' requirements are greatest — during 1983 occurred on August 29 at 4:00 p.m., when 10,870 megawatts were needed by the System operating companies. This peak was 5.5 percent higher than we had forecasted for the year. The previous year's peak demand was 10,382 megawatts.

Total retail customer usage of electric energy for the year, however, was 48.4 billion kilowatt-hours, 2 percent below that of 1982. This decline reflects the lingering effect of the economic recession on business activity in the Company's service area for much

Earnings and Dividends Per Share
(In Dollars)



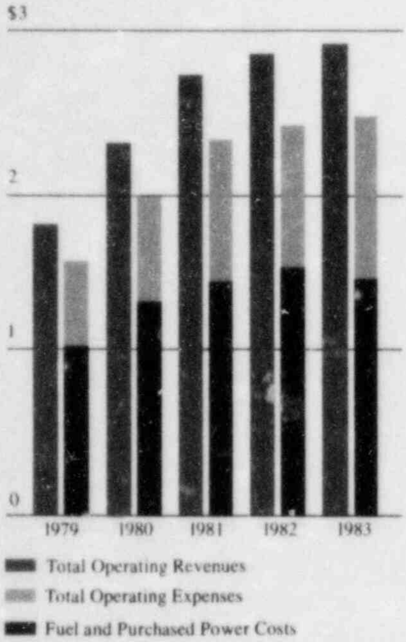
of the year, a return to generally normal weather conditions, and customer conservation efforts.

Industrial customers' usage decreased for the second straight year, falling 4.6 percent to 21.1 billion kilowatt-hours. While business activity in the Middle South area demonstrated increasing strength by the end of 1983, the increases in industrial electric energy usage during the latter part of the year were not sufficient to offset the declines experienced earlier in the year.

Residential customer usage of 15.5 billion kilowatt-hours also was lower in 1983, although 1.7 percent more residential customers were being served at year-end. The decline is attributable primarily to more normal weather conditions throughout the System's region than were experienced during 1982 and to the effects of customer conservation efforts.

Commercial sales rose by 1.6 percent to 9.8 billion kilowatt-hours as this sector of the service area's economy recovered more quickly from the recession. Usage by governmental customers was slightly below the 1982 level.

Operating Revenues and Expenses
(Billion $)



1983 Financing

Middle South Utilities' continuous offering program to sell common stock completed its first year in January 1984. Through this program, nearly 5 million shares of common stock were sold through The First Boston Corporation as exclusive sales agent. A procedure initially adopted by the Securities and Exchange Commission in early 1982 allows us to take advantage of the continuous offering program. Under it, we can decide on a day-to-day basis, according to market conditions, whether and how many shares of common stock we wish to sell. This program resulted in additional capital for the Company of approximately $77 million in 1983. Common stock was generally sold above the daily average market price without adversely affecting the market price of the stock on any given day. It is expected that the continuous offering program will be used in 1984 as a cost-effective method of meeting a portion of Middle South Utilities' needs for additional common equity.

The Company also sold common stock in 1983 through competitive bidding to underwriters who, in turn, reoffered the shares to the public. In February, 8 million shares of Middle South Utilities common stock were sold in this manner with the Company receiving net proceeds of approximately $122.6 million. An additional 7 million shares were sold in November at $15.56 per share for which the Company received nearly $108.9 million.

Stockholders continued to take advantage of the Company's Dividend Reinvestment and Stock Purchase Plan which raised $95 million during 1983 through the sale of 6.5 million shares of common stock to participants in the Plan. The number of stockholders participating in the Plan has increased each year since its inception in 1976. At the end of 1983, 35.6 percent of the Company's stockholders were participating in the Plan.

The proceeds of the Company's sales of common stock, together with the proceeds of borrowings under the Company's revolving credit agreement and other funds available to Middle South Utilities, were used for various corporate purposes including the purchase of common stock of the Company's subsidiaries. During 1983, the Company made investments of $65 million in AP&L, $150 million in LP&L, $29.9 million in MP&L, and $99 million in Middle South Energy, Inc. MSE has a 90 percent

ownership interest in the Grand Gulf Nuclear Station, Unit 1 of which is scheduled to go into commercial operation during the third quarter of 1984.

Certain of the MSU System companies were also active in the capital markets in 1983. AP&L sold $25 million of 30-year first mortgage bonds in February at an interest rate of 13.25 percent. In June, $45 million of tax-exempt 30-year pollution control revenue bonds were sold by AP&L at an interest rate of 11⅛ percent. A portion of the pollution control revenue bond proceeds was used to retire an issue which matured in 1983.

LP&L sold preferred stock in February and first mortgage bonds in both March and September. In the February preferred stock sale, LP&L sold 3 million shares of $25 par value preferred stock at a dividend rate of 12.64 percent. Two issues of first mortgage bonds, each consisting of $100 million, were sold in March. One issue of 13.25 percent bonds matures in 30 years. The other issue, with an interest rate of 12 percent, has a 10-year maturity. LP&L used proceeds from the September sale of $50 million of first mortgage bonds at an interest rate of 13 percent to refund a first mortgage bond issue which matured in September.

MP&L also sold first mortgage bonds and preferred stock during the year. In March, MP&L sold 100,000 shares of $100 par value preferred stock at a dividend rate of 12 percent, and in June, sold $45 million of first mortgage bonds with a five-year maturity and an interest rate of 11.25 percent.

MSE sold $49.5 million of tax-exempt pollution control revenue bonds in December at an initial interest rate of 8 percent.

Less Financing Required

The System's total capital requirements for 1984 and 1985 are expected to be $1,231 million and $799 million, respectively, compared to $1,454 million in 1983. These estimates are predicated on our meeting the construction program schedule shown on page 19. The 1984 requirements will be achieved primarily through external sources, including short-term bank loans and the sale of first mortgage bonds, preferred stock, pollution control revenue bonds, and MSU common stock.

Capitalization Ratios Improve

The Middle South Utilities System's capitalization ratios improved from 1982. At the end of 1983, the Company's capitalization ratios were: long-term debt, 57.2 percent; preferred stock, 8.7 percent; and common equity, 34.1 percent.

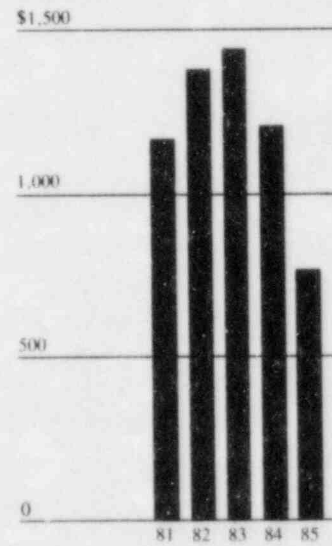
Operating Review

The System's operations were strengthened during 1983 by the addition of a new coal generation unit, modest rate relief, and the improving business activity of the region. Significant progress was made on completing the Company's current construction program which is expected to add an aggregate of approximately 2,229 megawatts of nuclear generating capacity to the System during 1984.

System Rates Below National Average

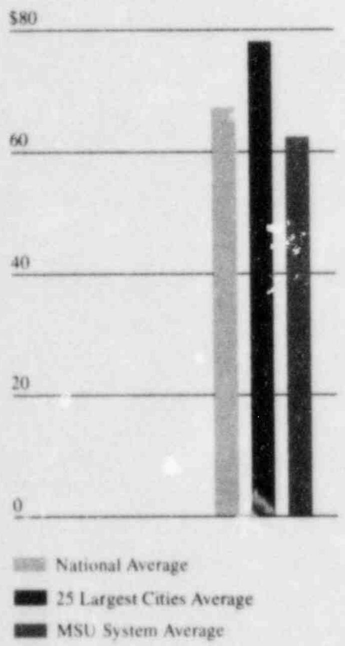
A survey by the Edison Electric Institute of investor-owned utilities during the winter of 1983 showed that the average residential electric bill for the Middle South System operating companies is significantly below the national average. Based on a 1,000 kilowatt-hour monthly use and rates in effect on January 1, 1983, the national average bill was $67.58, while the System-wide average for a 1,000 kilowatt-hour bill was $62.73. Commercial and industrial rates in the Middle South Utilities System were also below the national average, according to the same survey. After our large new sources of

Construction Expenditures
(Million $)



Note: Projected costs for 1984 and 1985 are predicated on Waterford 3, Grand Gulf 1, and Independence 2 being completed as presently scheduled.

1983 Residential Monthly Service Bill Comparison
1000 KWH Usage
(In Dollars)



power have been incorporated into rates, we expect our rates to still be quite competitive.

System Companies Active in Regulatory Arena

The System companies were active in 1983 in the regulatory arena. AP&L and MP&L received rate orders, and LP&L and NOPSI filed major rate cases in early 1983. As of year-end 1983, rate increases pending or on appeal totaled $463 million of additional annual net revenues.

At the wholesale level, lengthy hearings were held at the Federal Energy Regulatory Commission during 1983 with respect to the agreement under which MSE will sell to System operating companies its share of the power and energy from Grand Gulf and on a revised System operating agreement among the System operating companies.

AP&L Rate Increases Granted

At the end of 1983, Arkansas Power & Light Company did not have an electric rate case pending before any regulatory agency in either Arkansas or Missouri. However, Associated Natural Gas, a subsidiary of AP&L, had gas revenue net increases of $1.059 million pending in Arkansas. AP&L and Associated Natural Gas also had net revenue increases totaling $33.4 million on appeal in Arkansas and Missouri.

In August 1983, the Arkansas Public Service Commission granted AP&L a retail electric rate increase of $39.8 million, or 43 percent of the amount requested, in line with a settlement agreement between AP&L and the Commission staff. A reduction in the rate of inflation and lower than budgeted construction costs were principal reasons why the settlement was lower than the original request. Because the rates were scheduled to go into effect during the state's worst heat wave since 1980, AP&L deferred collecting the increase until October when cooler weather would ease the impact on customers. The amount deferred is being collected through a surcharge.

On a similar basis, a settlement agreement was reached with the Missouri Public Service Commission for a $3.15 million increase for AP&L's service area in Southeast Missouri.

LP&L, NOPSI Rate Decisions

On February 20, 1984, the Louisiana Public Service Commission granted LP&L $69.0 million of its request for a $309 million net increase in retail electric rates, which included its portion of costs of power and energy from the Grand Gulf nuclear plant when it goes into commercial operation. LP&L had adjusted its requested revenue increase to $309 million, compared to its original net request of $412 million, to reflect the Commission's March 1983 decision allowing LP&L to use $500 million of the Texaco settlement to reduce the rate base. The settlement, which dealt with disputes under gas contracts for power plant fuel extending to 1992, resulted in Texaco agreeing to pay LP&L $1.087 billion in cash in three installments and to guarantee at least $585 million in other benefits.

In what was one of the largest utility refunds ever undertaken, LP&L mailed to current and former customers during 1983 more than 1.1 million checks representing the initial $587 million received from Texaco, plus interest. In early 1984, LP&L will begin the first of 10 annual refunds covering the last $500 million of the Texaco settlement.

The Louisiana Public Service Commission on February 20, 1984, granted NOPSI a $24 million increase in retail electric rates. NOPSI's January 1983 filing requested a $113 million net increase in retail electric rates, including costs associated with power and energy from Grand Gulf Nuclear Station when it begins commercial operation.

An $11.5 million increase in annual gas revenues was authorized for NOPSI by the Louisiana Public Service Commission in November 1983. The Commission approved the increase after reconsidering a $16.9 million increase that it had denied in its entirety on June 24, 1983. NOPSI had appealed the earlier decision to the courts.

Grand Gulf Costs Excluded from LP&L, NOPSI Rate Increases

As part of their rate requests, LP&L and NOPSI had proposed to phase into rates the costs associated with their share of the capacity and energy from Grand Gulf Nuclear Station Unit 1 when it begins commercial operation. Under this proposal, a portion of the higher initial costs associated with Grand Gulf capacity would be deferred over the first four years and recovered during subsequent years.

In its February 20 orders, the Public Service Commission chose not to deal with the recovery of Grand Gulf costs at that time and took no action on the companies' rate moderation proposals. LP&L and NOPSI will seek to have this matter resolved prior to commercial operation of Grand Gulf Unit 1.

MP&L Receives Rate Increase

The Mississippi Public Service Commission in January 1983 approved a retail electric rate increase of $47.5 million for Mississippi Power & Light Company, or approximately 51 percent of the amount requested in July 1982. The increase was a 6 percent increase in rates over the level then being collected under bond in a 1980 rate case, and a substantial portion of the increase was related to fixed charges on MP&L's 25 percent ownership of the coal-fueled Independence Unit 1.

On remand from an appeal to the Mississippi Supreme Court, the Public Service Commission in April 1983 reduced a 1980 rate order for MP&L from a $48.3 million annual retail rate increase, based on a projected test year, to $39.8 million annually, based on a historical pro forma test year and with certain other adjustments. In accordance with applicable law, MP&L had been collecting rates since July 1, 1980, at the full amount of the $68.8 million increase originally requested. The company subsequently refunded all amounts above the adjusted rate level, plus interest, totaling approximately $75 million. Principally because revenues above the Commission's order level had been reserved, the refund had no material effect on MP&L's earnings for 1983, and no effect for prior periods.

In Mississippi on April 6, the Public Utilities Act of 1983 became law, significantly affecting utility rate change filings and collection of new rates in the state. The Act removes the former right to bill revised rates 30 days after filing under refunding bond, compresses the hearing time from six months to four months, and prevents a utility from having more than one major change in rates in effect under refunding bond at the same time.

MSE Asks for Cost of Service Rate

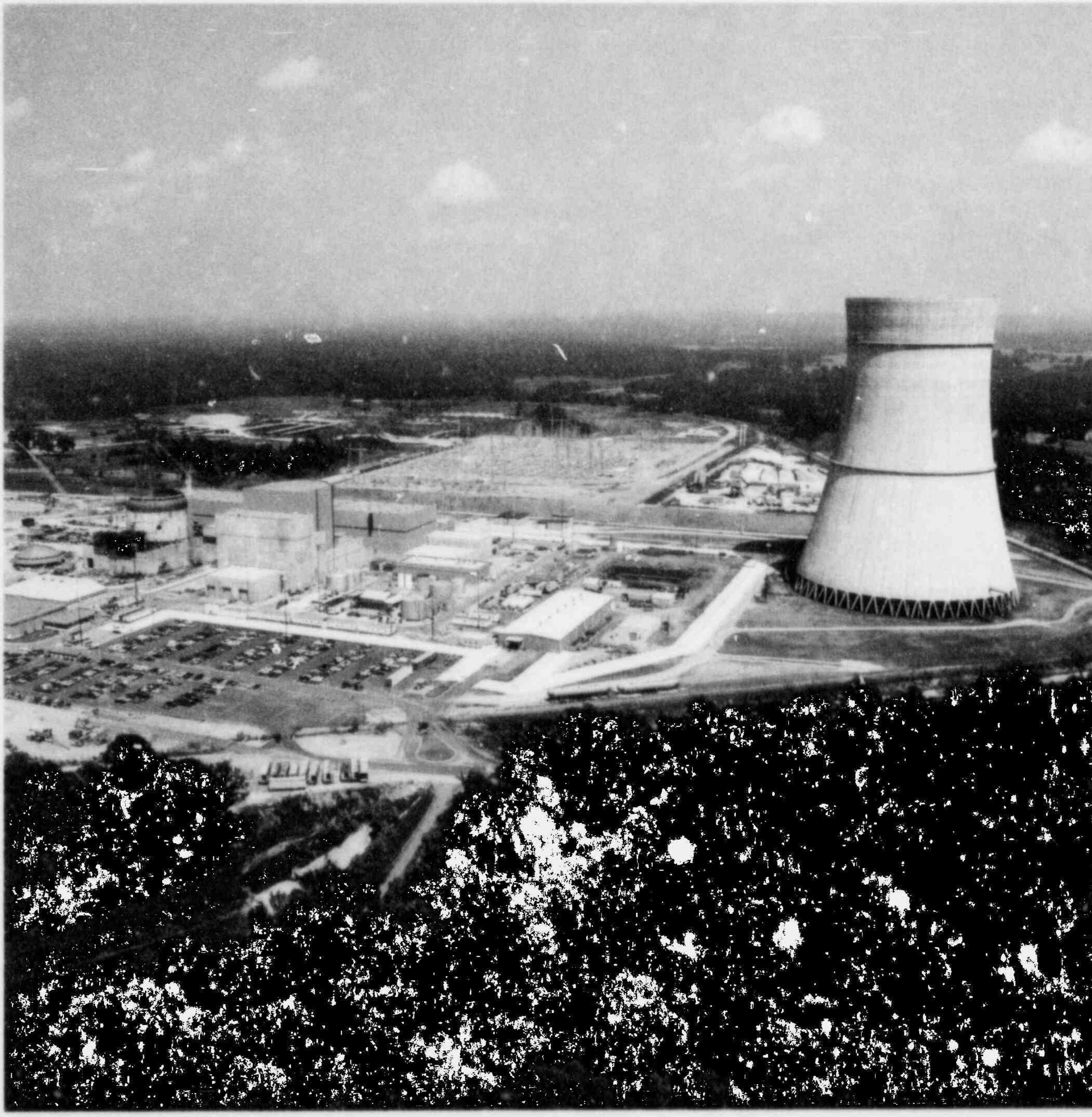
Extensive hearings were held in the spring of 1983 before an administrative law judge of the Federal Energy Regulatory Commission on a Unit Power Sales Agreement. The Agreement provides for the recovery by MSE of its share of the cost of power produced at the Grand Gulf Nuclear Station and sold at wholesale to System operating companies pursuant to certain fixed percentages. On February 3, 1984, the administrative law judge rendered an initial decision in the case providing for full recovery of MSE's cost of power from Grand Gulf Unit 1, but at fixed percentages allocated among the operating

The Middle South Utilities System operating companies work closely with state and local agencies and civic and professional organizations to attract new and expanded business and industry to their service areas. An example is this $100 million shopping center being built in Jackson, Mississippi, in the MP&L service area, which will employ approximately 2,500 people.

