ARKANSAS POWER & LIGHT COMPANY | ANNUAL REPORT 1983

Prepared for Today. Positioned for Tomorrow.

FINANCIAL INTEGRITY

FUEL DIVERSIFICATION

COMMUNITY SERVICE

MARKETING

8404100248

Arkansas Power & Light Company Honored As 1983 Arkansas Corporate Humanitarian of the Year

The more than 5,000 people of Arkansas Power & Light were honored last fall when the Company was presented the Arkansas Corporate Humanitarian of the Year Award by the Governor's Office of Volunteerism and KARK-TV, Little Rock. AP&L was the first utility ever awarded this prestigious recognition.

Presented annually in televised ceremonies from Little Rock's Robinson Center, the Award pays tribute to outstanding corporate citizenship by leading Arkansas businesses.

The Company's contributions in the areas of economic and community development, charitable support and involvement with youth programs were highlighted at the 1983 ceremony. Particular emphasis was placed on AP&L's Helping Hand Programs through Project Deserve and Project Conserve. These efforts to aid the elderly and needy are the largest such utility-sponsored programs in the nation. The achievements of thousands of AP&L employee/volunteers over the past 70 years were another area of special recognition.

At AP&L we are grateful for this Award and pledge to continue to be actively involved in advancing the area we serve through a broad spectrum of public service activities.

Jerry L. Maulden, AP&L president and chief executive officer, (right) accepts the 1983 Arkansas Corporate Humanitarian of the Year Award for the Company from David Jones, president of KARK-TV, at last October's Community Service Awards Dinner. The Award was presented to AP&L with the words: "Because you care."

Performance Highlights

Prepared for Today. Positioned for Tomorrow.

	1983	1982	% Increase
Revenues from operations (000)	$1,206,145	$1,046,143	15
Operation and maintenance expenses (000)	$ 770,603	$ 669,497	15
Allowance for funds used during construction (000)	$ 27,780	$ 23,208	20
Net income (000)	$ 126,896	$ 107,372	18
Capitalization—end of year (000) (investment required to provide service)	$2,179,864	$2,058,542	6
Construction expenditures (000)	$ 247,449	$ 208,248	19
Total utility plant investment—end of year (000)	$3,241,847	$3,004,440	8
Customers:			
Electric (end of year)	545,309	535,381	2
Gas (end of year)	65,710	65,824	-
Energy sales to retail customers:			
Electric (millions of kilowatt hours)	14,755	14,121	4
Natural gas (millions of cubic feet)	10,960	11,505	(5)
Employees (end of year)	5,285	5,165	2
Peak demand (megawatts)	3,748	3,541	6
Average use per customer (kilowatt hours):			
Residential	9,867	9,814	1
Commercial	51,445	50,442	2

President's Perspective

It's hard to believe that ten years have passed since the shock waves of the Arab Oil Embargo began buffeting the electric utility industry with unprecedented change. Coping with this drastically different and complex operating environment—brought on by this decade of energy crisis—has been the greatest management challenge ever faced by our industry.

At Arkansas Power & Light Company, we've met that challenge head-on through corporate strategies anchored to foresight, innovation and economy. Consequently, we believe our future is well-charted because of our success in achieving goals and objectives in important areas, such as fuel diversification, financial integrity and customer services. For example:

- We have virtually eliminated oil from our generation mix. In 1977 we burned over 11 million barrels of oil. This year oil usage will be minimal. By early next year our final coal-fired unit will be complete, giving us an enviable energy diversification of coal and nuclear power. Further, we were able to negotiate what industry analysts have called the best coal delivery contract in the history of the industry. It will literally save our customers billions of dollars over the life of our coal units, and it's a savings that accrues 100% to our customers.
- Our financial performance continues to reflect our corporate commitment to sound business practices. Our return on average common equity was 14.8%, up from 13.1% last year. Coverage ratios were considerably improved, 3.14 times for the mortgage coverage and 1.73 for the charter. Cash flow improved markedly. We were able to fund 63% of our construction program (excluding nuclear fuel) this year through internally-generated funds. Net income was up 18% and revenue from operations increased 15% from $1,046,143 to $1,206,145. It is also important to note that our construction and operating expenditures were under budget, reflecting tight management supervision and effective cost control, both of which will continue in the future.
- Our public image improved considerably. We still have advancements to make, but customer surveys very clearly demonstrate a substantial improvement in public perceptions of our Company.

I am keenly aware that numbers for a single year, financial or otherwise, are not a complete or accurate yardstick by which to evaluate a company's performance. But as you review this annual report—including key sections from our senior company management—I believe you will see why we do indeed believe we are "Prepared for Today and Positioned for Tomorrow."

Our commitment to corporate citizenship remains as a key Company priority. Meeting that responsibility has meant aggressive action across a broad spectrum of public service activities. For example:

- Our Helping Hand program is entering its third year and has won widespread support and acclaim from all sections of our service area.
- AP&L became the first utility in the state ever to receive the Arkansas Corporate Humanitarian of the Year Award presented by the Governor's Office on Volunteerism and KARK-TV, Little Rock.
- We entered into a "fair share" agreement with the NAACP that we intend to make a model for the industry.
- We have vastly increased our work with communities in the area of economic development and jobs creation, the number one need for our state.
- Education is a vital area of activity, and we are funding several education programs aimed at raising the level of educational performance for students and teachers.

These are just some of the examples of how we are returning the Company to its traditional role of "Helping Build Arkansas & Southeast Missouri."

AP&L is also returning to marketing. It will not be "old wine in new bottles" either. Like most utilities in the seventies and eighties, we relegated marketing efforts to a minor role. Not anymore. We are going to seek out innovative approaches to "sell" off-peak capacity in a carefully planned fashion that will aid customers and investors. That "selling" might take the form of innovative pricing, or marketing of load control devices or other means. The program will be built on a solid base of extensive customer research. We are also examining non-traditional areas, and we expect our new Middle South Utilities subsidiary, Electec Inc., to be a great asset in developing new non-regulated marketing strategies. We've already had considerable success with our year-old All-Season Heat Pump program. A greater share of both the replacement and new construction heating/cooling market has been achieved with an aggressive distributor-dealer co-operative advertising program.

In the regulatory area, this past year saw stipulated rate increases for customers in both Arkansas and Missouri.

The Arkansas Public Service Commission (APSC) granted an increase of $39.8 million, plus a modification of our "nuclear incentive clause,"

which lessens the negative financial impact we have experienced with this provision in the past.

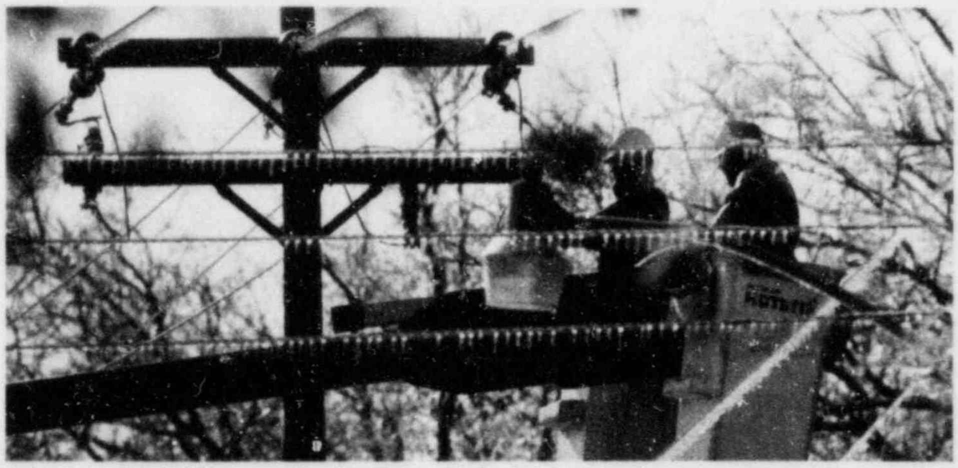
We also received a $3.2 million increase for our Missouri retail customers. Wholesale increases for Arkansas and Missouri customers amounted to $2.5 million.

It's important to note that–in spite of these rate increases–AP&L's rates remain highly-competitive with other states. In fact, a University of Arkansas at Little Rock study has found that "electric rates in Arkansas are among the lowest in the nation."

Without question, the greatest challenges facing our Company are the currently pending issues before the Federal Energy Regulatory Commission (FERC). One involves the allocation of the capacity and energy from the Grand Gulf nuclear plant in Mississippi and the other a proposed pooling of capacity and energy costs for all Middle South Utilities System operating companies. A final decision against AP&L in either case would force substantial rate increases for the Company.

An administrative law judge has ruled that AP&L should be allocated 36% of Grand Gulf Unit 1 despite an agreement among the operating companies of Middle South Utilities that AP&L not receive any allocation. Incidentally, our position was supported by the FERC staff. This unexpected decision came in February, 1984 and is being appealed to the full Commission. If allowed to stand it would force us to increase rates by approximately 27%.

Also pending before a FERC administrative law judge is a new Middle South "System Agreement," which sets forth system operating procedures and cost allocation. During these proceedings, a FERC staff member proposed a pooling of all coal and nuclear energy and capacity costs on the Middle South System and an allocation of these costs spread evenly among all four of the Middle South operating companies (Arkansas Power & Light Company, Louisiana Power & Light Company, Mississippi Power & Light Company, and New Orleans Public Service). His proposal was supported by the Louisiana PSC, which also proposed the pooling of all energy and capacity costs on the Middle South System. After the hearings concluded on this proceeding, Louisiana Power & Light, Mississippi Power & Light and New Orleans Public Service expressed their support for the pooling of all energy and capacity costs on the System.



In late December, AP&L crews and staff worked round-the-clock in responding to the emergency situation created by one of the most damaging ice storms ever to hit the Company.

If the administrative law judge accepts this proposal and it is upheld by the FERC, the result would be a loss by AP&L of most of its cheap coal and nuclear energy to Mississippi and Louisiana. It would be replaced with more expensive energy from those two states. If the energy pooling concept were to be approved, it would have the effect of making the Grand Gulf allocation issue moot. Therefore, in the event of adverse FERC rulings on both issues, the maximum rate increase in Arkansas would be approximately 35%.

The AP&L Board of Directors has voted to vigorously oppose both issues. We have also received excellent support in both Arkansas and Missouri. Public officials, the Public Service Commissions and other various state agencies and customers in both states have worked aggressively to support the AP&L position.

The 36% allocation of Grand Gulf forced us to act immediately to preserve the Company's financial viability. Our current APSC rate filing includes a rider that recognizes the need to collect increased revenues to cover that contingency. The provision proposes a phase-in deferral that would moderate the impact of Grand Gulf costs on our customers if our appeal is unsuccessful. Of course, we hope our appeal will be successful since that will allow us to withdraw the Grand Gulf portion of the rate request.

In closing, I encourage you to read about the progress of our wholly-owned subsidiary, Associated Natural Gas Company, as presented on page 31 of this Report. Mr. Thurl McSpadden, ANG president, and his staff are providing excellent service with profitable performance.

The challenges ahead are obviously formidable, but so was the energy crisis of ten years ago. We are convinced that the abilities and spirit that brought us successfully through that period will do so again today and tomorrow.

Jerry L. Maulden

Jerry L. Maulden
President & Chief Executive Officer

Fuel Diversification

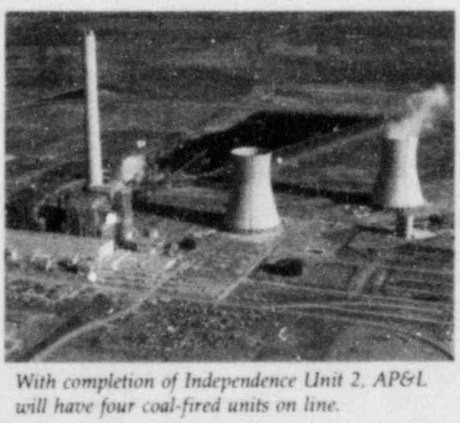
From the day Arkansas Power & Light began electric generation with steam until 1967, natural gas was the logical fuel to provide a majority of Arkansas Power & Light Company's generation capability. It was available and cheap. By 1967, however, it became apparent that nuclear-based generation would offer significant long-term economic advantages to Arkansas Power & Light Company's customers. In March of that year, the Company took its first major step toward fuel diversification with the decision to build Arkansas Nuclear One (ANO), the Southwest's first nuclear-fueled generating station. A second unit at ANO was announced in early 1970.