IMAGE EVALUATION TEST TARGET (MT-3)

150mm

6"



When it begins commercial operation, the Grand Gulf Nuclear Station Unit 1 near Port Gibson, Mississippi, will help assure customers of the Middle South operating companies of the adequate and reliable supply of electricity that is required for continued economic growth.

companies different from those set forth in the Unit Power Sales Agreement. The judge also ruled that it was premature to allocate power and energy from Unit 2 of Grand Gulf. The decision is subject to review and action by the full Federal Energy Regulatory Commission.

Advance Payments Made to MSE for Grand Gulf Power

Under the terms of the Power Purchase Advance Payment Agreement, the operating companies were committed to make advance payments to MSE in the event that Grand Gulf Unit 1 was not in service by December 31, 1983. Under the terms of a subsequent Reallocation Agreement, AP&L relinquished its rights in the Grand Gulf station, and the other System operating companies agreed to assume all of the responsibilities and obligations of AP&L with respect to the station. Accordingly, in January 1984, LP&L, MP&L, and NOPSI began making payments totaling $12.5 million monthly, borne proportionally by each company according to its share of electricity to be derived from MSE's 90 percent ownership of the 1,250 megawatt unit. The companies will receive credit for the advance payments, plus accrued interest, over an 18-month period after the unit begins commercial operation.

System Agreement Under Review

Historically, the System operating companies have planned and dispatched the electric system on a coordinated basis. Until the end of 1982, the contractual basis for this coordinated development and operation was a System Agreement which originally became effective in 1973, superseding other agreements extending back to 1951. Minor amendments to the 1973 agreement were made in 1979, 1980, and 1981.

A new System Agreement employing certain new concepts and refinements with respect to the coordinated planning, construction, and operation of the electric generation and transmission facilities of the System operating companies was filed with the Federal Energy Regulatory Commission in April 1982. The FERC accepted the new agreement for filing in July 1982, and it became effective on January 1, 1983, subject to refund. Evidentiary hearings began before an administrative law judge at the FERC in late September 1983 and concluded in mid-December 1983.

A number of parties intervened in the proceeding before the FERC, including the public service commissions of Arkansas, Louisiana, Mississippi, and Missouri. The Louisiana Public Service Commission advocated that generating costs should be equalized among all the System operating companies.

In January 1984, after the conclusion of the hearings, LP&L, MP&L, and NOPSI decided to change their positions with respect to how generating costs should be allocated among the System operating companies. These three companies are now taking a position in the proceeding in favor of a program to effect the equalization of generating costs among all of the System operating companies. AP&L, along with the Arkansas Public Service Commission, continues to support the new System Agreement as filed. Middle South Utilities, Inc., the parent company, is not a party to the Agreement or the FERC proceeding.

Coal Capacity Expanded

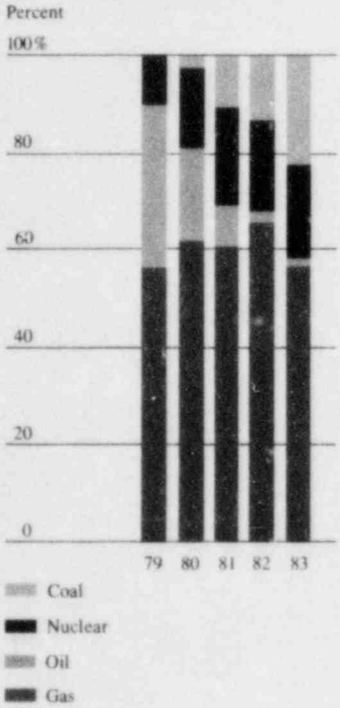
The System reached a major milestone in its fuel diversification program when its third coal-fueled unit, the Independence Steam Electric Station Unit 1, entered commercial operation January 18, 1983. AP&L and MP&L jointly own 5?.5 percent of the 836 megawatt unit

Personnel from the various System companies spent many weeks in Washington, D.C., during 1983, testifying before administrative law judges on agreements filed with the Federal Energy Regulatory Commission, one of the many federal and state agencies that regulate electric utilities.

which established one of the highest performance records in the industry during its first year of operation. Coal now represents 10 percent of the System's electric generating capacity. Two other substantially identical coal units at the White Bluff Steam Electric Station began operation in 1980 and 1981. Construction on a second 815 megawatt capacity unit at Independence, also 56.5 percent owned by AP&L and MP&L, is making excellent progress toward completion, and that unit should be in commercial operation by January 1985.

In July 1983, a long-term contract for the railroad transportation of coal to White Bluff and Independence stations was signed. Coupled with the low-sulfur coal supply contracts from mines in the Powder River Basin of Wyoming, the contract helps assure an adequate and reliable low-cost fuel supply for these two generating stations. The transportation contract is expected to result in a $16.5 billion savings in the cost of electricity to be generated by these two facilities over the next 25 years. Over $7 billion of the savings will go to AP&L customers, $2 billion to MP&L customers, and the remainder will go to customers of the other co-owners of the units.

Electricity Generation by Fuel Type (MW)



Note: Percentages shown represent actual electric energy generated and not System capacity.

Proven Track Record Helps Nuclear Expansion

System nuclear projects also moved forward in 1983. In addition to Grand Gulf Unit 1 and Waterford 3, which are scheduled to be in service during 1984, Arkansas Nuclear One Units 1 and 2 have continued to provide fuel cost savings to AP&L customers. And, during 1983, the nuclear training program at these Arkansas Nuclear One units was the second such program in the United States to receive accreditation from the Institute of Nuclear Power Operations (INPO). INPO is an organization established in 1979 to unify and spearhead self-improvement programs related to operational safety and reliability of nuclear power plants. With the commercial operation of Grand Gulf Unit 1 and Waterford 3, nuclear power will represent 24 percent of the System's generating capacity. The fuel diversification provided by these facilities lessens the System operating companies' dependence on natural gas and oil and assures their ability to continue to provide adequate and reliable electric service to meet present and future customer needs.

Grand Gulf Moves Toward Full Licensing

Grand Gulf Unit 1 performed well during 45 days of low-power testing and completed this phase of the licensing process ahead of schedule. With recertification of operating personnel completed in February 1984, Grand Gulf Unit 1 is waiting for its full-power operating license.

MP&L and MSE Ordered to Rejustify Grand Gulf Unit 2

In 1974, the Mississippi Public Service Commission granted to MP&L and MSE a Certificate of Public Convenience and Necessity for the construction of Grand Gulf Units 1 and 2. In September 1983, the Commission ordered a rehearing on the Certificate of Public Convenience and Necessity, requiring MP&L and MSE to show the need and economic justification for the nuclear units.

After the Public Service Commission denied a motion by MP&L and MSE to dismiss the September order, a new motion was filed requesting that the Commission clarify issues in the order, specifically regarding Grand Gulf Units 1 and 2. Subsequently, the Commission amended its September order on January 5, 1984, to limit the scope of the proceeding solely to Grand Gulf Unit 2, and ordered MP&L

and MSE to justify the continued construction and need for this unit. Hearings on this issue are scheduled for March and May of 1984.

Reactor Operators Licensed at Waterford 3

Twenty-seven employees at LP&L's Waterford 3 nuclear facility near Taft, Louisiana, were licensed by the Nuclear Regulatory Commission as reactor operators. The number exceeds the minimum of 20 operators required to staff the plant. Nineteen senior reactor operators and eight reactor operators were licensed after undertaking more than 80 weeks of intensive study, some of which was hands-on experience at nuclear plants already in operation. Another reactor operator class of 13 took their examinations in January 1984, and most are expected to be licensed this spring.

All direct construction work necessary for fuel loading at Waterford 3 was completed in October 1983. Loading of fuel is scheduled to begin during the second quarter of 1984, upon receipt of an NRC operating license.

Independent Reports Favorable to LP&L

Two independent studies, one examining construction costs of Waterford 3 and the other a limited management audit of LP&L, were ordered by the Louisiana Public Service Commission in early 1983 after LP&L filed for a retail electric rate increase.

Decision Management Company, Inc. of Laguna Hills, California, found that the estimated \$2.65 billion construction cost of Waterford 3 is below the average cost of nuclear plants built in the same time period. The report said that Waterford 3 costs "should be deemed prudent," reflecting the difficulties of constructing nuclear plants during the 1970's and early 1980's, and were not the result of mismanagement, inefficiency, or lack of care on the part of LP&L.

The second report, conducted by Arthur Young & Company, reviewed not only LP&L's management policies, but also the benefits derived by LP&L as a result of its participation in the four-operating-company Middle South Utilities System. The report to the Commission reflected upon the cost efficiencies derived from System dispatching, group fuel purchases, and forecasting services provided under the current Middle South Utilities System organizational structure. This report also reviewed LP&L's fuel costs and indicated that System participation has allowed LP&L to take advantage of existing long-term contracts and has resulted in lower than average costs for LP&L. The report cited favorable productivity levels and cost controls at LP&L.

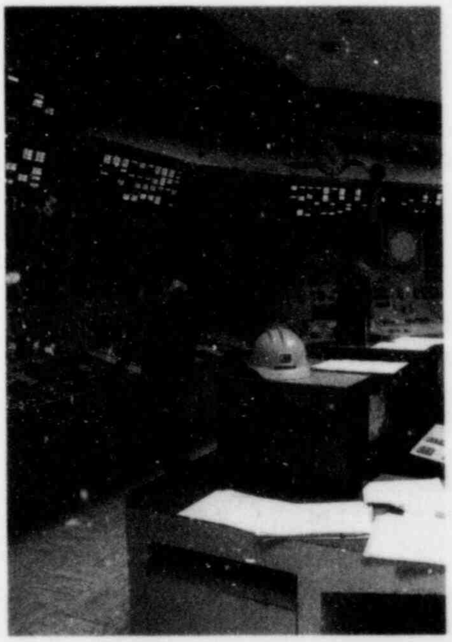
NOPSI Divests Transit Operations

New Orleans Public Service Inc. transferred operation of the New Orleans transit system to the Regional Transit Authority, a state agency, effective at midnight June 30, 1983. The transfer marked the culmination of active efforts by NOPSI since 1976 to divest itself of its transit properties. NOPSI realized a \$2.4 million gain from the sale.

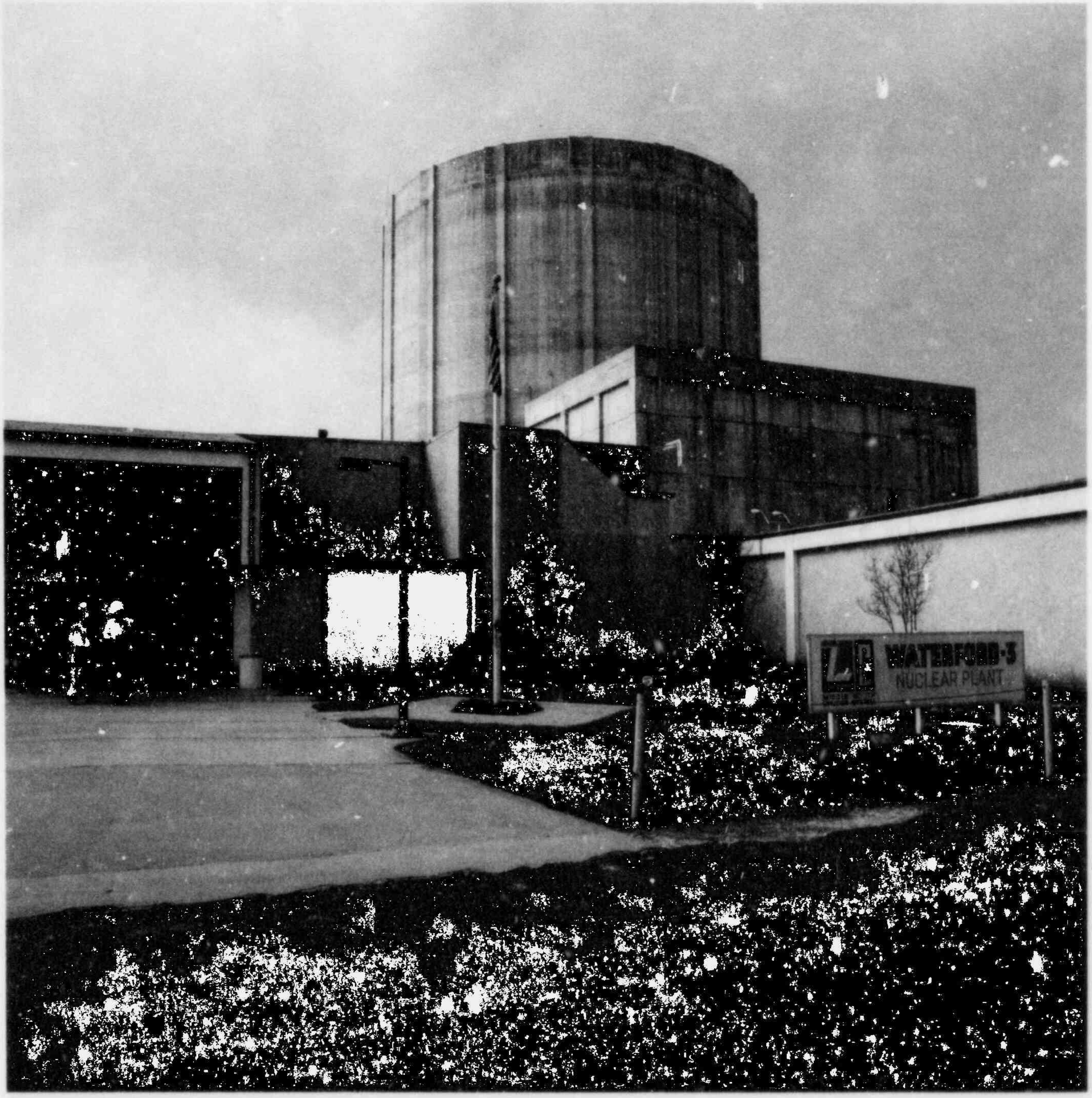
In October, voters in the City of New Orleans rejected a ballot proposal that would have returned regulation of NOPSI and that portion of LP&L within New Orleans to the New Orleans City Council. Such regulation had been transferred from the City Council to the Louisiana Public Service Commission in January 1982 by vote of the people. The latest proposal was viewed by many as an initial step toward attempted municipal takeover of the electric facilities within the City.

LP&L, NOPSI Consolidation Delayed

The functional consolidation of several areas of two System operating companies, LP&L and NOPSI,



Highly trained reactor operators assure the safe operation of nuclear facilities throughout the Middle South Utilities System. These operators at the Waterford 3 Steam Electric Generating Station at Taft, Louisiana, were licensed recently by the Nuclear Regulatory Commission after extensive study and training.