Senior Vice President William L. Cavanaugh, III, at the White Bluff Steam Electric Station.

Natural gas continued to be the dominant fuel until long-term gas supply contracts were cancelled in 1971. Supply curtailments and subsequent government regulations limiting the use of natural gas as a boiler fuel further complicated the problem. All this served to reinforce the wisdom of the Company's decision to proceed with fuel diversification on the Arkansas Power & Light system.

The construction program continued in 1973 as the White Bluff coal units were announced. This was a second major strategic decision to complement the earlier decisions to build nuclear generation. Throughout 1973 and 1974, our new construction team was working hard to complete that first nuclear unit on time. When Unit 1 of ANO went commercial in December, 1974, it provided some welcomed relief to the high oil prices caused by the 1973 Arab oil embargo and the lack of natural gas.

In 1977, our construction program for fuel diversification took its last major step to date–we announced construction of two coal-fired units in Independence County. These two units, identical to the two units at White Bluff, would bring Arkansas Power & Light Company's total nuclear and coal generation to six units and over 3,100 megawatts.



With completion of Independence Unit 2, AP&L will have four coal-fired units on line.

The opening of the 1980's saw the fruition of our diversification decisions. Arkansas Nuclear One Unit 2 and White Bluff Unit 1 both began initial operation in 1980. This was closely followed by White Bluff Unit 2 in 1981 and Independence Unit 1 in early 1983. With the operation of Independence Unit 2 by or before January, 1985, Arkansas Power & Light Company will have accomplished a major realignment of fuel sources only 18 years after Arkansas Nuclear One Unit 1 was announced. The average cost of this construction has been approximately $470 per kilowatt. To build those same units today would probably cost $1,500 to $2,500 per kilowatt.

Because of our fuel diversification program, the Company has reduced oil consumption from a high of over 11 million barrels in 1977 to less than 165,000 barrels in 1983. (Most of the 1983 usage was for unit start-up purposes.) Natural gas consumption has been similarly reduced—from over 100 million cubic feet in 1970 to less than 35 million in 1983. Today, 82 percent of Arkansas Power & Light Company's generating capacity is supplied by nuclear and coal-fueled plants. Across the United States, approximately 6 percent of electric generation is by oil-fired plants. For Arkansas Power & Light Company, the comparable figure for 1983 was .2 percent.

Because of the wisdom of Arkansas Power & Light Company's fuel diversification decision, Arkansas' energy future looks brighter than ever. The bulk of our generating capability is now fueled by nuclear and coal—resources that are abundant, domestically available, environmentally compatible and economically sound.

William Cavanaugh, III

William Cavanaugh, III
Senior Vice President
Energy Supply

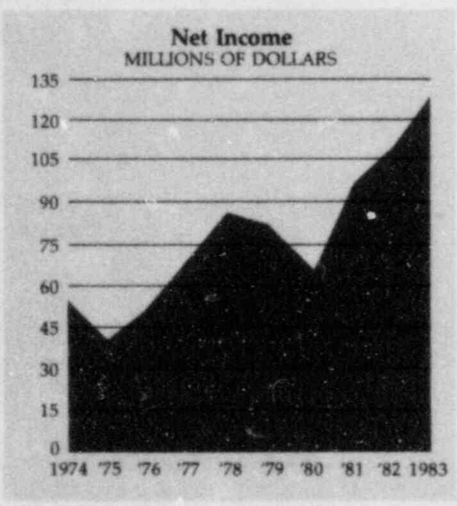
Financial Integrity

The financial strength and integrity of a utility is important to its shareholders and customers alike. Only from a strong, solid financial base can flexibility be exercised to permit timely investment in new, lower fuel cost facilities. With such flexibility, Arkansas Power & Light Company is not forced to sell securities in adverse financial markets, therefore, giving us the financial strength and flexibility to minimize the final cost of power.

Beginning in the early 1970's, we were faced with dramatically increasing fuel costs, wages and materials—all results of oil embargoes, double digit inflation and spiraling interest rates. Our need for greater amounts of construction capital intensified our problems.

Several financial and environmental factors and the regulatory lag in granting needed rate increases to offset the higher cost of doing business created

Senior Vice President Michael B. Bemis in the data processing center at AP&L's corporate headquarters in Little Rock.



AP&L's year-end 1983 net income was up 18% over the 1982 total, demonstrating the Company's success in achieving increased financial stability.

severe fiscal problems more than once during the 1970's and the early 80's. Through the 70's, we experienced a steadily worsening rate of return. Other key indicators declined. The financial rating agencies showed their concern by lowering our credit ratings.

Persistence, determination and severe cost reduction helped maintain the Company as a solvent business entity during this period. Many innovative transactions were consummated. Greater emphasis was placed on cash management, budgeting and cost control.

The Company's computerized econometric corporate model was further refined and used extensively in analysis of alternative actions designed to overcome or minimize the effects of financial problems. In addition, the Company was forced to become more aggressive in rate increase requests and legal areas. This was particularly troublesome because of the increased "consumeristic" attitude of government and regulators.

Presently, we are near completion of our fuel diversification program with only one unit yet to be completed. The winding down of long-term construction projects and subsequent inclusion of their costs in the rate base, and an easing of the general inflation rate coupled with continued improvements in budgeting methods, have over the last three years led us back to a position of relative financial strength. The visible signs include a steadily increasing rate of return on common equity, improved bond interest coverage, an increase in funds generated from normal operations that can be used for construction purposes and a decrease in short-term debt outstanding.

• What does this mean?

For now, the Company has some breathing room. But we don't "have it made." We merely are positioned to step back from some of our previously pressing problems and plan and implement strategies that will further enhance our financial integrity.

• What does the future hold?

Our current position is that of renewed financial strength. Planned power plant construction is nearly complete. Experience and knowledge gained by solving past problems will allow AP&L, given equitable and timely rate increases, to continue to provide for the needs of current customers. Energy needed at competitive rates to attract new business ventures to the state and encourage expansion of existing business will also be available. This expansion will increase the economic base of Arkansas and improve the job market and living standards for its citizens.

Michael B. Bemis

Michael B. Bemis
Senior Vice President
Finance, Regulation
and Legal Services

Marketing

Senior Vice President Jack L. King at AP&L's main Little Rock office.

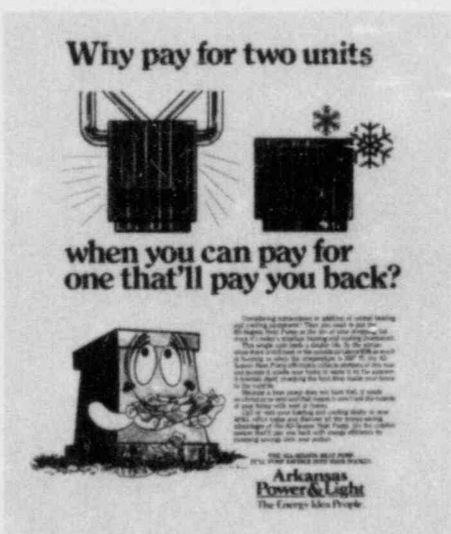
Arkansas Power & Light has worked diligently to complete its fuel diversification program and with completion of Independence Unit 2 by early 1985, will have no major generating units under active construction.

Thanks to this diversification effort, our customers are benefitting from economical rates that could not be possible otherwise. This advantage has been verified by University of Arkansas at Little Rock studies that conclude that "electric power rates in Arkansas are among the lowest in the nation."

Because electric demand varies from season to season and from time period to time period, we are striving to utilize this capacity in the most efficient manner, thereby lowering the per unit cost to our customers.

The Arkansas energy market is changing. Electricity is capturing a larger share of the total market. Natural gas and other fuels are losing market share. Electricity is becoming a more competitive and suitable substitute for additional applications previously reserved for other energy sources.

Our customers will benefit by AP&L making more effective utilization of existing generating units through effective marketing. With these units on line, the marginal cost of producing an additional kilowatt-hour is approximately equal to the fuel cost and considerably below the average kilowatt-hour cost. So, increased kilowatt-hour sales will allow the fixed charges of the generating units already on line to be spread over a larger number of kilowatt-hours. Spreading a fixed number of dollars over a larger number of kilowatt-hours will reduce the average cost per kilowatt-hour to the customer. The Company would benefit because presently its costs are rising more rapidly than kilowatt-hour sales. When this happens, increased costs necessitated by inflationary pressures for labor, materials and all other costs have to be recovered through one of two methods—increased rates or increased sales.



In 1983 AP&L launched a systemwide advertising campaign to promote the All-Season Heat Pump.

We feel we are in a position to recover a large share of increased costs utilizing increased sales rather than increased rates.

A healthy economy requires a healthy and economical energy source. The Arkansas economy is a major concern to AP&L. Jobs and the creation of jobs require a good supply of fairly priced energy.

Our primary focus over the past few years has been in constructing generating facilities to meet current and projected customer demand. While we have been implementing innovative load management programs at AP&L, controlling the demand side of the equation has been a secondary priority. I think we at AP&L have been successful in beginning to change that situation and are emphasizing both supply and demand initiatives. This success will mean that we can more fully control our financial performance and reduce our reliance on rate cases for increased revenues. In addition, on-peak conservation and peak load reduction activities can free electrical energy sources to be used to create jobs and improve the economy.

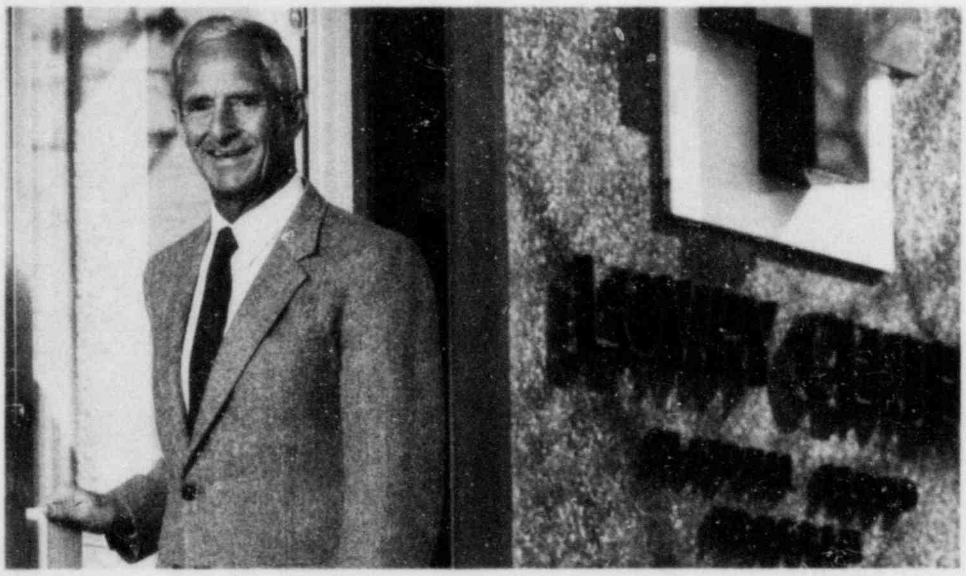
To accomplish these goals, AP&L must accelerate its capture of market share so the customer can be offered options and make the choice on the appropriate energy source. For that reason, we will be expanding our market and product knowledge, our research capabilities and our knowledge of the in-use service our customer makes of kilowatt-hours he purchases from us.

There's no question that an effective, carefully-planned marketing effort at AP&L will provide short- and long-term benefits to both our customers and investors.

Jack L. King

Jack L. King
Senior Vice President
Energy Delivery & Services

Community Service



Senior Vice President Charles L. Steel at the Pulaski County Chapter headquarters of the American Red Cross.

Arkansas Power & Light Company is much more than transmission lines and power plants. Building on a 70-year tradition of community service, the AP&L corporate philosophy involves a multi-faceted program of community and economic development.