Waterford 3 Steam Electric Generating Station at Taft, Louisiana, will add 1,104 megawatts of nuclear capacity to the Middle South Utilities System's generation when it begins commercial operation.

was achieved during 1983. However, approval of legal consolidation is still pending before the Louisiana Public Service Commission. The consolidation, if approved by the various regulatory bodies, will offer a number of economic advantages to customers of both companies.

Electec, Inc., Diversified Subsidiary, Created

Electec, Inc. has been approved by the Securities and Exchange Commission as a new Middle South Utilities, Inc. subsidiary to pursue diversified businesses. Its primary focus will be to market at a profit the capabilities, expertise, and resources developed by the existing System companies.

The Public Utility Holding Company Act of 1935 requires all activities undertaken by Electec to meet a test of functional relationship to the System's basic business. Under this test, any new business must be reasonably incidental to or economically necessary or appropriate to the operations of an integrated electric public utility system. Electec will explore the marketing of System engineering and computer technologies as well as participation in co-generation projects.

Electec is already investigating participation in the Arkansas Lignite Conversion Project, a coal gasification and combined cycle co-generation project that had been initiated by AP&L. The project would employ Dow Chemical Co. gasification technology, and International Paper Co. would be the industrial steam user.

Diversification into new business ventures through Electec should provide broader opportunities for improvement of the System's financial condition over the long term.

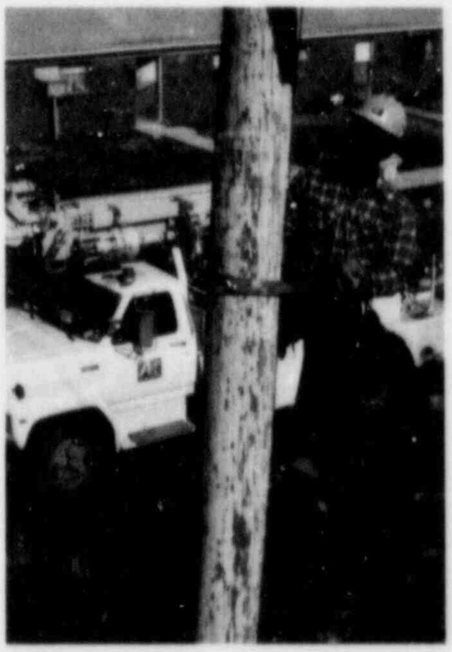
Research and Development

The Middle South Utilities System supports and funds energy research and development projects through its own efforts as well as through industry organizations such as the Electric Power Research Institute (EPRI) in Palo Alto, California. We are especially interested in applied research that enables System operating companies to adapt for the benefit of their customers the technology developed by EPRI.

For example, EPRI research was applied at the Grand Gulf Nuclear Station to inhibit stress corrosion cracking in piping. Similarly, research findings are expected to help extend the service life of steam generators at Arkansas Nuclear One Unit 2. Estimated financial benefits to be derived from these applications alone are, respectively, three times and five times the total contribution the System has made to EPRI since the organization's inception in 1973.

As a member of EPRI's Prerelease User's Group, Middle South Services, Inc. participated with electric utilities in a research project to test a computer program developed by EPRI for modeling power plant dynamics. This program was used to develop a computer model of a standard coal-fueled unit and also to build a complete model of the Grand Gulf Nuclear Station Unit 1 to investigate plant dynamic behavior.

EPRI's many other research and development projects include studies of the technological and economic feasibility of various energy alternatives such as co-generation, the use of solid wastes as fuel, geothermal energy, solar power, and other renewable resources.



The spirit of cooperation that exists among the Middle South Utilities System operating companies is especially evident in times of major storm-caused outages when crews from throughout the System work together to restore electric service to customers.

Economic Development and Community Activities

A major objective of the System operating companies is to enhance the economic and social development of their service areas. System personnel work continuously with state and local agencies as well as

Electronic meter reading is an example of Middle South Utilities System operating companies' application of industry research for the benefit of customers. The System has a long-standing commitment to such research.

civic and professional organizations to attract new and expanded business and industry.

The System's support of the 1984 Louisiana World Exposition to be held in New Orleans demonstrates our commitment to the social and economic development of the Middle South region. MSU Chairman and President Floyd W. Lewis is serving as chairman of the Exposition which opens May 12 and closes November 11. During its six-month run, this event is expected to create more than 10,000 jobs and generate approximately $2.6 billion in regional economic activity. It will provide an excellent opportunity to promote the Middle South region as a desirable place to live, work, and prosper. NOPSI anticipates that its 1984 operating revenues will increase by approximately $5 million because of the fair.

The Exposition theme, "The World of Rivers: Fresh Water as a Source of Life," is especially appropriate for a fair site located on the banks of the Mississippi River. The idea will be carried a step further in the electric industry's pavilion theme, "Rivers of Electricity." Sponsored by America's Electric Energy Exhibit, a nonprofit corporation of associations and businesses in or related to the electric utility industry, the pavilion's entertainment and exhibitry will enhance the visitor's understanding of electric power as a basic element for maintaining and improving the American standard of living, job opportunities, and economic competitiveness.

Protection of the region's human environment is manifested in many ways by the System operating companies. Installing and carefully monitoring anti-pollution processes at System facilities helps to assure safe and environmentally sound operations. We are also vitally concerned with improving the lifestyles of those who live in our companies' service areas. Through programs such as "Helping Hands" and "Energy CONCERN," our operating companies effectively help elderly, handicapped, and low-income customers who have energy budget problems. And all customers are encouraged, through energy audit services and literature, to practice energy conservation.

Future System Growth

The Middle South region can expect economic growth at a rate of about 3 percent annually over the next 10 years, slower than the growth rate experienced in the past, but in line with forecasts for growth of the national economy. While the recovery's strength became evident in the Middle South region later than in other parts of the nation, the area's financial indicators foretell increased prosperity for the region in 1984.

The Middle South System's fuel diversification program and the generating plant construction that accomplishes it are sound investments in support of the region's future.

Shifting the fuel base from primarily natural gas and oil to coal and uranium assures that sufficient fuel supplies will be available to generate the electricity necessary for customer demand and economic development. Because an electric utility's health is dependent upon, and directly related to, the economy of its service area, the Middle South Utilities System has positioned itself to help build a better and more prosperous Middle South region.

Seymore D. Fair, mascot of the 1984 Louisiana World Exposition, will be in prominent view at the world's fair which opens May 12 in New Orleans. The America's Electric Energy Exhibit (AEEE) will sponsor a major pavilion at the fair to enhance the understanding of electric energy as a basic element of the economy and modern lifestyle. During its six-month run, the fair is expected to provide approximately 10,000 jobs and generate more than $2 billion in regional economic activity.

Financial Table of Contents

Report of Management

The management of Middle South Utilities, Inc. has prepared and is responsible for the financial statements and related financial information included in this annual report. The financial statements are based on generally accepted accounting principles, consistently applied. Financial information included elsewhere in this report is consistent with the financial statements.

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

The board of directors pursues its responsibility for reported financial information through its audit committee, composed of outside directors. The audit committee meets periodically with management, the internal auditors, and the independent public accountants to discuss auditing, internal control, and financial reporting matters. The independent public accountants and the internal auditors have free access to the audit committee at any time.

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

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

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

Financial Condition

The Middle South System, at the end of 1983, was approaching the turning point that will determine when it is to attain a more stable financial position. Such financial stability is dependent, in part, upon the placing into commercial operation of two nuclear facilities in 1984 and the concurrent receipt of adequate rate relief to recover and earn a return on the investment. The System's investment in construction work in progress (CWIP) was approximately $5.9 billion at the end of 1983, an increase of $0.9 billion over year-end 1982, and $2.0 billion over year-end 1981. The rate increases implemented since 1980 have strengthened the System's financial condition during the past three years, but the System is still earning below the rates of return granted to the operating companies in their recent rate proceedings. When Unit 1 of the Grand Gulf Nuclear Station and the Waterford 3 Nuclear Station are placed in commercial operation, the amount of expenditures needed to support the System's construction program will be dramatically reduced. Additional rate relief is critical, however, with the commercial operation of the two new units because the System Companies must begin to recover those costs that have not previously been allowed in rates and to earn a return on the investment.

At December 31, 1983, the System operating companies had $463 million in rate increase requests that were either pending or on appeal. This included rate requests filed by LP&L and NOPSI in January 1983, aggregating $525 million in additional net revenues for 1984 over projected 1983 revenues. These two rate requests, which were subsequently reduced by approximately $100 million, were filed to cover both the increased costs of operations in general and the costs associated with Grand Gulf Unit 1 and, in LP&L's case, Waterford 3. Concurrent with these filings, with respect to Grand Gulf Unit 1, the companies proposed a rate moderation plan as an alternative to traditional ratesetting procedures. Under the plan, which was intended to mitigate the initially higher cost of nuclear power from Grand Gulf, LP&L and NOPSI would defer the collection from their customers of an aggregate of $480 million during the first four years of commercial operation and would collect this deferred amount from their customers over the subsequent five years. In connection with LP&L's and NOPSI's rate increase requests, the Louisiana Public Service Commission (LPSC) on February 20, 1984, approved a rate increase of approximately $69 million annually for LP&L and approximately $24 million annually for NOPSI. The LPSC in its order took no action on LP&L's and NOPSI's rate moderation proposals for Grand Gulf and the rate increases granted did not include recovery of any of Grand Gulf's costs. The two companies have not yet decided whether they will appeal the LPSC's decision. Assuming that LP&L and NOPSI do not appeal the order, they intend to make all necessary filings with the LPSC and to take all necessary legal and other action in order to obtain the rate relief necessary to enable them to meet their obligations resulting from the in-service status of Grand Gulf Unit 1, promptly as Grand Gulf Unit 1 goes into commercial operation. In its March 9, 1984 retail rate request of approximately $71 million above test year revenue levels, AP&L included a rate rider that would be effective if the capacity and energy of Grand Gulf Unit 1 is to be allocated to AP&L in addition to the other operating companies. (See Note 8 to the Consolidated Financial Statements – "Commitments and Contingencies".) AP&L's rate request also included a phase-in plan to mitigate the initial impact of the rate increase on its customers. MP&L has not yet filed a rate increase request in connection with Grand Gulf Unit 1.

Liquidity and Capital Resources

During the period 1981 to 1983, the Middle South System had construction expenditures totaling $4.0 billion, including allowance for funds used during construction (AFDC). Of this amount, 71 percent was funded through external financings. Grand Gulf Unit 1 is expected to be in commercial operation during the third quarter of 1984, with Waterford 3 following later in the year. The completion of the two units as scheduled will reduce the financial burden of recent years on the System resulting from construction of the two units. Accordingly, System construction expenditures for 1984, 1985, and 1986 are projected to be $1,231.2 million, $798.6 million, and $828.9 million, respectively.

In 1983, the System operating companies generated funds externally through the sales of $320 million of first mortgage bonds and $85 million of preferred stock. In addition, promissory notes and other long-term debt, in an aggregate amount of approximately $681 million, were issued by the Company and its subsidiaries. Also during 1983, the Company raised approximately $410 million through sales of its common stock.

The Mortgage and Charter coverage ratios of the System operating companies limit the amounts of additional first mortgage bonds and preferred stock that they may issue to finance their construction programs and other capital requirements. Based on year-end 1983 ratios, AP&L and MP&L could have issued an aggregate of approximately $233 million of preferred stock or $698 million of first mortgage bonds at annual interest or dividend rates of 13 percent. However, LP&L's and NOPSI's earnings coverage ratios had declined to the point that at December 31, 1983, neither could issue any additional preferred stock and NOPSI could only issue approximately $11 million of first mortgage bonds, except such bonds issued solely for refunding pur-

poses. The ability of the two companies to sell additional first mortgage bonds and preferred stock to finance their construction programs and for other capital requirements is dependent, among other things, upon improved earnings through adequate rate relief in their rate cases currently before their public service commission.

The System operating companies are currently authorized to make short-term borrowings in an aggregate amount outstanding at any one time of up to the lesser of $420 million or 10 percent of capitalization. The short-term borrowings of the System operating companies amounted to $78 million, $45 million, and $93 million at December 31, 1983, 1982, and 1981, respectively. Unused lines of credit amounted to $266 million, $193 million, and $274 million at December 31, 1983, 1982, and 1981, respectively. Additionally, the four System operating companies, together with MSU, MSS, and SFI, are authorized to participate in a System money pool whereby those companies in the System with available funds can invest in the pool while other companies in the System (except MSU) having short-term needs can borrow from the pool, thereby reducing the System's dependence on external short-term borrowings.

On March 21, 1983, in connection with the June 1982 settlement of a dispute between LP&L and a gas supplier (See Note 11 to the Consolidated Financial Statements - "Settlement Agreement with Gas Supplier".), the LPSC amended its January 17, 1983 order pertaining to the manner in which LP&L is to refund to its customers the funds received from the gas supplier. The March 21, 1983 order, in effect, permits LP&L to use, pending such refund, a portion of the settlement proceeds in financing its continuing construction program. Based on this order, LP&L reduced the $412 million of additional annual net revenues sought in its January 1983 general rate increase application to the LPSC by approximately $100 million, and withdrew its emergency application of $160.8 million.

MSE contemplates construction expenditures, including AFDC, of $1,065 million for 1984 through 1986, for construction costs associated with its 90 percent ownership of the two-unit Grand Gulf Nuclear Station. In connection with Grand Gulf, the Company has undertaken to provide or cause to be provided to MSE, sufficient capital to complete the two-unit facility. To this end, through 1983, the Company had invested $689.9 million in the common stock of MSE. At December 31, 1983, MSE had also made intermediate-term borrowings of $1,453 million under a $1,711 million revolving loan agreement with a group of domestic banks and had borrowed the full $378 million available under a separate revolving loan agreement with a group of foreign banks. Also at year-end 1983, MSE had outstanding $426.5 million of first mortgage bonds. MSE has covenanted to complete Unit 1 of the Grand Gulf Nuclear Station by December 31, 1984, and to complete Unit 2 of the station by December 31, 1988. If either of these covenants is not fulfilled, the outstanding bonds and bank borrowings would then become due and payable, unless extensions could be arranged, and the Company would be required to provide MSE with sufficient funds to meet these obligations to the extent that the funds are not provided from other sources. Pursuant to the terms of the Power Purchase Advance Payment Agreement, three of the System operating companies, on January 2, 1984, began to make advance payments for power purchases to MSE that, in the aggregate, total $12.5 million per month. The operating companies will continue to make the payments until commercial operation of Grand Gulf Unit 1 or December 31, 1984, whichever occurs first.

The Company must be able to sell its common stock in order to maintain an acceptable capital structure and to provide the System operating companies and MSE with additional funds to continue their construction programs. During the year ended December 31, 1983, the Company issued an aggregate of 26,748,194 shares of common stock, which provided the Company with net cash proceeds of approximately $410 million. The Company used these funds to purchase additional common stock of certain of its subsidiaries, to repay revolving bank borrowings, and for other corporate purposes. The Company's existing revolving credit agreement provides for borrowings of up to $115 million, of which $83 million remained unused at December 31, 1983.

In addition to funds needed to continue its construction program, the Middle South System will require approximately $2,119 million during the three-year period 1984-1986 to meet debt maturities, cash sinking fund requirements, and to make preferred stock sinking fund redemptions. The Company contemplates that a substantial portion of these requirements will be funded through external sources, including the sales of similar securities, with the balance being provided by internally generated funds.

Construction Program

Major Generating Units

Unit	Company	Fuel	Megawatt Capacity	Scheduled Commercial Operation
Grand Gulf 1	MSE	Nuclear	1,125*	1984
Waterford 3	LP&L	Nuclear	1,104	1984
Independence 2	AP&L/MP&L	Coal	461**	1985
Grand Gulf 2	MSE	Nuclear	1,125*	***

*Represents the System's anticipated 90% interest in these 1,250MW units.

**Represents the System's 56.5% interest in this 815MW unit.

***The schedule to complete Grand Gulf 2 will be dependent, among other things, upon the commercial operation of Grand Gulf 1.

Results of Operations

The Middle South System's net income for 1983 was $378 million, an increase of approximately $67 million, or 21.5 percent, over 1982 and an increase of approximately $96.6 million, or 34.3 percent, over 1981. The quality of the 1983 earnings was virtually unchanged from the 1982 level as AFDC as a percent of net income decreased from 114 percent in 1982 to 113 percent in 1983. The quality of the 1981 earnings, however, was better than that of either the 1982 or 1983 earnings with the percent of AFDC to net income being 107 percent. AFDC increased to $426 million in 1983, compared to $353 million and $301 million in 1982 and 1981, respectively. AFDC is expected to continue to be a substantial portion of net income in 1984 and then to decline in subsequent years after Grand Gulf Unit 1 and Waterford 3 have entered commercial operation in late 1984.