Our Company has divided our involvement into five major areas—the Helping Hand Programs, Employment of the Handicapped, Community and Economic Development, Youth Programs and Contributions.

The Helping Hand Programs marshall the financial resources of stockholders, employees and customers to meet individual short-term, energy-related emergencies and to weatherize the homes of the elderly and less fortunate.

Two of the most successful parts of the program are Project Deserve and Project Conserve.

Through Project Deserve, over 5,100 needy families have received financial assistance with short-term energy-related problems. Administered by the American Red Cross with money contributed by stockholders, employees and customers, over $237,205 has been distributed since 1982. People helped include a mother of five who was disabled by a stroke and was looking for work, an elderly widow with diabetes faced with mounting hospital bills and a young woman crippled with arthritis.

Project Conserve has helped over 946 elderly and needy persons weatherize their homes. Stockholders fund the program, which has made $200,000 available to volunteer groups willing to undertake weatherization projects.

Our Company has spearheaded an aggressive program of hiring the handicapped, and currently employs persons who are deaf, visually-impaired, have lost limbs or suffer from polio or epilepsy.

Community and economic development have been a part of the Company's activity since the late 1940's. In a 32-year period ending in 1983, such development efforts have been directly or indirectly responsible for much of the $6.7 billion in plant investment in 2,069 new plants and 423,713 new jobs.

The Company continues to be well-recognized through its Arkansas Community Development Awards program and its Arkansas Farm Family of the Year program.

Reverend H.K. Stewart led efforts in College Station to weatherize almost 250 homes in that community, using resources provided by AP&L's Project Conserve.

Youth programs challenged young people in Arkansas and Missouri through a variety of seminars and activities, including leadership development, recognition and achievement in science, and training of young journalists and agriculture specialists. For example, over 1,500 4-H and FFA members have been recognized in the 31 years AP&L has sponsored the Purple Circle Club for showing Grand Champion animals at the annual State Fair and Livestock Exposition. Approximately 110,000 FFA members have attended summer leadership training seminars, workshops and recreational activities at the Camp Couchdale facility, an approximately 50-acre site made available to them by AP&L. In addition, the Company sponsored its annual Energy Tomorrow science competition in 1983, which awards college scholarships to the winners.

During December, when the worst ice storm of the century hit Arkansas, the Company donated $10,000 to the American Red Cross, $10,000 to the Salvation Army and $2,500 to the Union Rescue Mission for relief efforts.

Our commitment to the advancement of our service area has brought honor to AP&L in various ways. For example, in 1983 AP&L received the statewide Corporate Humanitarian of the Year Award from the Governor's Office of Volunteerism and KARK-TV for its community service work and Mr. Maulden was recognized as Arkansas Volunteer Industrial Developer of the Year by the Arkansas Chapter of the 17-state Southern Industrial Development Council.

We look forward to continued service as we prove every day that we truly are "Helping Build Arkansas and Southeast Missouri."

Charles L. Steel

Charles L. Steel
Senior Vice President
and Assistant to the President

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Officer of the Company
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Raymond P. Miller, Sr., M.D.
Little Rock Internal
Medicine Clinic
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Roy L. Murphy
President
Mid-South Engineering
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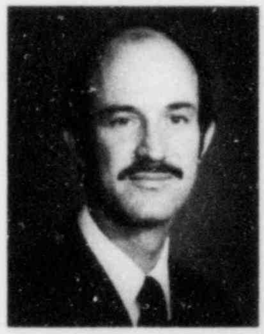
Hot Springs, Arkansas



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All Past Directors of the Company

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Attorney
Pine Bluff, Arkansas

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Past Chairman of the Board
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Little Rock, Arkansas

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Chief Executive Officer
Lee Wilson and Company
Wilson, Arkansas

1989 MANAGEMENT DISCUSSION AND FINANCIAL REPORT

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

Financial Condition

The steady trend of improvement in the financial condition of the Company, which began in 1981, continued through 1983. This improvement is evidenced by an increase in the amount, as well as the quality, of net income, an increase in the rate of return on common equity, and an improvement in the mortgage and charter coverage ratios. It is also encouraging to note that the Company was able to fund its 1983 construction program which totaled $248 million, including allowance for funds used during construction (AFDC) of $28 million, with net external financing of only $85 million and end the year free of short-term debt.

Liquidity and Capital Resources

The Company's liquidity and access to capital markets continued to improve in 1983. This improvement resulted principally from an increase in cash earnings (AFDC as a percent of net income continued at a low level) and a decrease in the Company's need for external financing.

Construction expenditures, excluding AFDC, amounted to $220 million in 1983, $185 million in 1982 and $349 million in 1981. Internally generated funds as a percentage of construction expenditures, excluding nuclear fuel, for 1983, 1982 and 1981 were 63%, 58% and 28%, respectively. This improvement is due to the increase in cash earnings and the stabilizing of the level of construction expenditures as a percent of capitalization.

New security issues in 1983 of long-term debt and common stock were much less than those issued during 1982 and 1981. The Company sold only $65 million of common stock in 1983 compared to $80 million and $84 million in 1982 and 1981, respectively. The Company's net long-term debt for 1983, exclusive of its Department of Energy contract for disposal of its spent nuclear fuel, increased by only $28 million: a sale of $25 million of first mortgage bonds in February, the retirement of $40 million and the sale of $45 million of pollution control bonds in June, and the retirement of $2 million of first mortgage bonds through mandatory cash sinking funds. This is considerably less than the net long-term debt increases of $124 million in 1982 and $95 million in 1981. The Company also retired in 1983, through mandatory cash sinking funds, $7 million of preferred stock.

The increase in cash earnings which has been experienced in the last three years has also resulted in improved mortgage and charter coverage ratios. The earnings ratio for first mortgage bonds, which must be a minimum of 2.0 times the annual mortgage interest requirement for issuance of additional bonds, was 3.14 at December 31, 1983 compared to ratios of 2.65 at December 31, 1982 and 2.90 at December 31, 1981. This ratio has increased despite net increases in first mortgage bonds of $23 million in 1983 and $138 million in 1982. The earnings ratio for preferred stock, which must be a minimum of 1.5 times the Company's annual interest charges and preferred stock dividend requirements to allow the issuance of preferred stock, has increased to 1.73 at December 31, 1983 compared to ratios of 1.54 at December 31, 1982 and 1.51 at December 31, 1981.

Construction expenditures are projected to be $259 million in 1984, $219 million in 1985 and $201 million in 1986. These amounts include AFDC of $25 million, $10 million and $8 million, respectively. Additionally, the Company has debt maturing and cash sinking fund requirements of $121 million during the next three years. The Company plans to rely on internally generated funds and relatively modest amounts of outside conventional financing to fund these requirements. Based on the Company's mortgage and charter ratios at December 31, 1983, as indicated above, the Company could sell an additional $478 million of first mortgage bonds or $174 million of preferred stock at an interest or dividend rate of 13%. The Company presently has SEC authorization through May 31, 1984 to sell $100 million of first mortgage bonds. The Company had temporary investments of

$31 million at December 31, 1983 and unused short-term borrowing authority of $125 million. The Company also has the ability, with SEC approval, to increase this short-term borrowing authority to a total of $213 million.

Results of Operations

Net income increased to $127 million in 1983 from its 1982 and 1981 levels of $107 million and $96 million, respectively. Net income, excluding AFDC, increased to $99 million from its 1982 and 1981 levels of $84 million and $73 million, respectively.

Revenues for 1983, 1982 and 1981 were $1.2 billion, $1.1 billion and $1.0 billion, respectively. The increase in 1983 revenues, which amounted to $160 million or 15%, was due to an increase in KWH sales, rate increases and increased fuel costs. Operation and maintenance expenses also increased 15% in 1983 to $771 million from the $669 million level in 1982 primarily due to increases in fuel and purchased power related costs. The 1983 results include an $8 million or 1[illegible]% increase in depreciation expense, a $30 million or 43% increase in income taxes charged to operations, a $7 million or 6% increase in interest expense and a $5 million or 20% increase in AFDC. Depreciation expense increased due to the commercial operation in January 1983 of the first unit of the jointly-owned, coal-fueled Independence Steam Electric Station. Income taxes charged to operations increased due to an increase in taxable income and the additional normalization required by current tax laws. Interest expense increased due to the sale of new debt.

The continued improvement of the Company's financial position is attributable primarily to the following three factors: (1) the reduction in the amount of the Company's construction work in progress, (2) continuation of effective cost controls and (3) three rate increases approved by the Company's principal regulator during the past four years. These three rate cases resulted in the granting of $171 million in additional annual revenues placed in effect between October 1980 and August 1983. Along with these three rate increases, the Company also filed companion rate applications and received increases in rates to wholesale and other retail customers. (See Note 2 to the Financial Statements—"Rate Matters.")

Effects of Inflation

Despite the reduced level of inflation in 1983, its impact on the Company's operations in recent years has been significant. (See Note 13 to the Financial Statements—"Effects of Inflation on Operations.")

Overview

The Company's overall financial position has improved greatly during the past three years as compared to prior periods. Maintaining and/or continuing such improvement is largely contingent on the Company's ability to charge adequate rates to recover costs and allow for a fair rate of return on its owner's investment. The Company's costs could increase substantially if a ruling by an Administrative Law Judge for the Federal Energy Regulatory Commission (FERC) is upheld concerning the allocation of power to the Company from the Grand Gulf Nuclear Station located in Mississippi which is owned by Middle South Energy, Inc., a wholly-owned subsidiary of Middle South Utilities, Inc., or if, in a second unrelated case, a proposal not supported by the Company for the allocation of production costs among the Middle South System operating companies is accepted by the FERC. Neither the allocation nor the proposal is supported by the Company. (See Note 4 to the Financial Statements—"Commitments and Contingencies.")

REPORT OF MANAGEMENT

The management of Arkansas Power & Light Company 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 provides 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, an organizational structure that provides for appropriate division of responsibility, the selection and training of qualified personnel, a performance accountability program and 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 certified public accountants to discuss auditing, internal control and financial reporting matters, and reports thereon to the board of directors. The independent certified public accountants have full and free access to meet with the audit committee at any time without members of Company management being present.

The independent certified 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 control and perform such tests and other procedures they deem necessary to reach and express an opinion of the fairness of the financial statements.

We believe that these policies and procedures provide reasonable assurance that our operations are carried out with a high standard of business conduct.

Jerry L. Maulden

Jerry L. Maulden
President & Chief Executive Officer

Deloitte
Haskins+Sells

39th Floor
One Shell Square
New Orleans, Louisiana 70139
(504) 581-2727
Cable DEHANDS

AUDITORS' OPINION

Arkansas Power & Light Company:

We have examined the consolidated balance sheets of Arkansas Power & Light Company and its subsidiary as of December 31, 1983 and 1982 and the related consolidated statements of income and retained earnings and of 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 subsidiary 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

Arkansas Power & Light Company and Subsidiary
CONSOLIDATED BALANCE SHEETS

ASSETS	December 31, 1983	December 31, 1982
	(in thousands)	
Utility Plant (Notes 4 and 5):		
Electric plant	$2,871,858	$2,585,957
Gas plant	38,612	37,362
Construction work in progress	306,398	364,252
Nuclear fuel	24,979	16,869
Total	3,241,847	3,004,440
Less—accumulated depreciation and amortization	679,232	605,404
Utility plant—net	2,562,615	2,399,036
Other Property and Investments:		
Investments in associated companies, at equity (Note 4)	36,165	40,064
Other, at cost (less accumulated depreciation)	664	512
Total	36,829	40,576
Current Assets:		
Cash and special deposits	7,831	8,302
Temporary investments, at cost which approximates market:		
Associated companies (Note 7)	29,000	21,600
Other	2,060	945
Notes receivable—net	1,622	1,195
Accounts receivable:		
Associated companies	23,555	14,737
Customer (less allowance for doubtful accounts —$2,179,000 in 1983 and $1,538,000 in 1982)	71,007	44,051
Other	17,918	3,252
Deferred fuel cost	5,717	21,951
Fuel inventory, at average cost	44,610	57,821
Materials and supplies, at average cost	33,711	32,950
Prepayments and other	10,750	9,030
Total	247,781	215,834
Deferred Debits	12,292	13,971
Total	$2,859,517	$2,669,417

See Notes to Consolidated Financial Statements.