Earnings per share on Middle South Utilities, Inc. common stock increased to $2.46, up from $2.33 in 1982 and $2.44 in 1981. The 1983 increase takes into account a 15.2 percent greater average number of shares outstanding in 1983 over 1982.

Electric operating revenues increased by $43 million, or 1.6 percent, in 1983 compared to an increase of $91 million, or 3.5 percent, in 1982. The 1983 increase was attributable to modest rate increases collected during the year. In contrast, in 1982, an increase in purchased power costs of $82 million, which was billed to customers, was the main component of the increase in electric revenues.

Energy sales to retail customers decreased by 2.0 percent in 1983 to 48.4 billion KWH compared to a decrease of 1.7 percent in 1982. Retail sales have improved since late summer 1983, however, compared to the same period of 1982, because of an improvement in business activity in the System's service area. The improvement in industrial usage since mid-1983 was not sufficient to offset declines in early 1983, however, and energy sales to industrial customers decreased by 4.6 percent in 1983 compared to a decrease of 5.8 percent in 1982. Residential sales have been level since 1981 with the very modest decrease in 1983 and increase in 1982 of 0.8 percent each being due primarily to a return to more normal weather conditions during the two-year period and to continued conservation efforts by residential customers.

Gas operating revenues increased by $21 million, or 11.9 percent, in 1983 compared to an increase of $33 million, or 24.0 percent, in 1982. The increases were almost entirely the result of increases in the cost of gas purchased for resale, which was billed to customers, of $19 million, or 13.9 percent, and $31 million, or 28.9 percent, in 1983 and 1982, respectively. However, MCF usage by gas customers declined by 2.0 percent and 6.3 percent, respectively, in 1983 and 1982.

Maintenance expense increased by $17 million, or 13.2 percent, in 1983 compared to an increase of $5 million, or 3.9 percent, in 1982. The 1983 increase was due primarily to maintenance expenses incurred at Arkansas Nuclear One during and following a normal refueling outage.

Deferred fuel and other expenses increased by $75 million, or 26 percent, during 1983 as compared to a decrease of $19 million, or 6.2 percent, during 1982. The variability in these amounts is the result of fluctuations in deferred fuel costs over time. Such fluctuations reflect the cost of energy and the amounts billed to customers of previously deferred fuel costs.

The decrease in other interest-net of $27 million, or 36.3 percent, in 1983 as compared to the less than 1 percent decrease in 1982, is due to a reduction in the amount of short-term borrowings

Selected Financial Data—Five Year Comparison

(dollars in thousands, except per share amounts)

	1983	1982	1981	1980	1979
Net Operating Revenues	**$2,909,657**	$2,846,264	$2,722,020	$2,295,299	$1,788,747
Net Income	**378,050**	310,595	281,483	195,907	180,719
Earnings Per Share	**2.46**	2.33	2.44	2.01	2.12
Dividends Declared Per Share	**1.71**	1.67	1.63	1.59	1.535
Total Assets	**11,100,667**	10,364,653	8,318,556	7,334,030	6,503,068
Long-Term Debt (excluding current maturities)	**5,032,175**	4,429,447	3,896,370	3,392,309	3,017,816
Preferred Stock with Sinking Fund	**429,601**	354,957	300,219	283,165	193,507

Common Stock Data by Quarter

	First	Second	Third	Fourth
1983				
Price Range				
High-Low	$16⅝-14¾	$16⅝-14¾	$16⅛-14¾	$16¾-13⅛
Dividend Declared	$.42½	$.42½	$.42½	$.43½
1982				
Price Range				
High-Low	$14⅜-12⅜	$14¼-12¼	$15⅝-12½	$15¾-14⅛
Dividend Declared	$.41½	$.41½	$.41½	$.42½

from external sources during 1983 and a decline in interest rates.

Income tax expense increased in 1983 by $9 million, or 35 percent, because the increase in pre-tax book income was greater than the offsetting increase in recorded AFDC. The 1982 decrease in income tax expense of $24 million, or 50 percent, was due to the large increase in AFDC recorded relative to the small increase in pre-tax book income.

Other Developments

LP&L currently expects to receive an operating license for the Waterford 3 facility in the second quarter of 1984. The license will permit LP&L to load nuclear fuel and to conduct low-power testing. Grand Gulf Unit 1 has completed its low-power testing and is awaiting its full-power operating license. In an effort to resolve certain questions relating to experience and training of reactor plant operators at Grand Gulf Unit 1, MSE has voluntarily initiated a comprehensive recertification program under which all of the reactor operators are receiving additional training. MSE expects that the additional training will confirm the ability of the operators to safely operate the facility.

On September 26, 1983, the Mississippi Public Service Commission (MPSC) ordered a rehearing on the Certificate of Public Convenience and Necessity for the Grand Gulf Station and directed Issuance of Citation to Show Cause for the Grand Gulf Station. On December 20, 1983, the MPSC granted MP&L and MSE a Clarification of Issues related to the September order in which it stated that MP&L and MSE must demonstrate (1) the need and economic justification for any additional capacity from the Grand Gulf Station over and above that which MP&L would receive under the original certification order, and (2) that Grand Gulf Unit 2 is needed and economically justified in light of construction delays and increases in the construction cost estimate. On January 5, 1984, the MPSC issued an Order Amending Citation to Show Cause and Clarification of Issues, in which it limited the issues to relate solely to Grand Gulf Unit 2 and ordered MSE and MP&L to show cause for the continued construction and need for Grand Gulf Unit 2. MSE continues to believe that it will be appropriate to complete Grand Gulf Unit 2 and that this will be the conclusion of the MPSC in the rehearing on the Certificate of Public Convenience and Necessity for the Grand Gulf Station as it relates to Grand Gulf Unit 2.

MSE reduced construction activities at Grand Gulf Unit 2 in December 1979. In January 1982, construction activity was increased on a limited basis in order to preserve the site and equipment and as an alternative to building temporary storage facilities. In late 1983, construction on Grand Gulf Unit 2 was again reduced by MSE in order to concentrate its financial resources on Grand Gulf Unit 1.

Effects of Inflation

Despite the reduced level of inflation in 1983 and 1982, its impact on the System's operations in recent years has been significant. (See Note 14 to the Consolidated Financial Statements - "Effect of Inflation on Operations (Unaudited)".)

Summary

The System's overall financial condition has shown a slight improvement over the past three years. However, the rate increases received since 1980 have still been inadequate in terms of timeliness or amount to permit the System to earn the rates of return granted to the operating companies in their recent rate proceedings. With the impending commercial operation of the Grand Gulf Unit 1 and Waterford 3 nuclear generating stations, it is critical that the mechanisms to recover the capital and operating costs of these stations be put in place in 1984. However, the February 20, 1984 rate orders by the LPSC rejected any allowance in rates to recover costs associated with the commercial operation of Grand Gulf Unit 1 or Waterford 3. Future actions of the System's various regulatory commissions and the courts on rate increase requests or appeals relating to Grand Gulf and on the other rate applications currently pending or on appeal will determine the future viability of the Middle South System. Swift, fair, and sufficient rate relief is essential if the Company is to attain and maintain a financial position strong enough to provide both a reasonable return to its stockholders and the resources necessary to serve the present and future energy requirements of its customers.

Deloitte
Haskins+Sells

39th Floor
One Shell Square
New Orleans, Louisiana 70139

Auditors' Opinion

The Stockholders and the Board of Directors
of Middle South Utilities, Inc.:

We have examined the consolidated balance sheets of Middle South Utilities, Inc. and its subsidiaries as of December 31, 1983 and 1982 and the related consolidated statements of income, retained earnings, paid-in capital, and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above-mentioned consolidated financial statements present fairly the financial position of the Company and its subsidiaries at December 31, 1983 and 1982 and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins + Sells

February 20, 1984

Statements of Consolidated Income

For the Years Ended December 31, 1983, 1982, and 1981

	1983	1982	1981
		(In Thousands)	
Operating Revenues:			
Electric	$ 2,716,329	$ 2,673,572	$ 2,582,778
Natural gas	193,328	172,692	139,242
Total	2,909,657	2,846,264	2,722,020
Operating Expenses:			
Operation:			
Fuel for electric generation	942,219	1,066,325	1,083,064
Purchased power	373,712	345,076	263,559
Gas purchased for resale	158,186	138,890	107,768
Deferred fuel and other	363,509	288,283	307,218
Maintenance	149,453	132,031	127,067
Depreciation	183,171	167,725	158,264
Taxes other than income taxes	104,493	101,381	93,058
Income taxes (Notes 3 and 12)	190,589	171,741	175,142
Total	2,465,332	2,411,452	2,315,140
Operating Income	444,325	434,812	406,880
Other Income:			
Allowance for equity funds used during construction (Note 1)	245,640	182,342	143,369
Miscellaneous income and deductions—net (Note 12)	6,799	7,133	24,249
Income taxes—credit (Notes 3 and 12)	157,342	147,186	126,466
Total	409,781	336,661	294,084
Interest and Other Charges:			
Interest on long-term debt	529,597	488,750	441,894
Other interest—net	47,251	74,130	74,507
Allowance for borrowed funds used during construction (Note 1)	(180,858)	(170,438)	(157,511)
Preferred dividend requirements of subsidiaries	80,066	68,436	60,591
Total	476,056	460,878	419,481
Net Income	$ 378,050	$ 310,595	$ 281,483
Earnings Per Common Share	$2.46	$2.33	$2.44
Dividends Declared Per Common Share	$1.71	$1.67	$1.63
Average Number of Common Shares Outstanding	153,383,044	133,193,296	115,175,550

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

December 31, 1983 and 1982

Assets

	1983	1982
	(In Thousands)	
Utility Plant (Notes 8, 9, and 12):		
Electric	$ 5,688,426	$ 5,158,736
Natural gas	117,848	113,719
Transit	—	15,920
Construction work in progress	5,923,619	5,022,635
Nuclear fuel	212,524	153,178
Total	11,942,417	10,464,188
Less—Accumulated depreciation	1,694,475	1,551,700
Utility plant—net	10,247,942	8,912,488
Other Property and Investments	75,979	83,846
Current Assets:		
Cash (Note 4)	2,843	19,023
Special deposits	12,507	11,198
Temporary investments—at cost, which approximates market (Note 11)	9,129	283,142
Notes receivable	2,663	2,584
Accounts receivable:		
Customer (less allowance for doubtful accounts of (in thousands) $3,893 in 1983 and $2,602 in 1982)	174,936	147,241
Other	43,025	35,368
Receivable from gas supplier (Note 11)	250,000	250,000
Deferred fuel cost	3,698	24,120
Fuel inventory—at average cost (Note 4)	110,076	146,592
Materials and supplies—at average cost	61,845	63,602
Other	26,177	27,425
Total	696,899	1,010,295
Deferred Debits:		
Receivable from gas supplier (Note 11)	—	250,000
Other	79,847	108,024
Total	79,847	358,024
Total	$11,100,667	$10,364,653

See Notes to Consolidated Financial Statements.

Capitalization and Liabilities

	1983	1982
	(In Thousands)	
Capitalization:		
Common stock, $5 par value, authorized 250,000,000 shares; issued and outstanding 166,082,128 shares in 1983 and 139,333,934 shares in 1982	**$ 830,411**	$ 696,669
Paid-in capital	**1,271,152**	994,760
Retained earnings (Note 7)	**899,979**	790,487
Total common shareholders'equity	**3,001,542**	2,481,916
Subsidiaries' preferred stock without sinking fund (Note 5)	**330,967**	330,967
Subsidiaries' preferred stock with sinking fund (Note 5)	**429,601**	354,957
Long-term debt (Notes 6 and 8)	**5,032,175**	4,429,447
Total	**8,794,285**	7,597,287
Current Liabilities:		
Notes payable (Notes 4 and 8):		
Banks	**114,573**	159,565
Commercial paper	**123,000**	107,725
Other	**50,471**	72,885
Currently maturing long-term debt (Note 6)	**228,009**	73,102
Accounts payable	**264,892**	316,806
Gas contract settlement—liability to customers (Note 11)	**58,884**	882,535
Customer deposits	**53,285**	47,794
Taxes accrued	**75,576**	67,655
Accumulated deferred income taxes (Note 3)	**1,980**	12,033
Interest accrued	**161,965**	104,854
Dividends declared	**92,583**	77,058
Other	**63,720**	73,467
Total	**1,288,938**	1,995,479
Deferred Credits:		
Accumulated deferred income taxes (Note 3)	**370,166**	331,591
Accumulated deferred investment tax credits (Note 3)	**73,849**	77,142
Gas contract settlement—liability to customers (Note 11)	**475,000**	250,000
Other	**61,377**	79,829
Total	**980,392**	738,562
Reserves	**37,052**	33,325
Commitments and Contingencies (Notes 2, 8, and 9)		
Total	**$11,100,667**	$10,364,653

Statements of Consolidated Retained Earnings and Paid-In Capital

For the Years Ended December 31, 1983, 1982, and 1981

	1983	1982	1981
		(In Thousands)	
Retained Earnings			
Retained Earnings, January 1	**$ 790,487**	$ 705,776	$615,248
Add—Net income	**378,050**	310,595	281,483
Total	**1,168,537**	1,016,371	896,731
Deduct:			
Dividends declared on common stock—$1.71, $1.67, and $1.63 per share for 1983, 1982, and 1981, respectively	**266,762**	224,825	190,175
Capital stock expenses, etc.	**1,796**	1,059	780
Total	**268,558**	225,884	190,955
Retained Earnings, December 31 (Note 7)	**$ 899,979**	$ 790,487	$705,776
Paid-In Capital			
Paid-in Capital, January 1	**$ 994,760**	$ 860,833	$749,206
Add:			
Excess of net proceeds over par value:			
Public sales of common stock:			
15,000,000 shares in 1983	**156,531**	—	—
10,000,000 shares in 1982	—	89,800	—
13,000,000 shares in 1981	—	—	88,378
Common stock issued in connection with the continuous offering program:			
4,868,100 shares in 1983	**52,388**	—	—
Common stock issued in connection with dividend reinvestment and stock purchase plan:			
6,475,894 shares in 1983	**62,577**	—	—
5,126,169 shares in 1982	—	39,871	—
3,081,214 shares in 1981	—	—	20,132
Common stock issued in connection with employee savings plan:			
404,200 shares in 1983	**4,308**	—	—
420,424 shares in 1982	—	3,732	—
356,184 shares in 1981	—	—	2,617
Other	**588**	524	500
Paid-in Capital, December 31	**$1,271,152**	$ 994,760	$860,833

See Notes to Consolidated Financial Statements.

Statements of Changes in Consolidated Financial Position

For the Years Ended December 31, 1983, 1982, and 1981

	1983	1982	1981
		(In Thousands)	
Funds Provided By:			
Operations:			
Net income	$ 378,050	$ 310,595	$ 281,483
Depreciation	183,171	167,725	158,264
Deferred income taxes and investment tax credit adjustments — net	24,787	14,720	37,667
Allowance for funds used during construction (Note 1)	(426,498)	(352,780)	(300,880)
Total funds provided by operations	159,510	140,260	176,534
Other:			
Allowance for funds used during construction (Note 1)	426,498	352,780	300,880
Gas contract settlement (Note 11)	—	1,132,535	—
Funds on hand or due from gas supplier (Note 11)	—	(782,197)	—
Deferred costs relating to SFI's fuel acquisition programs	28,136	2,350	—
Decrease in working capital*	120,945	—	145,207
Miscellaneous — net	—	5,232	24,447
Total funds provided excluding financing transactions	735,089	850,960	647,068
Financing and other transactions:			
Common stock	409,545	211,135	193,314
Preferred stock	85,000	60,000	20,000
First mortgage bonds	320,000	185,000	250,000
Promissory notes and other long-term debt	681,222	515,512	442,315
Book value of utility plant sold	5,151	25,111	—
Short-term securities — net	—	—	139,969
Sale and leaseback transactions	—	—	22,136
Total funds provided by financing and other transactions	1,500,918	996,758	1,067,734
Total funds provided	**$ 2,236,007**	$ 1,847,718	$ 1,714,802
Funds Applied To:			
Utility plant additions:			
Construction expenditures for utility plant	$ 1,453,662	$ 1,393,399	$ 1,174,944
Nuclear fuel	59,346	51,304	56,132
Other	—	—	3,045
Total gross additions (includes allowance for funds used during construction)	1,513,008	1,444,703	1,234,121
Other:			
Dividends declared on common stock	266,762	224,825	190,175
Increase in working capital*	—	31,628	—
Gas contract settlement (Note 11)	598,651	—	—
Funds on hand or due from gas supplier (Note 11)	(525,128)	—	—
Deferred costs relating to SFI's fuel acquisition programs	—	—	7,934
Refund to retail customers (Note 2)	74,600	—	—
Miscellaneous — net	9,996	—	—
Total other funds applied	424,881	256,453	198,109
Financing transactions:			
Retirement of promissory notes and other long-term debt	127,400	68,320	160,266
Retirement of first mortgage bonds	110,297	48,719	119,363
Redemption of preferred stock	7,175	2,979	2,943
Short-term securities — net	53,246	26,544	—
Total funds applied to financing transactions	298,118	146,562	282,572
Total funds applied	**$ 2,236,007**	$ 1,847,718	$ 1,714,802

** Working capital does not include short-term securities, currently maturing long-term debt, the gas contract settlement, MP&L's 1983 refund to retail customers, or deferred taxes included in current liabilities. The 1983 net decrease in working capital is primarily due to decreases in fuel inventory and deferred fuel cost and increases in interest accrued and dividends declared offset by an increase in accounts receivable. The 1982 net increase in working capital is primarily due to increases in deferred fuel cost and customer accounts receivable and a decrease in accounts payable. The 1981 net decrease in working capital is primarily due to an increase in accounts payable and decreases in cash and deferred fuel cost.*

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

A. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Middle South Utilities, Inc. (the Company or MSU) and its direct and indirect subsidiaries, Arkansas Power & Light Company (AP&L), Louisiana Power & Light Company (LP&L), Mississippi Power & Light Company (MP&L), New Orleans Public Service Inc. (NOPSI), Middle South Services, Inc. (MSS), Middle South Energy, Inc. (MSE), and System Fuels, Inc. (SFI) which are collectively referred to as the System Companies or the Middle South System. All significant intercompany transactions have been eliminated.

B. Systems of Accounts

The accounts of the Company and its service subsidiary, MSS, are maintained in accordance with the Public Utility Holding Company Act of 1935 (Holding Company Act), as administered by the Securities and Exchange Commission (SEC), which has adopted a system of accounts consistent with the system of accounts prescribed by the Federal Energy Regulatory Commission (FERC).

The accounts of the operating subsidiaries, AP&L, LP&L, MP&L, and NOPSI, are maintained in accordance with the systems of accounts prescribed by the applicable regulatory bodies, which systems of accounts substantially conform to those prescribed by the FERC. The accounts of the generating subsidiary, MSE, are maintained in accordance with the system of accounts prescribed by the FERC.

SFI capitalizes all costs related to its exploration activities. These costs are reduced by profits realized on sales to non-affiliated companies and are amortized by the units-of-production method in the period in which revenue is recognized on oil and gas reserves produced and sold.

C. Revenues and Fuel Costs

The operating subsidiaries record electric and gas revenues as billed to their customers on a cycle billing basis. Revenue is not accrued for energy delivered but not billed at the end of the fiscal period. Substantially all of the rate schedules of the operating subsidiaries include adjustment clauses under which the cost of fuel used for generation and gas purchased for resale above or below specified base levels is permitted to be billed or required to be credited to customers.

One operating subsidiary has a fuel adjustment clause which allows current recovery of fuel costs. All the other operating subsidiaries utilize a deferral method of accounting for those fuel costs recoverable under fuel adjustment clauses. Under this method, such costs are deferred until the related revenues are billed.

The fuel adjustment factor for AP&L contains an amount for a nuclear reserve estimated to cover the cost of replacement energy when the nuclear plant is down for scheduled maintenance and refueling. The reserve bears interest and is used to reduce fuel expense for fuel adjustment purposes during the shutdown period.

D. Utility Plant and Depreciation

Utility plant is stated at original cost. The cost of additions to utility plant includes 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 of items determined to be less than units of property are charged to operating expenses.

Depreciation is computed on the straight-line basis at rates based on the estimated service lives of the various classes of property. Depreciation rates for AP&L's nuclear station, the System's only operating nuclear station, include a provision for nuclear plant decommissioning costs. Depreciation provisions on average depreciable property approximated 3.3% in 1983 and 1982, and 3.4% in 1981.

Substantially all of the System's utility plant is subject to the liens of the subsidiaries' first mortgage bond indentures.

E. Pension Plans

The Company and its subsidiaries have various defined benefit pension plans covering substantially all of their employees. The policy of the Company and its subsidiaries is to fund pension costs accrued.

F. Income Taxes

The Company and its subsidiaries file a consolidated Federal income tax return. Income taxes are allocated to all subsidiaries based on their contributions to the consolidated taxable income. Deferred income taxes are provided for differences between book and taxable income to the extent permitted by the regulatory bodies for ratemaking purposes. Investment tax credits utilized are deferred and amortized based upon the average useful life of the related property.

G. Allowance for Funds Used During Construction

To the extent that the Company's operating subsidiaries are not permitted by their regulatory bodies to recover in current rates the carrying costs of funds used for construction, they capitalize, as an appropriate cost of utility plant, an allowance for funds used during construction (AFDC) that is calculated and recorded as provided by the regulatory systems of accounts. Under this utility industry practice, construction work in progress on the balance sheet is charged and the income statement is credited for the approximate net composite interest cost of borrowed funds and for a reasonable return on the equity funds used for construction. This procedure is intended to remove from the income statement the effect of the cost of financing the construction program and results in treating the AFDC charges in the same manner as construction labor and material costs. As non-cash items, these credits to the income statement have no effect on current cash earnings. After the property is placed in service, the AFDC charged to construction costs is recoverable from customers through depreciation provisions included in rates for utility service.

During 1983, one of the operating subsidiaries used an accrual rate of 3% on $1.3 billion of construction costs in accordance with a May 1981 rate order from its regulatory commission. The effective composite rates of the operating subsidiaries for the balance of AFDC were 9.2%, 9.1%, and 8.8% for 1983, 1982, and 1981, respectively. MSE used an accrual rate for AFDC based on a return on average common equity of 14%, plus actual interest costs net of related income taxes.

The Company's subsidiaries continue to capitalize AFDC on projects during periods of interrupted construction when such interruption is temporary and the continuation can be justified as being reasonable under the circumstances.

H. Reserves

It is the policy of the Company's operating subsidiaries to provide reserves for uninsured property risks and for claims for injuries and damages through charges to operating expenses on an accrual basis. Accruals for these reserves have been allowed for ratemaking purposes.

I. Reclassifications

In 1983, the results of the discontinued transit operations, including the gain on sale, have been accounted for as miscellaneous income. Accordingly, the 1982 and 1981 MSU Consolidated Income Statements have been reclassified to report the results of discontinued transit operations in miscellaneous income. Net income for 1982 and 1981 was not affected by this reclassification. (See Note 12.)

In addition, certain other reclassifications of previously reported amounts have been made to conform with current classifications.

Note 2. Rate Matters

In August 1983, the Arkansas Public Service Commission (APSC) acted on AP&L's November 1982 $93.2 million retail rate request and approved a $39.8 million annual increase in Arkansas retail rates. The increase in rates was effective in August 1983. In appeals still pending before the Circuit Court of Pulaski County, AP&L is asking for a review of the differences between the $101.4 million increase in rates sought in a May 1981 filing and the $29.0 million granted by the APSC in September 1982. AP&L has appealed the APSC's order to refund approximately $19.3 million of revenues collected associated with deferred taxes.

In November 1983, the Louisiana Public Service Commission (LPSC) approved $11.5 million of the $16.9 million annual increase in natural gas rates requested by NOPSI in July 1982. The new rates were implemented in December 1983. In February 1984, the LPSC granted a $69.0 million retail rate increase to LP&L in ruling on a January 1983 filing. The LPSC also approved a $24.0 million annual increase to NOPSI in ruling on its January 1983 filing. The LPSC rejected any allowance in rates at that time to reflect an in-service status for either Unit 1 of MSE's Grand Gulf Steam Electric Generating Station (Grand Gulf) or Unit 3 at LP&L's Waterford Steam Electric Generating Station (Waterford). A major portion of LP&L's proposed rates was designed to cover the revenue requirements associated with the commercial operation of both units, and a major portion of NOPSI's rates would have covered its requirements in connection with the MSE unit.

In January 1983, the Mississippi Public Service Commission (MPSC) granted MP&L $47.5 million of the $93.9 million retail rate increase requested in July 1982. The MPSC, in April 1983, granted MP&L $39.8 million of the $68.8 million retail rate increase requested in May 1980. As a result of this order, revenues collected subject to

refund since July 1980, plus interest accrued thereon, a total of $74.6 million, was refunded to the ratepayers. The refund did not have a material effect on MP&L's net income because MP&L had previously made accruals for the effect of a possible refund.

Note 3. Income Taxes

Income tax expense (credit) consists of the following:

	1983	1982	1981
		(In Thousands)	
Current:			
Federal	—	—	$ (972)
State	$ 8,460	$ 9,835	11,981
Total	8,460	9,835	11,009
Deferred — net:			
Liberalized depreciation	41,766	47,652	31,818
Deferred fuel cost	(10,053)	15,652	(17,986)
Taxes capitalized in the financial statements	8,530	11,783	7,853
Nuclear fuel disposal costs	17,729	(6,074)	(7,491)
Revenues subject to refund	26,347	(9,567)	(9,224)
Other	(14,281)	(4,375)	15,277
Restoration (reduction) due to tax loss carryforwards	(41,514)	(36,902)	38,190
Total	28,524	18,169	58,437
Investment tax credit adjustments — net	(3,737)	(3,449)	(20,770)
Recorded income tax expense	$ 33,247	$ 24,555	$ 48,676
Charged to operations	$ 190,589	$ 171,741	$ 175,142
Credited to other income	(157,342)	(147,186)	(126,466)
Recorded income tax expense	33,247	24,555	48,676
Income taxes applied against the debt component of AFDC	157,520	145,514	133,896
Total income taxes	$ 190,767	$ 170,069	$ 182,572

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 (*dollars in thousands*):

	1983		1982		1981	
	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income
Computed at statutory rate	$226,027	46.0	$ 185,650	46.0	$ 179,745	46.0
Increases (reductions) in tax resulting from:						
Allowance for funds used during construction	(196,242)	(39.9)	(159,912)	(39.6)	(137,099)	(35.1)
State income taxes net of Federal income tax effect	9,964	2.0	8,605	2.1	11,203	2.9
Other — net	(6,502)	(1.3)	(9,788)	(2.4)	(5,173)	(1.3)
Recorded income tax expense	33,247	6.8	24,555	6.1	48,676	12.5
Income taxes applied against the debt component of AFDC	157,520	22.6	145,514	24.9	133,896	22.3
Total income taxes	$ 190,767	29.4	$ 170,069	31.0	$ 182,572	34.8

The tax effects of the consolidated 1982 and 1983 Federal tax losses have been recorded as reductions of deferred income taxes. The tax effect of the utilization in 1981 of net operating losses has been recorded as a restoration of deferred income taxes. The remaining Federal tax loss carryforwards at December 31, 1983 amounted to $365.6 million and are available to offset taxable income in future years. If not used, they will expire in 1994 through 1998. Unused investment tax credits at December 31, 1983 amounted to $580.8 million. These credits may be applied against Federal income tax liabilities in future years. If not used, they will expire in 1992 through 1998.

Note 4. Lines of Credit and Related Borrowings

The Company has a revolving credit agreement with various banks providing for the issuance of unsecured promissory notes totaling $115 million. This agreement will terminate December 31, 1984. The Company pays a commitment fee on the unused portion of the credit line.

MSE has two revolving credit agreements with various banks providing for borrowings totaling $2,089 million. One agreement, for $1,711 million, is with a group of domestic banks; the other agreement, with foreign banks, is for $378 million. Under both agreements, MSE pays a fee on the unused commitment. All borrowings under these agreements are scheduled, subject to MSE's fulfilling or obtaining waivers of certain conditions, to convert to term loans on June 30, 1984. The term loans with domestic banks have a maturity date of December 31, 1986, subject to mandatory prepayment requirements of $100 million plus interest in both 1984 and 1985. The maturity date for the term loans with foreign banks is February 5, 1989, subject to mandatory prepayment requirements of $84 million plus interest in 1985 through 1988.

MSE has entered into an "interest rate swap" agreement with a bank through February 1989 for $189 million of the $378 million outstanding under its revolving credit agreement with foreign banks. MSE has agreed to make semiannual interest payments based upon an 11.5% fixed rate in exchange for semiannual interest payments by the bank based upon the London Interbank Offered Rate (LIBOR). This agreement serves to offset fluctuations in variable rates to be paid under MSE's revolving credit agreement with foreign banks. It does not change MSE's obligations to the foreign banks for interest payments of LIBOR plus 1%.

MSE also has agreements for short-term borrowings of $69.8 million that require compensating balances totaling approximately 2% of the commitment, which are not restricted as to withdrawal. At December 31, 1983, MSE had $4.2 million outstanding under these agreements and had other unsecured short-term borrowings totaling $32.5 million with additional banks.

The operating subsidiaries have lines of credit, not requiring commitment fees, providing for short-term borrowings through bank loans. Of the total bank lines of credit at December 31, 1983, $200 million was provided by banks located outside of the Middle South System service area. Any of the four System operating companies may borrow any portion of these lines subject only to each company's maximum authorized level of borrowings. Compensating balances (approximately 5% of the commitment amount) or equivalent fees are required by certain of these non-service area lending banks. These compensating balances are not restricted as to withdrawal. Additionally, the four System operating companies, together with MSU, MSS, and SFI, are authorized to participate in the System money pool whereby those companies in the System with available funds may invest in the pool while other companies in the System (except MSU) having short-term needs may borrow from the pool, thereby reducing the System's dependence on external short-term borrowings.

SFI has a fuel oil financing arrangement allowing for borrowings of up to $100 million subject to a limit equivalent to the sum of certain accounts receivable arising from the sale of fuel oil inventory and the lower of the cost or the fair market value of SFI's fuel oil inventory. In addition, SFI may borrow up to $135 million through the sale of commercial paper for use in financing its nuclear fuel inventory. Borrowings under these short-term arrangements are restricted as to use and are secured by SFI's fuel oil inventory and a portion of its nuclear fuel inventory, respectively, and certain accounts receivable arising from the sale of these inventories. SFI also has a revolving bank credit agreement which allows for borrowings of up to $60 million through December 31, 1984. A commitment fee is paid on the unused portion of this commitment.