LIABILITIES	December 31, 1983	December 31, 1982
	(in thousands)	
Capitalization:		
Common stock, $12.50 par value: authorized 325,000,000 shares; issued and outstanding, 54,980,196 shares in 1983 and 49,780,196 shares in 1982 (Note 9)	$ 687,252	$ 622,252
Paid-in capital	6,045	5,457
Retained earnings (Note 8)	28,158	33,365
Total common shareholder's equity	721,455	661,074
Preferred stock and premium, without sinking fund (Note 9)	126,890	126,890
Preferred stock and premium, with sinking fund (Note 9)	133,931	141,138
Long-term debt (Note 10)	1,197,588	1,129,440
Total	2,179,864	2,058,542
Current Liabilities:		
Currently maturing long-term debt (Note 10)	9,865	2,297
Notes payable (Note 7)	—	750
Accounts payable:		
Associated companies	6,896	4,286
Other	87,007	87,236
Customer deposits	6,723	5,977
Taxes accrued	35,784	33,696
Accumulated deferred income taxes (Note 3)	2,798	10,792
Interest accrued	43,975	37,919
Dividends declared	26,254	24,630
Nuclear refueling reserve	12,651	12,304
Other	41,960	43,548
Total	273,913	263,435
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes (Note 3)	246,640	208,960
Accumulated deferred investment tax credits (Note 3)	129,252	80,348
Reserve for spent nuclear fuel disposal (Note 4)	—	36,019
Other	20,660	14,962
Total	396,552	340,289
Reserves	9,188	7,151
Commitments and Contingencies (Notes 2, 4 and 5)		
Total	$2,859,517	$2,669,417

S e Notes to Consolidated Financial Statements.

Arkansas Power & Light Company and Subsidiary

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

	Years ended December 31,		
	1983	1982	1981
		(in thousands)	
Statements of Income			
Operating Revenues (Notes 2 and 11):			
Electric	$1,148,891	$ 994,124	$ 974,734
Natural gas	57,254	52,019	40,827
Total	1,206,145	1,046,143	1,015,561
Operating Expenses:			
Operation:			
Fuel	322,658	262,604	307,213
Purchased power	166,126	178,841	141,316
Gas purchased for resale	44,150	40,986	30,637
Other	178,610	141,824	157,084
Maintenance	59,059	45,242	43,675
Depreciation	92,621	84,194	77,923
Taxes other than income taxes	32,813	31,861	28,129
Income taxes (Note 3)	98,831	69,285	62,401
Total	994,868	854,837	848,378
Operating Income	211,277	191,306	167,183
Other Income and Deductions:			
Allowance for equity funds used during construction	18,095	12,722	11,541
Miscellaneous—net	6,372	7,062	20,292
Income taxes (Note 3)	8,085	5,625	(2,795)
Total	32,552	25,409	29,038
Interest Charges:			
Interest on long-term debt	119,466	108,557	90,755
Other interest—net of debt premium	7,152	11,272	21,038
Allowance for borrowed funds used during construction	(9,685)	(10,486)	(11,712)
Total	116,933	109,343	100,081
Net Income	$ 126,896	$ 107,372	$ 96,140
Statements of Retained Earnings			
Retained Earnings—January 1	$ 33,365	$ 43,134	$ 54,699
Add—Net Income	126,896	107,372	96,140
Total	160,261	150,506	150,839
Deduct—Cash Dividends:			
Preferred stock	24,715	25,274	25,586
Common stock	107,388	91,867	82,119
Total	132,103	117,141	107,705
Retained Earnings—December 31 (Note 8)	$ 28,158	$ 33,365	$ 43,134

See Notes to Consolidated Financial Statements.

Arkansas Power & Light Company and Subsidiary

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Years ended December 31,		
	1983	**1982**	**1981**
		(in thousands)	
Funds Provided By:			
Operations:			
Net income	$126,896	$107,372	$ 96,140
Depreciation	92,621	84,194	77,923
Deferred income taxes and investment tax credit adjustments—net	78,127	56,696	56,473
Allowance for funds used during construction	(27,780)	(23,208)	(23,253)
Total funds provided by operations	269,864	225,054	207,283
Other:			
Allowance for funds used during construction	27,780	23,208	23,253
Decrease in working capital[1]	—	—	17,080
Reserve for spent nuclear fuel disposal	—	12,341	15,221
Miscellaneous—net	12,943	2,987	2,630
Total funds provided excluding financing transactions	310,587	263,590	265,467
Financing transactions:			
Common stock[2]	65,000	80,000	84,292
First mortgage bonds[3]	25,000	155,000	103,382
Installment purchase transactions	44,900	8,325	37,735
Long-term bank loans	—	6,000	23,052
Long-term obligation – Department of Energy (Note 4)	49,400	—	—
Sale and leaseback transactions—net	—	—	22,136
Book value of utility plant sold	291	10,302	85,632
Short-term securities—net	—	—	17,676
Total funds provided by financing	184,591	259,627	373,905
Total funds provided	$495,178	$523,217	$639,372
Funds Applied To:			
Utility plant additions:			
Construction expenditures for utility plant	$247,449	$208,248	$372,694
Plant additions[4]	—	—	80,559
Expenditures for nuclear fuel	8,110	6,655	3,063
Other—net	932	(837)	3,045
Total gross additions (includes allowance for funds used during construction)	256,491	214,066	459,361
Other:			
Dividends declared on preferred stock	24,715	25,274	25,586
Dividends declared on common stock	107,388	91,867	82,119
Increase in working capital[1]	11,778	67,389	—
Reserve for spent nuclear fuel disposal (Note 4)	36,019	—	—
Total other funds applied	179,900	184,530	107,705
Financing transactions:			
Redemption of preferred stock	7,175	2,979	2,943
Retirement of first mortgage bonds	2,297	16,719	69,363
Repayment of installment purchase transactions	40,050	—	—
Repayment of long-term bank loans	—	29,052	—
Repayment of and investment in short-term securities—net	9,265	75,871	—
Total funds applied to financing	58,787	124,621	72,306
Total funds applied	$495,178	$523,217	$639,372

1. *Working capital excludes short-term securities, current maturities and deferred taxes included in current assets and current liabilities. The 1983 increase in working capital is due primarily to increases in accounts receivable while offset by decreases in deferred fuel cost and fuel inventory and increases in accounts payable, taxes accrued and interest accrued. The 1982 increase in working capital is due primarily to increases in deferred fuel costs, fuel inventory, materials and supplies and a decrease in accounts payable while offset by a decrease in special deposits and increases in interest accrued and miscellaneous other liabilities. The 1981 decrease in working capital is due primarily to increases in accounts payable, interest accrued and contract advances, partially offset by increases in accounts receivable from associated companies and materials and supplies.*

2. *The year 1981 includes $29,292,000 of common stock issued in connection with the Arkansas-Missouri Power Company (Ark-Mo) consolidation. This amount does not include a premium of $3,820,000 associated with the issue.*

3. *The year 1981 includes $21,160,000 of first mortgage bonds exchanged for Ark-Mo first mortgage bonds and $7,222,000 of first mortgage bonds of Associated Natural Gas Company.*

4. *Plant acquired with the consolidation of Ark-Mo.*

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Arkansas Power & Light Company and its wholly-owned subsidiary, Associated Natural Gas Company

B. System of Accounts

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

C. Revenues and Fuel Costs

The Company records revenues as billed to its customers on a cycle billing basis. Revenue is not accrued for energy delivered but not billed at the end of the fiscal period.

Substantially all of the rate schedules of the Company include adjustment clauses under which fuel costs above or below the levels allowed in the various rate schedules are permitted to be billed or required to be credited to customers. The Company has adopted a deferral method of accounting for those fuel costs recoverable under fuel adjustment clauses. Under this method, such costs are deferred to the month in which the related revenues are billed.

The fuel adjustment factor 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 repair 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 on average depreciable property in 1983, 1982 and 1981 amounted to approximately 3.3% each year. Principally, all the Company's utility plant is subject to the lien of its first mortgage bond indenture.

E. Jointly-Owned Generating Stations

The Company jointly owns two coal-fueled generating stations, both having two units. One of these units is still under construction. The Company is the agent for the respective co-owners and operates the stations. It records its investment and expenses associated with these stations to the extent of its ownership interests in the generating stations. The Company's investment and percent ownership in these stations are as follows:

Generating Stations	Investment at Dec. 31, 1983	Percent Ownership
White Bluff Steam Electric Station	$389,881,000	57.0%
Independence Steam Electric Station	$271,490,000	31.5%

The investment in the Independence Station includes $100,760,000 of investment in the Station's second unit which is still under construction.

F. Pension Plan

The Company has a pension plan covering substantially all of its employees. The policy of the Company is to fund pension costs accrued.

G. Income Taxes

The Company joins its parent in filing a consolidated Federal income tax return. Income taxes are allocated to the Company in proportion to its contribution to 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 allocated to the Company are deferred and amortized over the average useful life of the related property, beginning with the year allowed in the consolidated tax return.

H. Allowance for Funds Used During Construction

To the extent that the Company is not permitted by its regulatory bodies to recover in current rates the carrying cost of funds used for construction, the Company capitalizes, as an appropriate cost of utility plant, an allowance for funds used during construction (AFDC) which is calculated and recorded as provided by the regulatory system 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 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 charged for utility service. The effective composite AFDC rate for the Company was 8.8%, 9.1% and 9.4% for 1983, 1982 and 1981, respectively.

The Company's policy is 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.

I. Reserves

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

2. RATE MATTERS

On May 1, 1981, the Company filed an application with the Arkansas Public Service Commission (APSC) to increase its Arkansas retail rates approximately $101.4 million. On March 1, 1982, the APSC issued an order authorizing an annual increase in retail rates of $26.2 million. The order also directed the Company to refund approximately $19.3 million related to collections that the APSC states resulted from the Company's past practice of tax normalization. Following a rehearing, which was requested by the Company, the APSC approved on September 8, 1982, an additional annual increase of $2.8 million, which increased the approved amount to $29 million. The Company filed an appeal with the Circuit Court of Pulaski County, Arkansas, placing before it the issues related to differences between the $101.4 million sought and the $29.0 million granted, subject to certain adjustments, and that part of the order that directed the Company to refund approximately $19.3 million. The matter is pending before the court.

On November 19, 1982, the Company filed an application with the APSC requesting an annual increase in Arkansas retail rates of approximately $126 million above the level of the rates then in effect. On April 18, 1983, the Company and the Staff of the APSC filed with the APSC an agreement which in effect amounted to a $39.8 million increase in Arkansas retail rates and a more equitable fuel clause. The agreement provided that the Company pay, with no fuel adjustment flow-through, the full increased fuel cost of replacement energy during an outage of either of its two nuclear units for reasons other than refueling for no more than 30 days during any consecutive 12 month period, and thereafter allows the Company to recover 90% of the fuel costs above the base fuel costs included in rates. Previously, the Company was required to bear the cost of the replacement energy for the first 30 days of each outage excluding refueling. The agreement also provided for a 2½% null zone on either side of a monthly target capacity factor designated for each nuclear unit before the Company realizes any loss or gain. On August 19, 1983, the APSC approved the agreement and the $39.8 million increase in rates became effective on August 22, 1983.

On December 15, 1982, the Company filed with the Public Service Commission of Missouri (PSCM) a rate application requesting a $9.9 million annual increase in Missouri retail rates. On September 26, 1983, the PSCM approved a settlement agreement entered into by the Company and all parties involved providing for a $3.2 million annual increase which became effective on October 1, 1983.

On December 16, 1983, the APSC held a hearing for the Company to show cause why the Company's rates to customers other than Reynolds Metals Company (Reynolds) should not be adjusted downward to take into consideration revenues greater than rate case test year levels which may be collected from Reynolds through higher demand charges. The APSC staff, which sponsored the request to show cause, alleges that the windfall to the Company will be approximately $12 million. The matter is pending.