The credit facilities at December 31, 1983, 1982, and 1981 and the borrowings thereunder of the System companies were as follows:

	December 31, 1983		December 31, 1982		December 31, 1981	
	Credit Facilities	Borrowings	Credit Facilities	Borrowings	Credit Facilities	Borrowings
			(In Thousands of Dollars)			
Short-term:						
MSE	102,265	36,673	134,150	114,815	102,600	92,375
SFI	235,000	173,471	235,000	180,610	160,000	156,115
MSS	—	—	—	—	50,000	30,550
Operating subsidiaries	343,460	77,900	237,535	44,750	367,585	93,258
Long-term:						
Company	115,000	32,000	172,500	71,000	230,000	51,650
MSE	2,089,000	1,831,000	1,626,000	1,379,000	1,311,000	941,000
SFI	60,000	3,000	60,000	17,600	60,000	6,500
MSS	75,000	56,200	75,000	9,000	—	—

The short-term borrowings and the interest rates (determined by dividing applicable interest expense by the average amount borrowed) for the Middle South System were as follows:

	Year Ended December 31,		
	1983	1982	1981
	(Dollars in Thousands)		
Average Borrowing:			
Bank Loans	$ 178,172	$ 182,358	$ 236,317
Commercial paper	$ 102,960	$ 102,850	$ 70,559
Other	$ 117,582	$ 93,840	$ 95,603
Maximum Borrowing:			
Bank loans	$ 275,022	$ 236,189	$ 278,426
Commercial paper	$ 123,000	$ 142,265	$ 130,305
Other	$ 212,340	$ 152,930	$ 100,000
Year-end Borrowing:			
Bank loans	$ 114,573	$ 159,565	$ 216,183
Commercial paper	$ 123,000	$ 107,725	$ 79,115
Other	$ 50,471	$ 72,885	$ 100,000
Average Interest Rate:			
During period-			
Bank loans	10.2%	14.3%	18.4%
Commercial paper	10.3%	14.2%	17.8%
Other	9.7%	13.0%	17.4%
At end of period-			
Bank loans	10.9%	10.9%	15.0%
Commercial paper	10.9%	9.9%	13.8%
Other	10.1%	10.1%	12.8%

Note 5. Preferred Stock

The number of shares of preferred stock of the operating subsidiaries as of the end of the last two fiscal years was as follows:

	Shares Authorized at December 31, 1983	Shares Outstanding at December 31, 1983	1982	Call Price Per Share
Cumulative, $100 Par Value				
Without sinking fund:				
4.16- 5.56%	1,070,774	1,070,106	1,070,106	$102.50 to $107.00
6.08- 8.56%	1,180,000	1,180,000	1,180,000	$102.83 to $107.42
9.16-11.48%	795,000	795,000	795,000	$106.35 to $113.98
	3,045,774	3,045,106	3,045,106	
With sinking fund:				
10.60-12.00%	554,829	554,829	503,009	$109.39 to $112.00
14.75-17.00%	450,000	450,000	450,000	$113.11 to $117.00
	1,004,829	1,004,829	953,009	
Unissued	6,656,500			
Total	10,707,103			

	Shares Authorized at December 31, 1983	Shares Outstanding at December 31, 1983	1982	Call Price Per Share
Cumulative, $25 Par Value				
Without sinking fund:				
8.84%	400,000	400,000	400,000	$27.66
10.40%	600,000	600,000	600,000	$28.60
	1,000,000	1,000,000	1,000,000	
With sinking fund:				
9.92-12.64%	6,913,299	6,913,299	3,999,640	$27.68 to $28.18
13.12-15.20%	6,792,060	6,792,060	6,800,000	$28.28 to $29.88
	13,705,359	13,705,359	10,799,640	
Unissued	7,200,000			
Total	21,905,359			

Changes in the number of shares of preferred stock of the operating subsidiaries during the last three fiscal years were as follows:

	Number of Shares 1983	1982	1981
Sales:			
LP&L			
12.64%, $25 par, with sinking fund	3,000,000	—	—
14.72%, $25 par, with sinking fund	—	2,000,000	—
MP&L			
12.00%, $100 par, with sinking fund	100,000	—	—
14.75%, $100 par, with sinking fund	—	100,000	—
17.00%, $100 par, with sinking fund	—	—	200,000
Redemptions:			
AP&L			
9.92%, $25 par, with sinking fund	(86,341)	(360)	—
10.60%, $100 par, with sinking fund	(15,445)	(9,550)	(7,172)
11.04%, $100 par, with sinking fund	(32,735)	(20,150)	(22,253)
13.28%, $25 par, with sinking fund	(7,940)	—	—
Total	2,957,539	2,069,940	170,575

The amounts of preferred stock of the operating subsidiaries as of the end of the last two fiscal years were as follows:

	December 31,	
	1983	1982
	(In Thousands)	
Without sinking fund:		
Stated at $100 a share	$304,511	$304,511
Stated at $25 a share	25,000	25,000
Premium	1,456	1,456
Total without sinking fund	$330,967	$330,967
With sinking fund:		
Stated at $100 a share	$100,483	$ 95,301
Stated at $25 a share	342,634	269,991
Premium	533	845
Issuance expense	(14,049)	(11,180)
Total with sinking fund	$429,601	$354,957

Cash sinking fund requirements for the ensuing five years for preferred stock outstanding at December 31, 1983 are as follows (in thousands): 1984, $10,000; 1985, $14,750; 1986, $15,750; 1987, $18,250; and 1988, $22,500.

Note 6. Long-Term Debt

The long-term debt of the Company and its subsidiaries as of the end of the last two fiscal years was as follows:

	December 31,	
	1983	1982
	(In Thousands)	
First Mortgage Bonds	$ 3,016,753	$ 2,807,050
Promissory Notes:		
Due:		
1984, at Federal funds rate plus ⅛ of 1%	3,000	17,600
1984, at prime or negotiated money market rate	56,200	9,000
1984, at 107% of prime plus ⅜ of 1%	32,000	71,000
1986, at 110% of the sum of prime and 1.3%	1,453,000	1,064,000
1989, at London Interbank Offered Rate plus 1%	189,000	315,000
1989, at 11.5% plus 1% (Note 4)	189,000	—
Total Promissory Notes	1,922,200	1,476,600
Other:		
Long-Term Obligation — Department of Energy (Note 8)	49,400	—
Capitalized Lease — due serially through 1993, 8%	5,536	5,890
Municipal Revenue Bonds — due serially through 2004, 1¼ - 8%	36,804	39,154
Pollution Control Revenue Bonds and Installment Purchase Contracts:		
Due serially through 2014, 6.4 - 11½%	63,900	64,050
Due 1984 - 2013, 6⅛ - 11⅛%	190,125	135,625
Less — Funds on deposit with trustees	(14,131)	(21,307)
Total Other	331,634	223,412
Unamortized Premium and Discount — Net	(10,403)	(4,513)
Total Long-Term Debt	5,260,184	4,502,549
Less — Amount due within one year	228,009	73,102
Long-Term Debt Excluding Amount Due Within One Year	$ 5,032,175	$ 4,429,447

Maturities and sinking fund requirements for the ensuing five years on long-term debt outstanding at December 31, 1983 are as follows:

	Maturities	Sinking Fund Requirements	
		Cash	Other*
	(In Thousands of Dollars)		
1984	226,644	49,365**	19,571
1985	205,062	55,600	21,831
1986	1,485,946	55,600	21,531
1987	114,166	63,600	21,621
1988	273,650	63,555	20,950

*Sinking fund requirements may be met by certification of property additions at the rate of 167% of the required amount.

**Includes a $48 million MSE bond sinking fund requirement that is expected to be refinanced.

The outstanding first mortgage bonds of the Company's subsidiaries as of December 31, 1983 and 1982 were:

Maturity	3% - 5⅞%	6% - 8⅞%	9% - 11⅞%	12% - 14⅞%	15% - 17⅛%	Total
			(In Thousands of Dollars)			
1983						
1984	31,500	—	—	—	—	31,500
1985	18,000	—	—	—	—	18,000
1986	—	—	75,000	—	70,000	145,000
1987	26,000	—	—	—	—	26,000
1988	15,463	—	45,000	—	125,000	185,463
1989-1998	307,350	89,560	378,880	100,000	285,000	1,160,790
1999-2008	—	460,000	526,500	98,500	—	1,085,000
2009-2013	—	—	60,000	305,000	—	365,000
Total First Mortgage Bonds						3,016,753
1982						
1983	19,002	—	50,000	—	—	69,002
1984	31,500	—	—	—	—	31,500
1985	18,000	—	—	—	—	18,000
1986	—	—	75,000	—	70,000	145,000
1987	26,000	—	—	—	—	26,000
1988-1997	322,958	31,160	419,230	—	410,000	1,183,348
1998-2007	—	519,000	376,700	98,500	—	994,200
2008-2012	—	—	210,000	130,000	—	340,000
Total First Mortgage Bonds						2,807,050

Note 7. Retained Earnings

The Public Utility Holding Company Act of 1935 prohibits the Company's subsidiaries from making loans or advances to MSU. The indenture provisions relating to the operating subsidiaries' long-term debt and transfers by such subsidiaries from retained earnings to the stated value of common stock and the provisions of the MSE bank loan agreements and indenture restrict the amount of consolidated retained earnings available for cash dividends on common stock of the subsidiaries. As of December 31, 1983, $139.4 million of consolidated retained earnings were free from such restrictions, including $111.7 million of unrestricted, undistributed retained earnings of the Company's subsidiaries. The unrestricted, undistributed retained earnings of any subsidiary of MSU are not available for distribution to the common stockholders of MSU until such earnings are made available to the Company through the declaration of dividends by such subsidiary.

Note 8. Commitments and Contingencies

The Middle South System's construction program contemplates expenditures of approximately $1,231.2 million in 1984, $798.6 million in 1985, and $828.9 million in 1986 (including AFDC of $456.5 million in 1984, $121.2 million in 1985, and $167.9 million in 1986). Of these expenditures, $350 million, $327 million, and $388 million, respectively, (including AFDC of $261 million in 1984, $104 million in 1985, and $146 million in 1986), are applicable to MSE's 90 percent ownership interest in the Grand Gulf Nuclear Station, a two-unit nuclear generating station. MSE estimates the commercial operation date of Grand Gulf Unit 1 to be in the third quarter of 1984 at a total cost (excluding nuclear fuel) of approximately $2.7 billion for its 90 percent ownership interest. A limited amount of construction on Unit 2 was performed during 1983. Full resumption of construction on Unit 2 and the cost to complete Unit 2 will be dependent, among other things, upon completion and commercial operation of Unit 1. Through December 31, 1983, MSE had invested $3,308.6 million in the Grand Gulf Nuclear Station. MSE estimates, pending a final review of the cost allocation between the two units upon the completion of Unit 1, that of this total, $2,601.8 million was invested in Unit 1 and $706.8 million in Unit 2.

In connection with Grand Gulf, MSU has undertaken, to the extent not obtained by MSE from other sources, to furnish or cause to be furnished to MSE sufficient capital for construction and operation of the station and related purposes. Through December 31, 1983, MSU had invested $689.9 million in the common stock of MSE. In addition, at December 31, 1983, MSE's outstanding debt included short-term borrowings of $36.7 million, bank bor-

rowings of $1,453 million (which are due December 31, 1986) under a $1,711 million revolving loan agreement with a group of domestic banks, bank borrowings of $378 million (which are due February 5, 1989) under a $378 million revolving loan agreement with a group of foreign banks, $49.5 million of Claiborne County, Mississippi Pollution Control Revenue Bonds due December 1, 2013, and $328 million of First Mortgage Bonds, 9.25% Series due 1989 and $98.5 million of First Mortgage Bonds, 12.50% Series due 2000.

MSE is obligated to make annual cash sinking fund payments with respect to its first mortgage bonds in varying amounts designed to retire $349.5 million of those bonds by maturity. In addition, MSE is obligated to make prepayments of $100 million at the end of both 1984 and 1985 under its $1,711 million revolving loan agreement. With respect to its $378 million loan agreement, MSE is obligated, commencing February 5, 1985, to make semi-annual prepayments of one-ninth of the amount of borrowings outstanding on the date that these revolving credit borrowings convert to a term loan. MSE has covenanted with the bondholders that it will complete Unit 1 no later than December 31, 1984 and that Unit 2 will be completed no later than December 31, 1988. In the event either of these covenants is not fulfilled or MSE defaults in respect of either the bonds or the bank borrowings, the bonds and the bank borrowings will become due and payable unless extensions of time can be arranged. In this event, MSU would be required to provide MSE with sufficient funds, to the extent not obtained by MSE from other sources, to meet the payment obligations of MSE with respect to any of the bonds and bank borrowings under the $1,711 million and $378 million revolving loan agreements then outstanding.

MSE believes that its resources will be adequate in 1984 to enable it to finance its share of the cost of completing Grand Gulf Unit 1 and to meet its sinking fund requirements on outstanding debt through a combination of the conversion of the foreign bank loan agreement and the domestic loan agreement to term loans on June 30, 1984, and sales of additional common stock to MSU, together with the planned sale of additional pollution control revenue bonds, bank borrowings, or possible extensions of certain existing bank borrowing arrangements. In the event that capital requirements for completion of Grand Gulf Unit 1 are increased as a result of a further delay in commercial operation or for any other reason, MSE may require additional external financing, the source or availability of which cannot be predicted at this time.

MSE's foreign and domestic loan agreements were amended to extend the period during which revolving loans may be made from December 30, 1983 to June 30, 1984. MSE currently anticipates converting borrowings under these agreements to term loans as of June 30,1984. The conversions will be subject to MSE's fulfilling certain conditions and obtaining waivers of certain other conditions. If waivers cannot be obtained and the remaining conditions cannot be fulfilled, the bank loans will then be due and payable.

Following commencement of commercial operation of Grand Gulf Unit 1, MSE will require substantial funds to finance maturing indebtedness, including the December 31, 1986 maturity of its $1,711 million domestic loan agreement, to meet sinking fund obligations, and to finance continuation of construction of Grand Gulf Unit 2. MSE expects to obtain a significant portion of such funds through its receipt of payments from the sale of power to the System operating companies under the Unit Power Sales Agreement, approval of the terms of which is currently pending in a proceeding before the FERC. The balance of amounts needed by MSE for refinancing and construction of Grand Gulf Unit 2 will be obtained from external sources. MSE's ability, generally, to obtain new funds externally will depend on a number of factors, including the results of retail rate proceedings filed by the System operating companies for recovery of Grand Gulf Unit 1 costs, contractural restrictions contained in MSE's first mortgage bond indenture and credit agreements, market conditions, the availability of financing sources, and the credit ratings of MSE's securities. MSE expects during the period from commercial operation through December 31, 1986, to retire a significant portion of the indebtedness under the domestic loan agreement through use of internal funds and funds obtained through the issuance of first mortgage bonds and preferred stock. In addition, during such period, MSE would seek to extend, for a limited period, the maturity of a portion of the borrowings under the domestic loan agreement.

LP&L, MP&L, and NOPSI have requested or will request from their respective state public utility commissions rate adjustments adequate to permit them to meet their obligations to MSE to purchase power under the Unit Power Sales Agreement. An Administrative Law Judge (ALJ) of the FERC has rendered his initial decision regarding such Agreement. The ALJ has deferred any decision on Grand Gulf Unit 2 and has recommended that capacity and energy from Grand Gulf Unit 1 be allocated to AP&L as well as the other operating companies. The ALJ has ruled that Grand Gulf Unit 1 be allocated 36% to AP&L, 14% to LP&L, 33% to MP&L, and 17% to NOPSI, compared to MSE's request that such costs be allocated 38.6% to LP&L, 31.6% to MP&L, and 29.8% to NOPSI. This decision is subject to review of the FERC. AP&L has filed an application with the APSC requesting, among other things, recovery through rates of its revenue requirements resulting from any obligation to purchase power under the Unit Power Sales Agreement.

In connection with a Show Cause Order issued by the MPSC relative to the continued construction of Grand Gulf Unit 2, MSE has filed testimony supporting the continued construction of Grand Gulf Unit 2 as an economical option for providing the Middle South System capacity needed to meet projected System loads. Current projected loads reflect a need for additional capacity of the size of Grand Gulf Unit 2 in 1990. Based on an economic and

feasibility study on the construction of Grand Gulf Unit 2 which assumed resumption of full construction in July 1984, the commercial operation date of the unit would be April 1990 with a total construction cost for MSE's 90% ownership interest of $3.44 billion. MSE has covenanted with bondholders that it will complete Grand Gulf Unit 2 no later than December 31, 1988. MSE plans to seek from its creditors whatever waivers or amendments are necessary to change the stipulated completion date relative to Grand Gulf Unit 2.

On April 30, 1982, Middle South Services, Inc. (MSS) on behalf of the Middle South System operating companies, filed for approval with the FERC a new agreement providing for the coordinated planning, construction, and operation of its generation and transmission facilites. Rates under the new agreement became effective on January 1, 1983, subject to refund. Various parties have intervened in these proceedings. Some parties are contesting the method by which the agreement equalizes capacity and energy among the System operating companies and certain proposals, if adopted, could cause material changes in the allocation of costs among the companies. Testimony was concluded in December 1983. On February 2, 1984, MSS notified the presiding ALJ, designated by the FERC to hear this proceeding, that three of the MSU operating companies will support an alternate cost allocation method designed to bring about a form of equalization of production costs among the operating companies and that the remaining operating company will continue to support the original proposal. Subsequently, the three operating companies filed Statements of Separate Positions pursuant to the notice filed by MSS. In addition, the three companies supporting the equalization concept have filed a proposed Offer of Settlement. The matter is still pending before the ALJ.

SFI has a number of contracts for the purchase of fuels for use at various generating stations within the Middle South System. Among the contracts is one for 100 million tons of coal for LP&L's Wilton Station, another for up to 185 million tons of coal for use at the Independence Station in Arkansas, and another for 33 million tons of lignite for AP&L's share of a future power station in Arkansas. In addition, SFI has a long-term oil supply agreement with a major oil company providing for the purchase of 25,000 barrels of oil per day through 1996 with an option to reduce, within certain limits, the contract quantity either temporarily or permanently. AP&L is currently purchasing coal for the White Bluff Station under an agreement that will provide approximately 100 million tons of coal over a twenty-year period.