On March 9, 1984, the Company filed an application with the APSC requesting an annual increase in Arkansas retail rates of approximately $70.8 million above test year revenue levels. The application also includes a proposed rate rider to be effective if the Company is required to make payments to Middle South Energy, Inc. for costs associated with Grand Gulf. (See Note 4—"Commitments and Contingencies.") The Company's filing also included an alternate phase-in plan.

3. INCOME TAXES

Income tax expense (credit) consists of the following:

	1983	1982	1981
		(in thousands)	
Current:			
Federal	$ 6,396	$ 3,713	$ 7,036
State	6,223	3,251	1,687
Total	12,619	6,964	8,723
Deferred—net:			
Liberalized depreciation	24,776	30,744	19,118
Deferred fuel cost	(7,994)	10,748	(6,065)
Restoration due to tax loss carryforward	—	—	15,188
Nuclear fuel disposal costs	17,729	(6,074)	(7,491)
Expenses associated with co-owner advances to construct coal plants	(94)	(44)	4,924
Differences between book and tax gains and losses on sales of property	(203)	(997)	7,000
Other	(4,527)	(3,310)	2,393
Total	29,687	31,067	35,067
Investment tax credit adjustments—net	48,440	25,629	21,406
Recorded income tax expense	$90,746	$63,660	$65,196
Charged to operations	$98,831	$69,285	$62,401
Charged (credited) to other income	(8,085)	(5,625)	2,795
Recorded income tax expense	90,746	63,660	65,196
Income taxes applied against the debt component of AFDC	9,190	7,669	9,848
Total income taxes	$99,936	$71,329	$75,044

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:

	1983		1982		1981	
	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income
Computed at statutory rate	$100,115	46.0	$78,675	46.0	$74,214	46.0
Increases (reductions) in tax resulting from:						
Allowance for funds used during construction	(12,686)	(5.8)	(9,492)	(5.6)	(9,985)	(6.2)
State income taxes net of Federal income tax effect	6,086	2.8	4,406	2.6	4,546	2.8
Other—net	(2,769)	(1.3)	(9,929)	(5.8)	(3,579)	(2.2)
Recorded income tax expense	90,746	41.7	63,660	37.2	65,196	40.4
Income taxes applied against debt component of AFDC	9,190	2.4	7,669	2.7	9,848	3.4
Total income taxes	$ 99,936	44.1	$71,329	39.9	$75,044	43.8

Unused investment tax credits at December 31, 1983 amounted to $47.9 million, which if not used will expire in 1992 through 1998.

Pursuant to an order of the APSC dated March 1, 1982, the Company ceased providing deferred taxes on certain timing differences which were previously normalized. However, the order requires the Company to continue providing deferred taxes on decommissioning costs of nuclear plant and disposal costs of nuclear fuel, and provides for continued normalization of timing differences for which normalization is required by the Internal Revenue Code or State law. During 1983, as a result of the nuclear fuel disposal contract with the DOE, disposal costs for spent nuclear fuel became deductible for tax purposes, thus normalization is no longer applicable.

4. COMMITMENTS AND CONTINGENCIES

The construction program contemplates Company construction expenditures of approximately \$259 million in 1984, \$219 million in 1985 and \$201 million in 1986.

The Federal income tax returns for the years 1971 through 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 and adequate provisions have been recorded. Such settlement is subject to review and final approval is expected to be received in 1984. Any final liability which may result from the resolution of the customer deposit issue would not have a material effect on net income.

The Company, together with the other Middle South System operating companies, is obligated under agreements (MSE Agreements) to Middle South Energy, Inc. (MSE) in accordance with stated percentages specified therein to make payments or subordinated advances adequate to cover all of the operating expenses and certain of the capital costs of MSE. The Company's stated percentage responsibility under the MSE Agreements is 17.1%. Through 1983, \$3.3 billion had been expended by MSE on the Grand Gulf Plant's two units, the first unit of which is scheduled for commercial operation in the third quarter of 1984. The Company is required under the MSE Agreements to make its share of the \$12.5 million per month advance power purchase payments commencing January 2, 1984 and continuing until the earlier of the date the first unit of the Grand Gulf Plant is placed in commercial operation or December 31, 1984. However, effective November 1981, the Company, together with the other Middle South System operating companies, entered into a reallocation agreement related to the Grand Gulf Plant which provides that the other System operating companies have agreed to assume and hold the Company harmless from all of the responsibilities and obligations of the Company with respect to the MSE Agreements, and in consideration thereof, the Company has relinquished it rights in the Grand Gulf Plant. The Company remains primarily liable to MSE and its assignees for payments under the MSE Agreements in accordance with its original stated percentage, but would be required to make its share of the payments or advances thereunder only if the other System operating companies were unable to meet their contractual obligations.

On February 3, 1984, an Administrative Law Judge (ALJ) for the Federal Energy Regulatory Commission (FERC) ruled on a unit power sales agreement pursuant to which MSE had proposed to sell its power from its Grand Gulf Plant to three of the Company's sister companies. The ruling recommended that the Company should be responsible for 36% of the capacity and power from MSE's ownership of the first unit at the plant but deferred any recommendation on the second. The estimated cost of the first unit is \$2.7 billion. The ruling now goes to the five member commission for a decision.

On April 30, 1982, Middle South Services, Inc. (MSS), on behalf of the Company and the other Middle South System operating companies, filed for approval with the FERC a new agreement providing for the coordinated planning and operation of its generation and transmission facilities. Rates under the new agreement became effective 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 could cause the Company to incur material additional costs. On February 2, 1984, MSS notified the presiding ALJ, designated by the FERC to hear this proceeding, that the other 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 Company will continue to support the original proposal. Subsequently, each of the operating companies filed a separate statement of position pursuant to the notice filed by MSS. Testimony was concluded in December 1983. The matter is still pending before the ALJ.

The Company owns 35% of System Fuels, Inc. (SFI), a jointly owned subsidiary of the four principal operating subsidiaries of Middle South Utilities, Inc. SFI operates on a non-profit basis for the purpose of planning and implementing programs for the procurement of fuel supplies for all of the operating companies; its costs are primarily recovered through charges for fuel delivered.

The parent companies of SFI have agreed to make loans to SFI to finance its fuel supply business under a loan agreement dated January 3, 1984, which provides for SFI to borrow up to \$125 million from its parent companies through December 31, 1984. The Company's share of the loan commitment is \$40 million. Notes under this agreement mature December 31, 2009. In addition, the Company had loaned SFI \$36 million under previous loan agreements. Notes mature in 2002 and 2008 under provisions of the previous loan agreements.

In connection with certain of SFI's borrowing arrangements, SFI's parent companies, including the Company, have covenanted and agreed severally in accordance with their respective shares of ownership of SFI's common stock, that they will take any and all action necessary to keep SFI in a sound financial condition and to place SFI in a position to discharge, and to cause SFI to discharge its obligations under these arrangements. At December 31, 1983, the total loan commitment under these arrangements amounted to \$295 million of which \$176.5 million

was outstanding at that date. Also, SFI's parent companies, including the Company, have made similar covenants and agreements in connection with long-term leases by SFI of oil storage and handling facilities and coal hopper cars. At December 31, 1983, the aggregate discounted value of these lease arrangements was $76.1 million.

The Company has agreed to purchase over a 20-year period, 100 million tons of coal, with an option to purchase over a further 10-year period an additional 50 million tons, for use at the White Bluff Steam Electric Station presently in commercial operation. SFI has entered into a contract with a joint venture for a supply of coal from a mine in Wyoming, which is expected to provide up to 185 million tons over a period of 26 to 42 years primarily for the Independence Steam Electric Station. SFI's parent companies, including the Company, each acting in accordance with their respective shares of ownership of SFI's common stock, joined in, ratified, confirmed and adopted the contract and obligations of SFI thereunder. Under the contract, investment in the mine for leases, plant and equipment is the responsibility of the joint venture. In order to limit the joint venture's investment rights and, hence, the amount to be paid to it as a component of the price of coal, the contract provided that SFI invest any funds for plant and equipment in excess of a specified amount. The Company, MP&L and Arkansas Electric Cooperative Company (AECC), as co-owners in part of the Independence Station, have agreed to make the investments rather than SFI and, accordingly, have reimbursed SFI for investments previously made by it. Mine construction is nearing completion and first contract deliveries were made in December 1983. Through December 31, 1983, the Company had invested $26 million in mine facilities and costs incurred by SFI. In addition to this amount, SFI anticipates that approximately $28 million in current dollars, including $7 million in 1984, will be required over the life of the contract. The Company's share of the additional requirements would be $11.2 million, including $2.8 million in 1984.

SFI executed a contract, as amended in November 1982, for the purchase of lignite to be used at a future lignite-fueled power plant in Arkansas. AECC has agreed to become an owner of 50% of the proposed plant and assume 50% of SFI's obligation to purchase lignite. Delivery of lignite is tied to the commercial operation of the plant, which may be delayed at the owner's option until July 1995. The Company and AECC have undertaken to expand the size of the plant if additional co-owners are available or under certain circumstances to meet an increased need of the System operating companies or AECC for power. The Company has guaranteed SFI's performance and agreed to purchase SFI's share of the lignite, which assuming half ownership and no expansion of the plant is approximately 33 million tons, over a 30-year period. The contract, including the guaranty, is conditional upon receipt of the regulatory approvals for the construction of the plant.

The Company has agreements for the purchase and fabrication of fuel assemblies for its nuclear plant, Arkansas Nuclear One. The Company has agreed to purchase from Kerr-McGee Nuclear Corporation 1,108,000 kg of uranium over the next six years. The Company also has agreements with the Babcock & Wilcox Company and the Combustion Engineering Company for the fabrication of fuel assemblies used at the plant.

Under the terms of the Company's nuclear fuel leases, the Company is responsible for the disposal of spent nuclear fuel. The Company considers 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 and will be made in applications to regulatory commissions. SFI, on behalf of the Company, has contracted with the Department of Energy (DOE) whereby the DOE will furnish disposal service for the Company's spent nuclear fuel at a cost of one mill per kilowatt-hour of gross generation on or after April 7, 1983 and a one-time fee of $49.4 million for generation prior to April 7, 1983. The Company has three options for payment of the one-time fee and is presently studying these options, the selection of which is not required until June 1985. The Company, through rates and a settlement of a past disposal contract, has recorded the amount necessary for the one-time payment to the DOE. In addition to the recovery of costs associated with the disposal of spent nuclear fuel, the Company is recovering a total of approximately $160 million for decommissioning costs for its two nuclear units. Based upon a study performed by the Company, nuclear plant decommissioning costs are projected to be in excess of this amount. The Company is requesting and will request recovery of estimated increased costs in applications to its regulatory commissions.

The Company is a member of Nuclear Electric Insurance Limited (NEIL), a mutual insurer which provides its members with insurance coverage for certain costs of replacement power incurred due to prolonged outages of nuclear units and for $425 million of coverage for property damage sustained in excess of $500 million caused by radioactive contamination or other specified damage. Members pay annual premiums and are subject to assessments if losses exceed the accumulated funds available to the insurer. The Company's present maximum assessment for incidents occurring during a policy year is approximately $21 million.

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. 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 operated by it or up to a maximum per reactor owned of $10 million in any calendar year. At December 31, 1983, the Company had two licensed reactors.

5. LEASES

The Company accounts for leases on the same basis as that used by its regulatory authority in the ratemaking process which determines the revenues utilized to recover the lease costs. Application of criteria used to define a capital lease would permit recording the following assets and liabilities on the balance sheet:

	1983	1982	1981
		(in thousands)	
Assets:			
Utility plant	$115,549	$113,632	$110,473
Accumulated amortization	16,742	14,505	14,287
Net leased property	$ 98,807	$ 99,127	$ 96,186
Liabilities:			
Noncurrent obligations under capital leases	$ 94,882	$ 95,605	$ 93,342
Current obligations under capital leases:			
Principal	$ 3,925	$ 3,522	$ 2,844
Interest accrued	4,419	3,566	2,177
Total	$ 8,344	$ 7,088	$ 5,021

Recording of such leases would not affect the amounts reported as net income.

At December 31, 1983, there were noncancellable leases with minimum rental commitments as follows:

	(in thousands)
1984	$ 19,038
1985	18,819
1986	17,944
1987	16,873
1988	17,216
For years thereafter	177,990
Total	$267,880

The Company has two lease agreements, not reflected in the schedule above, which together allow it to lease nuclear fuel up to a maximum of $150 million. Lease payments, which are not included in the tabulations above, are based on nuclear fuel use. Both leases, unless sooner terminated by one of the parties, will continue until 2018. The unrecovered cost base of the leases at December 31, 1983, 1982 and 1981 was $138,708,000, $145,531,000 and $122,976,000, respectively. Nuclear fuel expense of $49,687,000 in 1983, $40,091,000 in 1982 and $51,455,000 in 1981 was charged to operations.

Rental expense (excluding nuclear fuel) amounted to approximately $20,476,000, $19,039,000 and $17,643,000 in 1983, 1982 and 1981, respectively.

6. 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 Company modified the method of amortizing prior service costs by changing from a fixed amortization period of twenty 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 for 1983, 1982 and 1981 was $7,294,000, $8,266,000 and $9,011,000, respectively.

The comparison of the actuarial present values of accumulated plan benefits and plan net assets for the Company's 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 which are different from those used by the 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	$ 71,498	$ 68,691
Nonvested	4,444	4,921
Total	$ 75,942	$ 73,612
Net assets available for benefits	$128,255	$108,593

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

7. LINES OF CREDIT AND SHORT-TERM BORROWINGS

At December 31, 1983, the Company had $70.2 million in lines of credit with Arkansas banks and participated with the three other Middle South System operating companies in $200 million of consolidated lines of credit with banks outside the Middle South System service area. Compensating balances (approximately 5% of the commitment amount) or equivalent fees are required by certain of the lending banks located outside the Middle South service area. Additionally, the Company participates with certain other companies of the Middle South System in a money pool arrangement whereby those companies with available funds make short-term loans to other companies in the System having short-term borrowing requirements. The Company may borrow from these sources subject only to its maximum authorized level of short-term borrowings. The Company has received authorization from the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935 to have outstanding at any one time short-term borrowings aggregating not more than the lesser of $125 million or 10% of the Company's capitalization. The aggregate amounts of the unused lines of credit with Arkansas banks at the end of 1983 and 1982 were $70.2 million and $63.3 million, respectively. The operating companies had available at the end of 1983 and 1982, $122.1 million and $56 million, respectively, under the consolidated lines of credit. The short-term borrowings and the applicable interest rates (determined by dividing applicable interest expense by the average amount borrowed) for the Company were as follows:

	1983	1982	1981
		(in thousands)	
Maximum borrowing	$31,000	$90,700	$122,400
Year-end borrowing	—	$ 750	$ 56,200
Average borrowing:			
Bank loans	$ 977	$23,030	$ 73,065
Associated companies	$10,793	$13,122	—
Average interest rate during the period:			
Bank loans	10.31%	13.66%	18.13%
Associated companies	9.19%	10.50%	—
Average interest rate at end of period:			
Bank loans	—	11.50%	14.84%
Compensating and working balances at end of period	—	—	$ 6,600

8. RETAINED EARNINGS RESTRICTIONS

The indenture relating to the Company's long-term debt and provisions of the articles of incorporation relating to the Company's preferred stock provide for restrictions on the payment of cash dividends on common stock. As of December 31, 1982, $12,024,000 of retained earnings were free from such restriction. The payment in 1983 of a common stock dividend concurrent with the sale of a like amount of the Company's common stock effectively removed the current mortgage restriction on the payment of future dividends on common stock. As of December 31, 1983, all retained earnings were free from such restrictions.

9. PREFERRED AND COMMON STOCK

Preferred stock outstanding at December 31, 1983 and 1982 consisted of the following:

Cumulative, $100 Par Value	Shares Authorized	Shares Outstanding 1983	Shares Outstanding 1982	Current Call Price Per Share
Without sinking fund:				
4.32% series	70,000	70,000	70,000	$103.647
4.72% series	93,500	93,500	93,500	107.00
4.56% series	75,000	75,000	75,000	102.83
4.56% 1965 series	75,000	75,000	75,000	102.50
6.08% series	100,000	100,000	100,000	102.83
7.32% series	100,000	100,000	100,000	103.17
7.80% series	150,000	150,000	150,000	105.20
7.40% series	200,000	200,000	200,000	104.65
7.88% series	150,000	150,000	150,000	104.97
Total	1,013,500	1,013,500	1,013,500	
With sinking fund[1]:				
10.60% series	149,967	149,967	165,412	109.39
11.04% series	304,862	304,862	337,597	109.78
Total	454,829	454,829	503,009	
Unissued	2,386,500			
Total, $100 Par Value	3,854,829			
Cumulative, $25 Par Value				
Without sinking fund:				
8.84% series	400,000	400,000	400,000	27.66
10.40% series	600,000	600,000	600,000	28.60
Total	1,000,000	1,000,000	1,000,000	
With sinking fund[1]:				
9.92% series	1,513,299	1,513,299	1,599,640	28.18
13.28% series	1,992,060	1,992,060	2,000,000	29.88
Total	3,505,359	3,505,359	3,599,640	
Unissued	5,400,000			
Total, $25 Par Value	9,905,359			

	1983 (in thousands)	1982 (in thousands)
Without sinking fund:		
Stated at $100 a share	$101,350	$101,350
Stated at $25 a share	25,000	25,000
Premium	540	540
Total preferred stock and premium, without sinking fund	$126,890	$126,890
With sinking fund:		
Stated at $100 a share	$ 45,483	$ 50,301
Stated at $25 a share	87,634	89,991
Premium	814	846
Total preferred stock and premium, with sinking fund	$133,931	$141,138

The changes in the number of shares of common and preferred stock outstanding in 1981, 1982 and 1983 were:

	Common Stock[2] Shares Sold	Preferred Stock Shares Sold (Redeemed) $100 Par	Preferred Stock Shares Sold (Redeemed) $25 Par
1981	6,743,423	(29,425)	—
1982	6,400,000	(29,700)	(360)
1983	5,200,000	(48,180)	(94,281)

1. *These series are to be retired in full through the operation of sinking funds. The 10.60% series and the 11.04% series are being redeemed each year at the rate of 10,000 and 20,000 shares, respectively. Beginning June 1, 1984, the 9.92% series is to be redeemed at the rate of 80,000 shares each year. Beginning January 1, 1985, the 13.28% series is to be redeemed at the rate of 100,000 shares each year. In addition, the Company has the non-cumulative option to redeem an additional like amount of said shares each year commencing in the first year of redemption in each respective series.*

2. *In 1981 a premium of $3,820,000 was received on 2,343,423 shares of common stock exchanged for the assets and liabilities of Arkansas-Missouri Power Company. All other common stock sales are at par value.*

10. LONG-TERM DEBT

Long-term debt outstanding consisted of the following:

	1983	1982
	(in thousands)	
FIRST MORTGAGE BONDS:		
4-1/2% series due 1983	$ —	$ 1,002
3-1/4% series due 1984	7,500	7,500
3-3/8% series due 1985	18,000	18,000
16-1/8% series due 1986	70,000	70,000
5-1/2% series due 1988	463	508
17-3/8% series due 1988	75,000	75,000
5-5/8% series due 1990	1,100	1,200
4-7/8% series due 1991	12,000	12,000
16-1/2% series due 1991	80,000	80,000
4-3/8% series due 1993	15,000	15,000
9-3/8% series due 1993	5,880	6,230
4-5/8% series due 1995	25,000	25,000
5-3/4% series due 1996	25,000	25,000
6-1/4% series due 1996	2,960	3,160
5-7/8% series due 1997	30,000	30,000
8-3/4% series due 1998	8,600	9,000
7-3/8% series due 1998	15,000	15,000
9-1/4% series due 1999	25,000	25,000
9-5/8% series due 2000	25,000	25,000
9-3/4% series due 2000	4,000	4,200
7-5/8% series due 2001	30,000	30,000
8 % series due 2001	30,000	30,000
7-3/4% series due 2002	35,000	35,000
7-1/2% series due 2002	15,000	15,000
8 % series due 2003	40,000	40,000
8-1/8% series due 2003	40,000	40,000
10-1/2% series due 2004	40,000	40,000
10-1/8% series due 2005	40,000	40,000
9-1/8% series due 2007	75,000	75,000
9-7/8% series due 2008	75,000	75,000
10-1/4% series due 2009	60,000	60,000
13-3/8% series due 2012	75,000	75,000
13-1/4% series due 2013	25,000	—
TOTAL FIRST MORTGAGE BONDS	1,025,503	1,002,800
INSTALLMENT PURCHASE CONTRACTS:		
Pope County, Arkansas; due 1986 to 2008 at rates ranging from 7-1/4% to 10%	20,800	20,800
Jefferson County, Arkansas; due 1986 to 2008 at rates ranging from 6-1/8% to 10%	71,650	71,700
Independence County, Arkansas; due 1984 at rate of 9-1/4%	1,000	41,000
Independence County, Arkansas; due 2013 at rate of 11-1/8%	45,000	—
Less: Amount held in construction funds	2,618	2,519
TOTAL INSTALLMENT PURCHASE CONTRACTS	135,832	130,981
LONG-TERM OBLIGATION—Department of Energy (See Note 4)	49,400	—
UNAMORTIZED PREMIUM AND DISCOUNT ON DEBT—NET	(3,282)	(2,044)
TOTAL	1,207,453	1,131,737
LESS: CURRENTLY MATURING PORTION	9,865	2,297
LONG-TERM DEBT EXCLUDING AMOUNT DUE WITHIN ONE YEAR	$1,197,588	$1,129,440

At December 31, 1983, the sinking fund requirements and maturities for long-term debt for the years 1984 through 1988 are as follows:

	Cash Sinking Fund	Sinking Fund[1]	Maturities
		(in thousands)	
1984	$1,365	$7,068	$ 8,500
1985	1,365	6,888	18,000
1986	1,365	7,338	70,725
1987	1,365	7,688	810
1988	1,320	7,688	76,148

1. *These annual sinking fund requirements may be met by certification of property additions at a rate of 167% of such requirements.*

11. TRANSACTIONS WITH ASSOCIATED COMPANIES

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

Operating revenues include revenues from sales to associated companies amounting to $305.5 million in 1983, $223.7 million in 1982 and $223.2 million in 1981. Operating expenses include charges from affiliates for fuel cost, purchased power, and technical and advisory services totaling $34.8 million in 1983, $68 million in 1982 and $65.3 million in 1981.

12. CONSOLIDATED QUARTERLY RESULTS (Unaudited)

Operating results for the four quarters of 1983 and 1982 were as follows (in thousands):

	Quarter Ended			
1983	March	June	September	December
Operating Revenue	$248,372	$266,508	$391,022	$300,243
Operating Income	34,517	49,250	81,901	45,609
Net Income	15,789	28,385	60,530	22,192
1982				
Operating Revenue	$253,110	$234,343	$315,953	$242,737
Operating Income	45,762	39,587	75,129	30,829
Net Income	24,721	18,749	53,777	10,125

The business of the Company 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 the results for a full year.