SFI has a long-term program for the acquisition, conversion, and enrichment of nuclear materials required for the fabrication of nuclear fuel that may be utilized in any of the present or proposed Middle South System nuclear generating stations. SFI has firm purchase commitments for the acquisition in 1984 of 500,000 pounds of uranium in various stages of processing.

The Price-Anderson Act limits the public liability of a licensee of a nuclear power plant to $580 million for a single nuclear incident. Insurance for this exposure is provided by private insurance and an indemnity agreement with the Nuclear Regulatory Commission (NRC). Every licensee of a nuclear power plant is obligated, in the event of a nuclear incident involving any commercial nuclear facility in the United States that results in damages in excess of the private insurance, to pay retrospective assessments of up to $5 million per incident for each licensed reactor it operates or up to a maximum per reactor owned of $10 million in any calendar year. At December 31, 1983, the Middle South System had three licensed reactors.

AP&L is a member-insured of Nuclear Electric Insurance Limited (NEIL), a mutual insurer that provides its members with insurance coverage for certain costs of replacement power incurred due to certain prolonged outages of nuclear units (NEIL I) and for $425 million of coverage for property damage sustained by the insured in excess of $500 million caused by radioactive contamination or other specified damage (NEIL II). MSE is a member-insured under the NEIL II excess property insurance program and MSE and LP&L are member-insureds under a primary property damage insurance program provided by Nuclear Mutual Limited (NML), another mutual insurer. As member-insureds with these mutuals, AP&L, LP&L, and MSE are subject to assessments if losses exceed the accumulated funds available to the insurer. The present maximum assessment for incidents occurring during a policy year is approximately $21 million, $20 million, and $54 million for AP&L, LP&L, and MSE, respectively.

Under the terms of their nuclear fuel leases, three subsidiaries are responsible for the disposal of spent nuclear fuel. These companies consider all costs incurred or to be incurred in the use and disposal of nuclear fuel to be proper components of nuclear fuel expense and provisions to recover such costs have been or will be made in applications to regulatory commissions. The affected Middle South System companies have obtained commitments from the Department of Energy (DOE) whereby the DOE will furnish service for the companies' spent nuclear fuel at a cost of one mill per kilowatt-hour of gross generation on or after April 7, 1983, plus one-time fees for discharged fuel and in-core burned fuel. AP&L, through rates and a settlement of a past disposal contract, has recorded the approximately $49.4 million necessary for payment to the DOE for the disposal of all spent nuclear fuel on hand. In addition to the recovery of costs associated with the disposal of spent nuclear fuel, AP&L is recovering a total of approximately $160 million for decommissioning costs for its two nuclear units.

The Federal income tax returns for the years 1971-1976 have been examined by the Internal Revenue Service (IRS) and adjustments have been proposed. Formal written protests have been filed and conferences have been held with Appeals Officers of the IRS. All issues, other than an issue involving the taxability of customer deposits, have been settled with the Appeals Officers. Such settlement is subject to review and final approval, which

is expected to be received in 1984. The Company believes that adequate provisions have been recorded on the books. Any final liability that may result from resolution of the customer deposits issue would not have a material effect on net income, because income taxes on customer deposits would be normalized.

In the interest of increased economic efficiency, LP&L and NOPSI are continuing the development of a plan to consolidate the two companies and their operations. Under the proposed arrangement, subject to the receipt of necessary regulatory and other approvals, the two companies will be consolidated into a new company to be called Louisiana Power & Light Company. MSU, which currently owns all the outstanding common stock of LP&L and NOPSI, would own all the common stock of the new company.

Note 9. Leases

The Company's operating subsidiaries accounted for leases at December 31, 1983 on the same basis as that used by their respective regulatory authorities in the ratemaking process that determines the revenues utilized to recover the lease costs.

Application of criteria used to define a capital lease (excluding nuclear fuel leases), absent the treatment as an operating lease in the ratemaking process, would require recording the following assets and liabilities on the balance sheet:

	1983	1982	1981
		(In Thousands)	
Assets:			
Utility plant	$ 139,204	$ 135,676	$ 129,308
Accumulated amortization	(26,367)	(22,225)	(20,890)
Net	$ 112,837	$ 113,451	$ 108,418
Other property and investments—net	$ 40,585	$ 47,406	$ 50,702
Liabilities:			
Non-current obligations under capital leases	$ 155,869	$ 162,388	$ 160,697
Current obligations under capital leases	$ 13,420	$ 13,919	$ 10,804

The recording of such leases would not materially affect the amounts reported as either expenses or net income.

At December 31, 1983, the System companies had noncancellable capital and operating leases (excluding nuclear fuel leases) with minimum rental commitments as follows:

	(In Thousands)
1984	$ 56,262
1985	53,906
1986	52,651
1987	44,297
1988	42,530
For years thereafter	437,821
Total	$687,467

Rental expense for capital and operating leases (excluding nuclear fuel leases) amounted to approximately $58.3 million, $53.8 million, and $45.9 million in 1983, 1982, and 1981, respectively.

Three subsidiaries have entered into nuclear fuel leases aggregating $455.0 million. The leases, unless terminated sooner by one of the parties, will continue through 2018, 2028, and 2029. Lease payments, which are not included in the tabulations above, are based on nuclear fuel use. Nuclear fuel lease expense of $49.7 million, $40.1 million, and $51.5 million was charged to operations in 1983, 1982, and 1981, respectively. The unrecovered cost base of the leases was $431.4 million, $361.4 million, and $309.2 million at December 31, 1983, 1982, and 1981, respectively.

Note 10. Pension Plans

The companies of the Middle South System have various pension plans covering substantially all of their employees. These plans are administered by a trustee who is responsible for pension payments to retirees. Various investment managers have responsibility for management of the plans' assets. In addition, an independent actuary performs the necessary actuarial valuations for the individual company plans.

Effective January 1, 1982, the companies modified the method of amortizing prior service costs by changing from fixed amortization periods of from ten to thirty years to varying amortization periods not to exceed thirty years. The effect of this change on 1982 pension expense was not significant. Total pension expense of the Company and its subsidiaries for 1983, 1982, and 1981 was $26.6 million, $24.5 million, and $26.4 million, respectively. Of the total pension expense, NOPSI's transit-related pension expense for 1983, 1982, and 1981 was $1.4 million, $2.4 million, and $2.1 million, respectively.

The comparison of the actuarial present values of accumulated plan benefits and plan net assets for the defined benefit plans is presented below. This comparison was determined in accordance with the provisions of Statement of Financial Accounting Standards No. 36 which requires the use of certain assumptions that are different from those used by the Company's actuary in determining an appropriate level of funding for the Company.

	January 1, 1983	January 1, 1982
	(In Thousands)	
Actuarial present value of accumulated plan benefits:		
Vested	$232,339	$209,812
Nonvested	13,539	14,167
Total	$245,878	$223,979
Net assets available for benefits	$398,413	$331,771

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 9%.

A portion of the plan assets will be transferred in mid-1984 to Transit Management of Southeast Louisiana, Inc. as part of NOPSI's divestiture of its transit operations. (See Note 12.) This transaction is pending the acceptance by the Regional Transit Authority of an actuarial study that will determine the transit-related present value of accumulated plan benefits and net assets available for benefits as of June 30, 1983 which will be transferred.

Note 11. Settlement Agreement with Gas Supplier

A dispute between a gas supplier and LP&L arising from the gas supplier's claimed inability to deliver full quantities of fuel gas due LP&L under several natural gas contracts was settled by the execution of a settlement agreement on June 4, 1982. The settlement agreement provides for the payment of $1.087 billion in cash (of which $587 million, $250 million, and $250 million were received by LP&L in June 1982, January 1983, and January 1984, respectively) plus a guaranty of savings of at least $585 million in certain gas acquisition costs between 1982 and 1996. On March 21, 1983, the LPSC amended its order of January 17, 1983 (which required, among other things, that LP&L refund in two installments the funds received in 1982 and 1983, plus interest earned on these funds) to provide, in general, that the refunds be made as follows: the $587 million received by LP&L on June 4, 1982, plus interest, or a total of $637 million, shall be refunded in 1983 ($621 million had been refunded through December 31, 1983); the $250 million received in January 1983 shall be refunded in ten equal annual installments beginning in 1984; and the $250 million received in January 1984 shall be refunded in nine equal installments beginning in 1985. The effect of the LPSC order is to permit LP&L to use, pending refunds to customers, a portion of the proceeds in financing its continuing construction program.

Pending the decision by the LPSC, in 1982 LP&L had used approximately $329 million of the settlement funds to repay its short-term borrowings incurred to finance its construction program and for other corporate purposes. As a result of the LPSC order, LP&L accrued in 1983 and 1982 interest expense in the amounts of $11.1 million and $19.2 million, respectively, relating to the funds used by LP&L.

Note 12. Transit Divestiture

On June 30, 1983, NOPSI sold and transferred to the Regional Transit Authority (RTA), a political subdivision of the State of Louisiana, various properties and assets related to NOPSI's operation of the transit system in the City of New Orleans for a purchase price of $21.0 million. Under the sale agreement, NOPSI agreed to pay $7.3 million in cash to RTA and to reimburse RTA or Transit Management of Southeast Louisiana, Inc. $13.0 million, plus a 9% upward adjustment factor per annum, for future disability insurance premiums or welfare benefit payments for all retired and disabled transit and transit-related employees of NOPSI and their respective dependents and survivors. As a consequence of this transaction, NOPSI disposed of its entire interest in the transit business. The results of the discontinued transit operations in the 1983 consolidated income statement have been accounted for as miscellaneous income. This amount includes revenues from transit operations for the six months ended June 30, 1983 of $30.5 million and a gain from the sale of transit operations, before income taxes, of $2.2 million. Accordingly, the 1982 and 1981 results of transit operations have been reclassified similarly. Revenues from transit operations for 1982 and 1981 amounted to $55.5 million and $49.8 million, respectively. Income taxes related to transit operations for all three years have been accounted for, on a consolidated basis, as income taxes on other income.

Note 13. Quarterly Results (Unaudited)

Consolidated operating results for the four quarters of 1983 and 1982 were as follows:

Quarter Ended	Operating Revenues	Operating Income	Net Income	Earnings Per Share
	(In Thousands of Dollars)			
1983:				
March	651,166	85,330	62,407	$0.43
June	636,791	100,051	84,049	$0.55
September	918,404	164,204	150,656	$0.97
December	703,296	94,740	80,938	$0.51
1982:				
March	629,967	105,890	70,191	$0.56
June	644,290	92,794	59,795	$0.46
September	874,432	151,707	130,803	$0.95
December*	697,575	84,421	49,806	$0.36

Operating revenues and operating income have been restated to exclude results of discontinued transit operations.

*In the month of December 1982, net income was decreased $9.9 million for interest expense accrued on the settlement agreement funds used by LP&L. (See Note 11.)

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

Note 14. Effect of Inflation on Operations (Unaudited)

The following supplementary information about the effect of changing prices on the Company is provided in accordance with the requirements of Statement of Financial Accounting Standards No. 33, "Financial Reporting and Changing Prices". It should be viewed as an estimate of the effect of changing prices rather than as a precise measure.

Statement of Income from Operations and Other Financial Data
Adjusted for Effects of Changing Prices for the Year Ended December 31, 1983
(In Thousands)

	As Reported in the Financial Statements	Adjusted for General Inflation (Constant Dollars)	Adjusted for Changes in Specific Prices (Current Costs)
Revenues*	$2,909,657	$2,909,657	$2,909,657
Operating expenses (excluding depreciation)*	2,282,161	2,282,161	2,282,161
Depreciation	183,171	398,127	429,708
Total operating expenses	2,465,332	2,680,288	2,711,869
Operating income	444,325	229,369	197,788
Other income*	409,781	409,781	409,781
Interest and other charges*	476,056	476,056	476,056
Income from operations (excluding adjustment to net recoverable cost)**	$ 378,050	$ 163,094	$ 131,513
Increase in specific prices (current costs) of property, plant, and equipment held during the year***			$ 683,946
Adjustment to net recoverable cost		$ (74,452)	(131,975)
Effect of increase in general price level			(594,842)
Excess (deficiency) of increase in specific prices, after adjustment to net recoverable cost, over increase in general price level			(42,871)
Gain from decline in purchasing power of net amounts owed		253,722	253,722
Net		$ 179,270	$ 210,851

**Assumed to be in "average for the year" dollars and thus are not restated.*
***Including the adjustment to net recoverable cost, income from operations on a constant dollar basis would have been $88,642 for 1983.*
****At December 31, 1983, current cost of property, plant, and equipment, net of accumulated depreciation, was $17,023,806, while historical cost or net cost recoverable through depreciation was $10,247,942.*

Five-Year Comparison of Selected Supplementary Financial Data
Adjusted for Effects of Changing Prices
(In Thousands of Average 1983 Dollars)

	1983	1982	1981	1980	1979
Operating Revenues	$2,909,657	$2,995,075	$3,036,349	$2,828,526	$2,505,988
Historical Cost Information Adjusted for General Inflation:					
Income from operations (excluding adjustment to net recoverable cost)	$ 163,094	$ 118,073	$ 127,522	$ 63,648	$ 89,531
Income per common share (after dividend requirements on preferred stock and excluding adjustment to net recoverable cost)	$ 1.06	$ 0.89	$ 1.11	$ 0.65	$ 1.04
Net assets at year-end at net recoverable cost	$2,951,104	$2,532,845	$2,316,756	$2,195,508	$2,154,264
Current Cost Information:					
Income from operations (excluding adjustment to net recoverable cost)	$ 131,513	$ 82,666	$ 83,955	$ 21,520	$ 50,180
Income per common share (after dividend requirements on preferred stock and excluding adjustment to net recoverable cost)	$ 0.86	$ 0.62	$ 0.73	$ 0.22	$ 0.59
Excess (deficiency) of increase in specific prices after adjustment to net recoverable cost over increase in general price level	$ (42,871)	$ (44,839)	$ (417,209)	$ (565,311)	$ (714,535)
Net assets at year-end at net recoverable cost	$2,951,104	$2,532,845	$2,316,756	$2,195,508	$2,154,264
General Information:					
Gain from decline in purchasing power of net amounts owed	$ 253,722	$ 227,823	$ 192,977	$ 272,459	$ 373,996
Cash dividends declared per common share	$ 1.71	$ 1.72	$ 1.79	$ 1.92	$ 2.11
Market price per common share at year-end	$ 13⅛	$ 15⅛	$ 13⅜	$ 13¼	$ 16⅜
Average consumer price index	298.4	289.1	272.4	246.8	217.4

Constant dollar amounts represent historical costs adjusted for the effects of general inflation. The effects are determined by converting these costs into dollars of equal purchasing power using the Consumer Price Index for all Urban Consumers (CPI-U).

Current cost amounts reflect the changes in specific prices of property, plant, and equipment from the year of acquisition to the present. The current costs of property, plant, and equipment, which represent the estimated costs of replacing existing plant assets, are determined by applying the Handy-Whitman Index of Public Utility Construction Costs (HWI) to the cost of the surviving plant by year of acquisition. Land and certain other plant assets that are not included in the HWI were converted using the CPI-U. The difference between current cost amounts and constant dollar amounts results from specific prices of property, plant, and equipment (as measured by the HWI) changing at a rate different than the rate of general inflation (as measured by the CPI-U).

The current year's depreciation expense on the constant dollar and current cost balances of property, plant, and equipment were determined by applying the Company's depreciation rates to the indexed amounts.

Fuel inventories, oil and gas reserves, the cost of fuel used in generation, and gas purchased for resale have not been restated from their historical cost in nominal dollars. Regulation limits the recovery of fuel and purchased gas costs through the operation of adjustment clauses or adjustments in basic rate schedules to actual costs. For this reason, fuel inventories and oil and gas reserves are effectively monetary assets.

As prescribed in Statement of Financial Accounting Standards No. 33, income taxes were not adjusted.

The regulatory commissions to which the Company's subsidiaries are subject allow only the historical cost of plant to be recovered in revenues as depreciation. Therefore, the excess cost of plant stated in terms of constant dollars or current cost over the historical cost of plant is not presently recoverable in rates. This excess (deficiency) is reflected as an adjustment to net recoverable cost. While the ratemaking process gives no recognition to the current cost of replacing property, plant, and equipment, the Company believes, based on past experiences, that it will be allowed to earn on the increased cost of its net investment when replacement of facilities actually occurs.