13. EFFECTS OF INFLATION ON OPERATIONS (Unaudited)

The following supplementary information about the effects of changing prices on the Company is provided in accordance with the requirements of Statement of Financial Accounting Standards (SFAS) No. 33, "Financial Reporting and Changing Prices." It should be viewed as an estimate of the effect of changing prices, rather than 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)
Operating revenues[1]	$1,206,145	$1,206,145	$1,206,145
Operating expenses (excluding depreciation)[1]	902,247	902,247	902,247
Depreciation	92,621	188,741	194,767
Total operating expenses	994,868	1,090,988	1,097,014
Operating income	211,277	115,157	109,131
Other income[1]	32,552	32,552	32,552
Interest and other charges[1]	116,933	116,933	116,933
Income from operations (excluding adjustment to net recoverable cost)[2]	$ 126,896	$ 30,776	$ 24,750
Increase in specific prices (current costs) of property, plant and equipment held during the year[3]			$ 214,219
Adjustment to net recoverable cost		$ 22,437	(4,123)
Effect of increase in general price level			(181,633)
Excess of increase in specific prices, after adjustment to net recoverable cost, over increase in general price level			28,463
Gains from decline in purchasing power of net amounts owed		56,722	56,722
Net		$ 79,159	$ 85,185

1. *Assumed to be in "average for the year" dollars and thus are not restated.*
2. *Including the adjustment to net recoverable cost, the income from operations on a constant dollar basis would have been $53,213,000 in 1983.*
3. *At December 31, 1983, current cost of property, plant and equipment net of accumulated depreciation was $5,007,740,000 while historical cost or net cost recoverable through depreciation was $2,562,615,000.*

FIVE-YEAR COMPARISONS OF SELECTED SUPPLEMENTARY FINANCIAL DATA
ADJUSTED FOR EFFECTS OF CHANGING PRICES
(in thousands of average 1983 dollars)

	Years Ended December 31,				
	1983	1982	1981	1980	1979
Operating revenues	$1,206,145	$1,079,796	$1,112,494	$907,408	$799,682
Historical cost information adjusted for general inflation:					
Income from operations (excluding adjustment to net recoverable cost)	30,776	21,276	27,672	18,253	65,664
Net assets at year-end at net recoverable cost	709,332	674,639	625,759	592,722	667,529
Current cost information:					
Income from operations (excluding adjustment to net recoverable cost)	24,750	13,149	13,783	(1,370)	47,575
Excess (deficiency) of increase in specific prices, after adjustment to net recoverable cost, over increase in general price level	28,463	17,616	(105,855)	(184,504)	(225,492)
Net assets at year-end at net recoverable cost	709,332	674,639	625,759	592,722	667,529
General information:					
Gain from decline in purchasing power of net amounts	56,722	56,522	140,772	198,516	208,599
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 which 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 amounts of property, plant and equipment was determined by applying the Company's depreciation rates to the indexed amounts.

The cost of fuel used in generation has not been restated from historical cost. Regulation limits the recovery of fuel costs to actual costs through the operation of adjustment clauses or adjustments in basic rate schedules.

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

The regulatory commissions to which the Company is 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 is reflected as a reduction to net recoverable cost. While the rate-making 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 reduction of net property, plant and equipment to net recoverable cost is offset 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.

COMPANY DIRECTORY

Transfer Agents for Preferred Stock—Union National Bank of Little Rock
1 Union National Plaza
Little Rock, Arkansas 72203

First Commercial Bank
Post Office Box 1471
Little Rock, Arkansas 72203

Registrar of Preferred Stock—First Commercial Bank
Post Office Box 1471
Little Rock, Arkansas 72203

Certified Public Accountants—Deloitte Haskins & Sells
One Shell Square
New Orleans, Louisiana 70139

Executive Offices—Arkansas Power & Light Company
First Commercial Building
Capitol and Broadway Streets
Little Rock, Arkansas 72203
(501) 371-4000

Associated Natural Gas Company
401 West Park Street
Blytheville, Arkansas 72315
(501) 762-3660

Annual Meeting—Fourth Wednesday of May

The Company's 1983 Annual Report to the Securities and Exchange Commission on Form 10-K (including Financial Statements and Financial Statement schedules) is available to any stockholder upon request, without charge. Persons interested in obtaining a copy should contact Mr. Steve L. Riggs, Vice President, General Counsel and Secretary, at the address below:

ARKANSAS POWER & LIGHT COMPANY
P.O. Box 551
Little Rock, Arkansas 72203

President's 1983 Message / Associated Natural Gas Company

A Wholly-Owned Subsidiary of Arkansas Power & Light Company

Changes in the natural gas industry were frequent and abrupt in 1983. Competition in the energy market called for innovation in the areas of contract pricing and rate making.

At the beginning of the year, natural gas costs had reached an all-time high. In the first quarter of 1983, a combination of unusually mild weather, price induced conservation and a still depressed economy reduced sales, causing a corresponding impact on revenues and earnings. With a decline in the oil prices, there was a keen competition for the industrial boiler fuel market.

Beginning in the second quarter, the field price of natural gas reacted to market pressures and began a gradual decline. The economy showed a modest improvement, and with the return of normal weather conditions, sales and revenues returned to normal levels. This improvement continued throughout the second half of the year, and while the first quarter sales losses were not fully recovered, favorable trends were established, indicating a continuing improvement in 1984.

Rate relief granted in late 1982, along with the Company's cost containment program and its continued effort to improve productivity, were responsible for a substantial improvement in year-end earnings. With an abundant supply of natural gas available we can look forward to more stable prices in the current year. A continuation of the economic recovery should result in an investment and building program leading to a sustained growth in customers and sales. The Company is in a position to take full advantage of these opportunities.

L T McSpadden

L. Thurl McSpadden
President & Chief Operating Officer
Associated Natural Gas Company

Associated Natural Gas Company Officers

Jerry L. Maulden
Chairman of the Board & Chief Executive Officer

L. Thurl McSpadden
President & Chief Operating Officer

Ernest L. McKenzie
Vice President, Secretary, Treasurer & Chief Financial Officer

Ralph M. Wafler
Vice President Operations

Associated Natural Gas Company Directors

Paul C. Hughes
Executive Vice President & General Manager
Farmers Soybean Corporation and Fasco Farm Supply
Blytheville, Arkansas

Hal E. Hunter, Jr.
Attorney, Hunter & Hunter
New Madrid, Missouri

Jerry L. Maulden
Chairman of the Board & Chief Executive Officer of the Company
Little Rock, Arkansas

Robert G. McHaney
Vice President
John C. McHaney & Sons
Blytheville, Arkansas

Ernest L. McKenzie
Vice President, Secretary, Treasurer & Chief Financial Officer of the Company
Blytheville, Arkansas

L. Thurl McSpadden
President & Chief Operating Officer of the Company
Blytheville, Arkansas

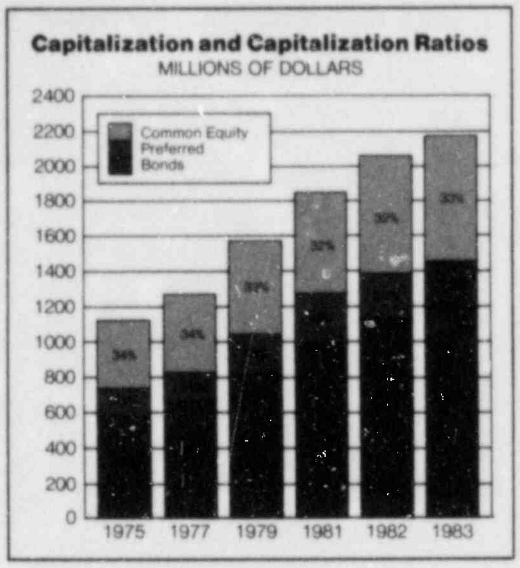
Guy Newcomb
President
Commonwealth Savings and Loan Association
Osceola, Arkansas

Kenneth E. Storey
President
Food Giant Management & Piggly Wiggly Supermarkets
Sikeston, Missouri

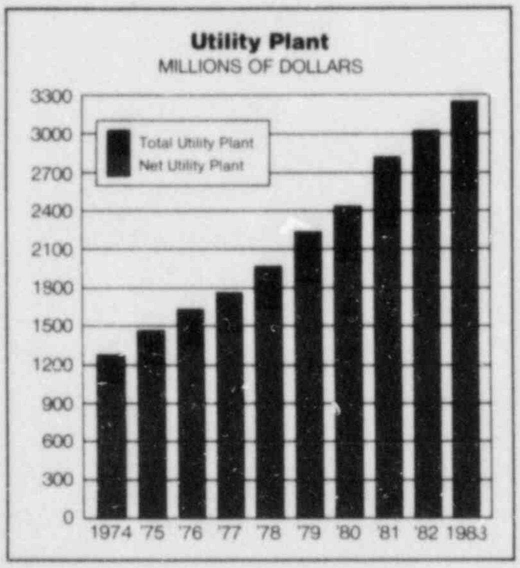
Ralph M. Wafler
Vice President-Operations of the Company
Blytheville, Arkansas

Arkansas Power & Light Company

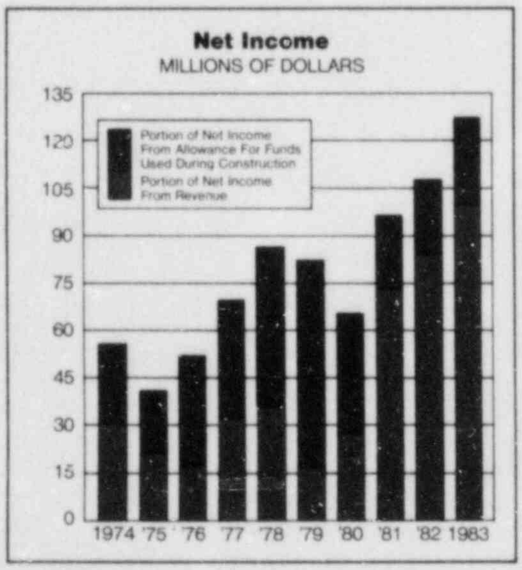
TEN YEARS OF PROGRESS/FINANCIAL (Consolidated) [1]



Capitalization and Capitalization Ratios
MILLIONS OF DOLLARS



Utility Plant
MILLIONS OF DOLLARS



Net Income
MILLIONS OF DOLLARS

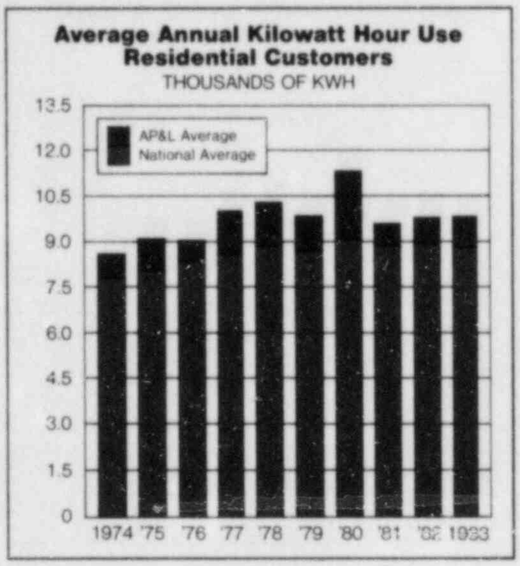
(in thousands of dollars)	1983
Selected Financial Data:	
Net operating revenues	$1,206,145
Net income	126,896
Total assets	2,859,517
Long-term debt	1,197,588
Preferred stock, with sinking fund	133,931
Capitalization (end of period):	
Preferred stock and premium	$ 260,821
Common stock and paid-in capital	693,297
Retained earnings	28,158
Total	982,276
Long-term debt:	
First mortgage bonds [2]	1,014,797
Installment purchase contracts [2]	133,391
Long-term obligation—DOE [3]	49,400
Total	1,197,588
Total capitalization	$2,179,864
Annual Payment Requirements:	
Interest on:	
First mortgage bonds	$ 108,727
Installment purchase contracts	11,688
Dividends on preferred stock	24,366
Utility Plant (end of period):	
Plant completed	$2,910,470
Construction work in progress	306,398
Nuclear fuel in excess of fuel leases	24,979
Total utility plant	3,241,847
Less—accumulated depreciation	679,232
Net utility plant	$2,562,615
Income Statement:	
Operating revenues	$1,206,145
Operating expenses:	
Fuel	322,658
Purchased power	166,126
Gas purchased for resale	44,150
Payroll—operation and maintenance	87,210
Other operation and maintenance	150,459
Depreciation	92,621
Taxes	131,644
Total	994,868
Operating income	211,277
Other income and deductions—net (excluding AFDC [4])	14,457
Interest and other charges:	
Interest on long-term debt	119,466
Other interest—net of debt premium	7,152
Total (excluding AFDC [4])	126,618
Income from revenues	99,116
Non-cash income from AFDC [4]	27,780
Income from accounting change [5]	
Net income	$ 126,896