To properly reflect the economics of rate regulation in the Statement of Income from Operations presented above, the adjustment of net property, plant, and equipment to net recoverable cost is adjusted by the gain from the decline in purchasing power of net amounts owed. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial amount of debt which has been used to finance property, plant, and equipment. Since the depreciation on this plant is limited to the recovery of historical costs, the Company does not have the opportunity to realize a holding gain on debt and is limited to recovery only of the embedded cost of debt capital.

Corporate Information

Investor Information

At the close of 1983, there were 217,654 shareholders of record of Middle South Utilities, Inc., an increase of approximately 9 percent from the same time a year earlier. The number of shares of common stock outstanding increased from 139,333,934 to 166,082,128 during 1983.

Dividends Declared

The Board of Directors authorized the increasing of the common stock quarterly dividend payment by one cent per share, effective with the January 3, 1984 dividend. The new quarterly rate, 43-1/2 cents per share, is equivalent to an annual rate of $1.74. This was the 27th consecutive year that the Company increased its dividend rate.

Of dividends paid in 1983, 98 percent is estimated to be a return of capital to the stockholders for Federal income tax purposes and is not taxable as dividend income. This occurs primarily because a large portion of net income resulting from capitalizing costs of capital invested in projects still under construction does not constitute taxable income.

Dividend Reinvestment and Stock Purchase Plan

The Company's Dividend Reinvestment and Stock Purchase Plan is open to holders of MSU common stock and preferred stock issued by the System operating companies. The Plan provides for stockholders to purchase additional shares of MSU common stock with reinvested dividends at a 5 percent discount without payment of any brokerage commission or service charge.

For Federal income tax purposes, the difference between the price paid and the fair market value on the investment date is considered as an additional distribution and is treated the same as dividends paid. Most MSU individual common stockholders may elect to exclude from taxable income up to $750 ($1,500 on a joint return) of the taxable portion of 1983 MSU dividends reinvested through the MSU Dividend Reinvestment and Stock Purchase Plan. Taxes on such reinvested dividends in a qualified program are deferred until the stock is sold or otherwise disposed of.

Form 10-K Available

The Middle South Utilities System 1983 Annual Report to the Securities and Exchange Commission on Form 10-K (including financial statement schedules) is available to any stockholder upon request. To receive a copy without charge, write to Dan E. Stapp, Secretary, at the address below. Additional statistical information is available in the 1983 Financial and Statistical Report by writing to Edwin Lupberger, Senior Vice President-Chief Financial Officer, at the address below.

Middle South Utilities, Inc.
Box 61005
New Orleans, Louisiana 70161

(504) 529-5262

Transfer Agent and Registrar

Morgan Guaranty Trust Company
New York, New York 10015

Notice of Annual Meeting

The Annual Meeting of Stockholders is scheduled to be held in New Orleans, Louisiana, at 10:00 a.m. (CDT), May 18, 1984. The 1983 Annual Meeting was held in Little Rock, Arkansas, on May 20. Of shares outstanding at that time, 79.1 percent were represented in person or by proxy.

Auditors

Deloitte Haskins & Sells
New Orleans, Louisiana 70139

Stock Exchange Listings

The common stock of Middle South Utilities, Inc. is listed and traded on the New York, Midwest, and Pacific stock exchanges. The ticker symbol for the Company is MSU.

1973-1983 Financial Record *(In Thousands)*

Consolidated Summary of Operations

	1983	1982	1981
Operating Revenues:			
Electric	**$ 2,716,329**	$ 2,673,572	$ 2,582,778
Natural gas	**193,328**	172,692	139,242
Total	**2,909,657**	2,846,264	2,722,020
Operating Expenses:			
Operation:			
Fuel for electric generation	**942,219**	1,066,325	1,083,064
Purchased power	**373,712**	345,076	263,559
Gas purchased for resale	**158,186**	138,890	107,768
Deferred fuel and other	**363,509**	288,283	307,218
Maintenance	**149,453**	132,031	127,067
Depreciation	**183,171**	167,725	158,264
Taxes other than income taxes	**104,493**	101,381	93,058
Income taxes	**190,589**	171,741	175,142
Total	**2,465,332**	2,411,452	2,315,140
Operating Income	**444,325**	434,812	406,880
Other Income:			
Allowance for equity funds used during construction	**245,640**	182,342	143,369
Miscellaneous income and deductions—net	**6,799**	7,133	24,249
Income taxes—credit	**157,342**	147,186	126,466
Total	**409,781**	336,661	294,084
Interest and Other Charges:			
Interest on long-term debt	**529,597**	488,750	441,894
Other interest—net	**47,251**	74,130	74,507
Allowance for borrowed funds used during construction	**(180,858)**	(170,438)	(157,511)
Preferred dividend requirements of subsidiaries	**80,066**	68,436	60,591
Total	**476,056**	460,878	419,481
Net Income	**$ 378,050**	$ 310,595	$ 281,483
Earnings Per Common Share	**$2.46**	$2.33	$2.44
Dividends Declared Per Common Share	**$1.71**	$1.67	$1.63
Average Number of Common Shares Outstanding	**153,383,044**	133,193,296	115,175,550
Utility Plant and Capitalization: (at December 31)			
Fixed Assets:			
Utility plant	**$ 11,942,417**	$ 10,464,188	$ 9,080,436
Less—Accumulated depreciation and amortization	**1,694,475**	1,551,700	1,407,584
Utility plant—net	**$ 10,247,942**	$ 8,912,488	$ 7,672,852
Capitalization:			
Common equity	**$ 3,001,542**	$ 2,481,916	$ 2,185,546
Preferred stock (including premium and issuance expense):			
Without sinking fund	**330,967**	330,967	330,967
With sinking fund	**429,601**	354,957	300,219
Long-term debt	**5,032,175**	4,429,447	3,896,370
Total	**$ 8,794,285**	$ 7,597,287	$ 6,713,102
Capitalization Ratios:			
Common equity	**34.1%**	32.7%	32.6%
Preferred stock (including premium and issuance expense)	**8.7**	9.0	9.4
Long-term debt	**57.2**	58.3	58.0

1980	1979	1978	1977	1976	1975	1974	1973
$ 2,179,232	$ 1,671,491	$ 1,485,901	$ 1,325,264	$ 1,064,116	$ 867,641	$ 768,433	$ 609,082
116,067	117,256	95,284	83,040	63,852	48,928	38,373	38,362
2,295,299	1,788,747	1,581,185	1,408,304	1,127,968	916,569	806,806	647,444
946,145	697,606	623,402	568,990	422,204	294,482	259,435	149,882
281,951	258,377	133,929	86,087	61,439	35,075	43,880	22,458
88,864	88,801	68,657	58,577	37,852	30,994	21,807	19,936
248,601	176,181	171,918	157,791	126,362	121,328	99,116	93,020
104,333	104,340	93,260	67,150	53,863	46,815	42,311	36,908
141,229	118,192	112,108	106,031	100,175	91,761	73,427	67,659
82,584	75,837	68,025	65,388	59,664	54,888	47,433	47,619
104,463	51,395	83,290	96,388	72,873	61,222	38,669	58,456
1,998,170	1,570,729	1,354,589	1,206,402	934,432	736,565	626,078	495,938
297,129	218,018	226,596	201,902	193,536	180,004	180,728	151,506
122,277	124,086	93,573	65,346	62,169	46,064	49,509	31,948
8,272	7,206	7,850	7,719	(1,953)	(6,279)	(10,747)	(7,997)
105,724	77,658	48,947	29,028	22,365	19,837	5,249	4,430
236,273	208,950	150,370	102,093	82,581	59,622	44,011	28,381
327,468	255,242	199,212	153,005	132,719	113,486	105,532	72,464
72,666	43,990	23,161	18,323	15,571	19,177	8,094	3,723
(117,663)	(89,247)	(54,717)	(34,031)	—	—	—	—
55,024	36,264	25,477	23,109	21,780	16,660	15,040	13,181
337,495	246,249	193,133	160,406	170,070	149,323	128,666	89,368
$ 195,907	$ 180,719	$ 183,833	$ 143,589	$ 106,047	$ 90,303	$ 96,073	$ 90,519
$2.01	$2.12	$2.43	$2.16	$1.82	$1.78	$2.17	$2.09
$1.59	$1.535	$1.46	$1.395	$1.335	$1.275	$1.23	$1.15
97,469,169	85,444,691	75,522,179	66,598,876	58,395,628	50,733,782	44,279,481	43,376,255
$ 7,893,636	$ 7,002,052	$ 6,052,023	$ 5,183,284	$ 4,539,891	$ 3,953,814	$ 3,470,598	$ 3,054,867
1,264,525	1,139,164	1,038,256	935,702	831,930	747,612	668,148	608,613
$ 6,629,111	$ 5,862,888	$ 5,013,767	$ 4,247,582	$ 3,707,961	$ 3,206,202	$ 2,802,450	$ 2,446,254
$ 1,901,204	$ 1,659,736	$ 1,412,254	$ 1,196,427	$ 1,010,278	$ 864,035	$ 746,628	$ 705,212
330,967	330,967	280,712	280,712	250,679	240,627	240,627	230,611
283,165	193,507	60,063	60,063	60,063	60,063	—	—
3,392,309	3,017,816	2,629,711	2,175,471	1,965,985	1,751,328	1,529,958	1,341,637
$ 5,907,645	$ 5,202,026	$ 4,382,740	$ 3,712,673	$ 3,287,005	$ 2,916,053	$ 2,517,213	$ 2,277,460
32.2%	31.9%	32.2%	32.2%	30.7%	29.6%	29.7%	31.0%
10.4	10.1	7.8	9.2	9.5	10.3	9.5	10.1
57.4	58.0	60.0	58.6	59.8	60.1	60.8	58.9

Middle South Utilities System Companies

Operating Companies

Arkansas Power & Light Company

Arkansas Power & Light Company serves some 545,000 customers in an area of approximately 18,900 square miles, having an estimated population of 1.3 million. It owns electric facilities in 65 of Arkansas' 75 counties and in 13 Missouri counties. AP&L's service area encompasses most of the state of Arkansas and includes Southeastern Missouri. At December 31, 1983, the company furnished retail electric service in 319 Arkansas and Missouri incorporated municipalities. AP&L also provides power at wholesale to nine Arkansas and two Missouri municipalities and to two rural electric cooperatives and one association of rural electric cooperatives.

Associated Natural Gas, a wholly-owned subsidiary of AP&L, provides retail gas service to 66,000 customers in Arkansas and Missouri.

Louisiana Power & Light Company

Louisiana Power & Light Company operates in 46 of the 64 parishes of Louisiana, a 19,500 square-mile area which has an estimated population of 1.6 million. At year-end 1983, LP&L was serving approximately 552,000 customers. The area served by LP&L includes most of Northern Louisiana, a small portion of East Central Louisiana, and most of Southeastern Louisiana, including the metropolitan area around the City of New Orleans and the 15th Ward in New Orleans.

Mississippi Power & Light Company

Mississippi Power & Light Company serves about 317,000 customers in Western Mississippi. The company operates in an area comprising 25,900 square miles in 45 of the state's 82 counties with an estimated population of 1.3 million. As of December 31, 1983, the company provided electric service in 140 municipalities. MP&L also provided transmission service to one association of rural electric cooperatives, and three municipally owned utilities.

New Orleans Public Service Inc.

New Orleans Public Service Inc. serves approximately 199,000 electric and 173,000 gas customers in the City of New Orleans, a land area of approximately 200 square miles with an estimated population of 558,000. Natural gas is provided for the entire city, while electricity is supplied for all areas except the 15th Ward, an 18 square-mile section on the west bank of the Mississippi River.

Other System Companies

Electec, Inc.

Electec, Inc., a wholly-owned subsidiary of Middle South Utilities, Inc., was chartered in 1983 to develop diversified business opportunities and to market at a profit the capabilities, expertise, and resources of the System companies. Provisions of the Public Utility Holding Company Act of 1935 restrict Electec's activities to those that are reasonably incidental or appropriate to the operations and needs of an integrated electric public utility system.

Middle South Energy, Inc.

Middle South Energy, Inc., a wholly-owned subsidiary of Middle South Utilities, Inc., was formed in 1974 for the purpose of financing large power plants that might not be feasible for a single operating company to finance.

Middle South Services, Inc.

Middle South Services, Inc., a wholly-owned subsidiary of Middle South Utilities, Inc., was organized in 1963 to make the Middle South Utilities System as self-sufficient as possible by providing centralized expert consultation and other essential staff services more economically and effectively than would otherwise be possible. MSS provides its services to System companies at cost as required by the Securities and Exchange Commission.

System Fuels, Inc.

System Fuels, Inc., a wholly-owned subsidiary of the four MSU operating companies, was organized in 1972 to obtain needed generating fuels at the best price and to deliver those fuels efficiently to the operating companies' facilities.

Directors and Officers

MSU Directors

GEORGE F. BENNETT
President and Chief Executive Officer of State Street Investment Corporation, Federal Street Fund, Inc., and of State Street Research and Management Company, Boston, Massachusetts.
Compensation and Nominating Committees.

JAMES M. CAIN
President and Chief Executive Officer of New Orleans Public Service Inc., President and Chief Executive Officer of Louisiana Power & Light Company, New Orleans, Louisiana.

BROOKE H. DUNCAN
President of Foster Company, Inc., New Orleans, Louisiana.
Audit and Nominating Committees.

FLOYD W. LEWIS
Chairman and President of the Company, New Orleans, Louisiana.
Executive (Chairman) and Nominating Committees.

DONALD C. LUTKEN
President and Chief Executive Officer of Mississippi Power & Light Company, Jackson, Mississippi.
Executive Committee.

JERRY L. MAULDEN
President and Chief Executive Officer of Arkansas Power & Light Company, Little Rock, Arkansas.

LeROY P. PERCY
Cotton Farmer; Chairman of the Boards of Mississippi Chemical Company and First Mississippi Corporation; President of Greenville Compress Company, Greenville, Mississippi.
Executive, Audit and Nominating (Chairman) Committees.

ROBERT D. PUGH
Chairman of the Board of Portland Gin Company (Agricultural and Agri-Business) and Chairman of Portland Bank, Portland, Arkansas.
Executive, Audit (Chairman) and Nominating Committees.

GEORGE K. REEVES
Partner of Ward and Reeves, Attorneys, Caruthersville, Missouri.
Compensation (Chairman) and Nominating Committees.

H. DUKE SHACKELFORD
President of Shackelford Co., Inc.; Shackelford Gin, Inc., and Louisiana Cotton Warehouse Company, Inc.; Chairman of Union Oil Mill, Inc. (Agricultural and Agri-Businesses); Bonita, Louisiana.
Audit and Nominating Committees.

FRANK G. SMITH, JR.
President and Chief Executive Officer of Middle South Services, Inc., New Orleans, Louisiana.
Executive Committee.

WM. CLIFFORD SMITH
President of T. Baker Smith & Son, Inc., Houma, Louisiana.
Nominating Committee.

DR. WALTER WASHINGTON
President of Alcorn State University, Lorman, Mississippi.
Compensation and Nominating Committees.

Directors Retired During 1983

We wish to acknowledge the dedication and support of the following Directors who retired from the Middle South Utilities, Inc. Board of Directors during 1983:

RICHARD W. FREEMAN
Vice-Chairman of the Louisiana Coca-Cola Bottling Company, Ltd.; Chairman of the Finance Committee of Delta Airlines, Inc., New Orleans, Louisiana.

JACK M. WYATT
Formerly Chairman and Chief Executive Officer of Louisiana Power & Light Company, New Orleans, Louisiana.

MSU Officers

FLOYD W. LEWIS
Chairman and President
Age 58.
Joined MSU System in 1949.

EDWIN A. LUPBERGER
Senior Vice President and Chief Financial Officer
Age 47.
Joined MSU System in 1979.
Sixteen years prior utility industry service.

DAN E. STAPP
Secretary
Age 49.
Joined MSU System in 1958.

RODNEY J. ESTRADA
Treasurer
Age 46.
Joined MSU System in 1965.

E. EUGENE BROWN
Assistant Treasurer
Age 50.
Joined MSU System in 1956.

DOROTHY M. ANTOINE
Assistant Secretary
Age 51.
Joined MSU System in 1952.

Middle South Utilities, Inc.
Post Office Box 61005
New Orleans, Louisiana 70161