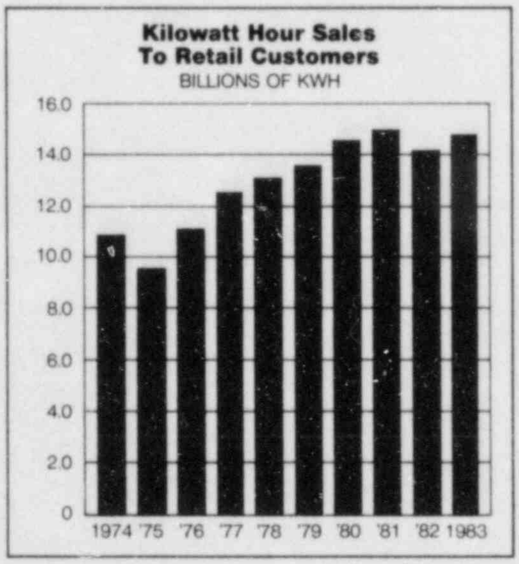
1. *On January 1, 1981, Arkansas Power & Light Company acquired Arkansas-Missouri Power Company. The financial data in this report for the years prior to 1981 have not been restated for the consolidation since the effect is immaterial.*
2. *Excludes currently maturing portion.*
3. *DOE—Department of Energy.*
4. *AFDC-Allowance for funds used during construction.*
5. *Cumulative effect to January 1, 1976, of change in accounting for fuel costs.*

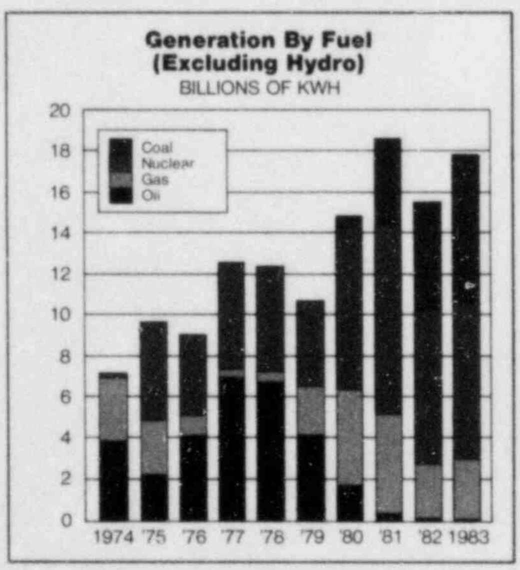
1982	1981	1980	1979	1978	1977	1976	1975	1974
$1,046,143	$1,015,561	$ 750,497	$ 582,610	$ 553,605	$ 535,298	$ 396,597	$ 316,831	$ 296,811
107,372	96,410	65,230	82,404	86,014	69,305	46,963	40,713	55,562
2,669,417	2,474,249	2,147,983	1,940,643	1,693,906	1,562,999	1,421,940	1,311,433	1,124,177
1,129,440	992,163	848,667	819,716	749,262	667,484	591,382	586,318	546,284
141,138	144,120	147,065	100,518	60,063	60,063	60,063	60,063	
$ 268,028	$ 271,010	$ 273,955	$ 227,408	$ 171,772	$ 171,772	$ 171,772	$ 161,720	$101,657
627,709	547,185	458,569	427,960	397,960	382,960	367,960	337,375	292,375
33,365	43,134	54,700	86,333	78,462	54,261	39,040	41,297	41,869
929,102	861,329	787,224	741,701	648,194	608,993	578,772	540,392	435,901
1,000,255	849,585	765,430	763,549	709,549	642,979	575,184	586,318	546,284
129,185	143,578	83,237	56,167	39,713	24,505	16,198		
1,129,440	993,163	848,667	819,716	749,262	667,484	591,382	586,318	546,284
$2,058,542	$1,854,492	$1,635,891	$1,561,417	$1,397,456	$1,276,477	$1,170,154	$1,126,710	$ 982,185
$ 105,568	$ 82,986	$ 73,551	$ 62,436	$ 56,536	$ 49,364	$ 42,837	$ 42,837	$ 38,787
10,386	14,016	6,593	4,980	4,980	4,103	1,224		
25,131	25,456	25,778	19,548	14,020	14,020	14,020	13,136	6,600
$2,623,319	$2,546,046	$2,133,704	$1,231,832	$1,178,601	$1,139,511	$1,111,119	$1,097,913	$1,051,248
364,252	255,468	282,376	980,054	785,684	610,557	505,669	350,941	215,794
16,869	10,214	7,151			12,747	4,562	8,179	5,229
3,004,440	2,811,728	2,423,231	2,211,886	1,964,285	1,762,815	1,621,350	1,457,033	1,272,271
605,404	532,261	417,435	364,447	331,231	297,464	265,099	240,014	211,456
$2,399,036	$2,279,467	$2,005,796	$1,847,439	$1,633,054	$1,465,351	$1,356,251	$1,217,019	$1,060,815
$1,046,143	$1,015,561	$ 750,497	$ 582,610	$ 553,605	$ 535,298	$ 396,597	$ 316,831	$ 296,811
262,604	307,213	237,346	174,667	167,681	169,890	107,213	76,322	83,840
178,841	141,316	154,126	171,425	120,804	114,225	107,983	56,022	55,936
40,986	30,637							
77,566	67,897	49,774	40,607	35,400	29,448	26,626	24,286	19,486
109,500	132,862	100,700	50,994	55,478	53,014	31,224	30,637	24,114
84,194	77,923	59,574	39,708	38,365	36,768	35,025	33,790	23,885
101,146	90,530	54,033	34,948	55,693	62,753	36,022	38,352	24,949
854,837	848,378	655,553	512,349	473,421	466,098	344,093	259,409	232,210
191,306	167,183	94,944	70,261	80,184	69,200	52,504	57,422	64,601
12,687	17,497	17,468	23,627	16,986	12,466	10,328	8,131	1,352
108,557	90,755	67,036	67,091	56,949	45,047	43,152	40,553	32,554
11,272	21,038	17,649	10,296	4,469	3,980	2,703	3,265	3,323
119,829	111,793	84,685	77,387	61,418	49,027	45,855	43,818	35,877
84,164	72,887	27,727	16,501	35,752	32,639	16,977	21,735	30,076
23,208	23,253	37,503	65,903	50,262	36,666	26,445	18,978	25,486
						3,541		
$ 107,372	$ 96,140	$ 65,230	$ 82,404	$ 86,014	$ 69,305	$ 46,963	$ 40,713	$ 55,562

Arkansas Power & Light Company

TEN YEARS OF PROGRESS/OPERATING (Electric) [1]







	1983
Electric Operating Revenues (thousands of dollars):	
Residential	$ 315,960
Commercial	169,367
Industrial—aluminum processing	56,629
Industrial—other	200,296
Government and municipal	20,989
Total from retail customers	763,241
Public utilities	379,598
Miscellaneous revenues	6,052
Total electric operating revenues	$1,148,891
Electric Sales (millions of kilowatt hours):	
Residential	4,612
Commercial	2,927
Industrial—aluminum processing	2,571
Industrial—other	4,251
Governmental and municipal	394
Total sales to retail customers	14,755
Public utilities	8,965
Total energy sold	23,720
Number of Customers (end of year):	
Residential	471,508
Commercial	57,141
Industrial—aluminum processing	1
Industrial—other	14,161
Government and municipal	2,481
Total retail customers	545,292
Public utilities	17
Total customers	545,309
Electric Energy (millions of kilowatt hours):	
Source and disposition	
Generated—net station output:	
Coal	7,237
Gas	2,978
Oil	35
Nuclear	7,583
Hydro	201
Total generated	18,034
Purchased	7,402
Net interchange	100
Total	25,536
Less: Company uses, losses and unaccounted for	1,816
Total energy sold	23,720
Peak demand (megawatts) [2]	3,748

1. *See note 1 on bottom of page thirty-two.*
2. *The year 1981 includes 538 megawatts to supply Arkansas Electric Cooperative Corporation's (AECC) load which is now being supplied by their own capability. Years prior to 1981 also include varying amounts of load supplied to AECC.*

	1982	1981	1980	1979	1978	1977	1976	1975	1974
	$282,204	$257,801	$212,833	$160,992	$164,224	$154,403	$121,267	$104,440	$ 86,337
	153,393	148,938	128,477	100,741	98,293	92,999	75,641	62,325	53,438
	50,175	69,527	69,171	65,861	43,972	40,482	33,100	12,652	28,061
	183,975	179,331	140,422	112,515	104,930	102,264	83,844	61,619	58,566
	19,081	14,787	12,824	11,447	11,234	10,468	8,536	7,144	6,003
	688,828	670,384	563,727	451,556	422,653	400,616	322,388	248,180	232,405
	299,724	298,781	181,650	125,980	124,653	128,174	70,362	65,346	61,168
	5,572	5,569	5,120	5,074	6,299	6,508	3,847	3,305	3,238
	$994,124	$974,734	$750,497	$582,610	$553,605	$535,298	$396,597	$316,831	$296,811
	4,514	4,418	4,480	3,884	4,062	3,838	3,369	3,386	3,077
	2,870	2,819	2,682	2,444	2,472	2,353	2,162	2,072	1,893
	2,081	3,064	3,411	3,349	2,686	2,597	2,145	1,011	2,569
	4,246	4,311	3,675	3,681	3,545	3,443	3,160	2,840	3,042
	410	312	292	326	334	325	307	297	284
	14,121	14,924	14,540	13,684	13,099	12,556	11,143	9,606	10,865
	7,388	8,358	5,445	4,204	4,475	5,170	3,247	3,548	3,640
	21,509	23,282	19,985	17,888	17,574	17,726	14,390	13,154	14,505
	462,753	458,941	405,717	400,290	394,766	387,495	379,556	371,491	364,954
	56,709	57,133	49,444	49,009	48,424	47,580	46,844	45,657	44,957
	1	1	1	1	1	1	1	1	1
	13,528	13,529	12,284	12,151	11,724	11,182	10,913	10,431	9,926
	2,372	2,332	1,548	1,617	1,573	1,519	1,500	1,446	1,396
	535,363	531,936	468,994	463,068	456,488	447,777	438,814	429,026	421,234
	18	23	19	19	19	25	25	25	25
	535,381	531,959	469,013	463,087	456,507	447,802	438,839	429,051	421,259
	5,224	4,293	601						
	2,660	4,727	4,741	2,468	470	487	1,168	2,645	3,209
	72	389	1,653	4,050	6,741	6,973	4,010	2,242	3,920
	7,463	9,173	7,831	4,101	5,220	5,085	3,858	4,874	171
	176	140	103	251	131	98	94	172	230
	15,595	18,722	14,929	10,870	12,562	12,643	9,130	9,933	7,530
	7,241	5,980	6,459	7,740	6,162	6,133	6,172	4,070	7,670
	82	12	(209)	296	8	(65)	43	101	181
	22,918	24,714	21,179	18,906	18,732	18,711	15,345	14,104	15,381
	1,409	1,432	1,194	1,018	1,158	985	955	950	876
	21,509	23,282	19,985	17,888	17,574	17,726	14,390	13,154	14,505
	3,541	4,369	4,179	3,521	3,654	3,336	3,242	2,868	3,049

OFFICERS

Jerry L. Maulden
President & Chief Executive Officer

Michael B. Bemis
Senior Vice President, Finance, Regulation & Legal Services; Assistant Treasurer & Assistant Secretary

William Cavanaugh, III
Senior Vice President, Energy Supply

Jack L. King
Senior Vice President, Energy Delivery & Services

J.D. Phillips
Senior Vice President

Charles L. Steel
Senior Vice President & Assistant to the President

Cecil L. Alexander
Vice President, Public Affairs

R.A. Allen
Vice President, Customer Services

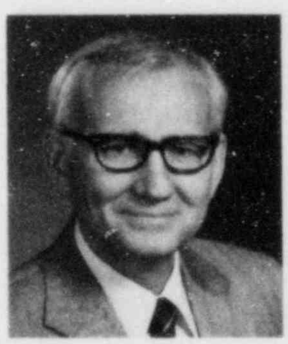
John M. Griffin
Vice President, Nuclear Operations

John J. Harton
Vice President, Chief Financial Officer, Treasurer & Assistant Secretary

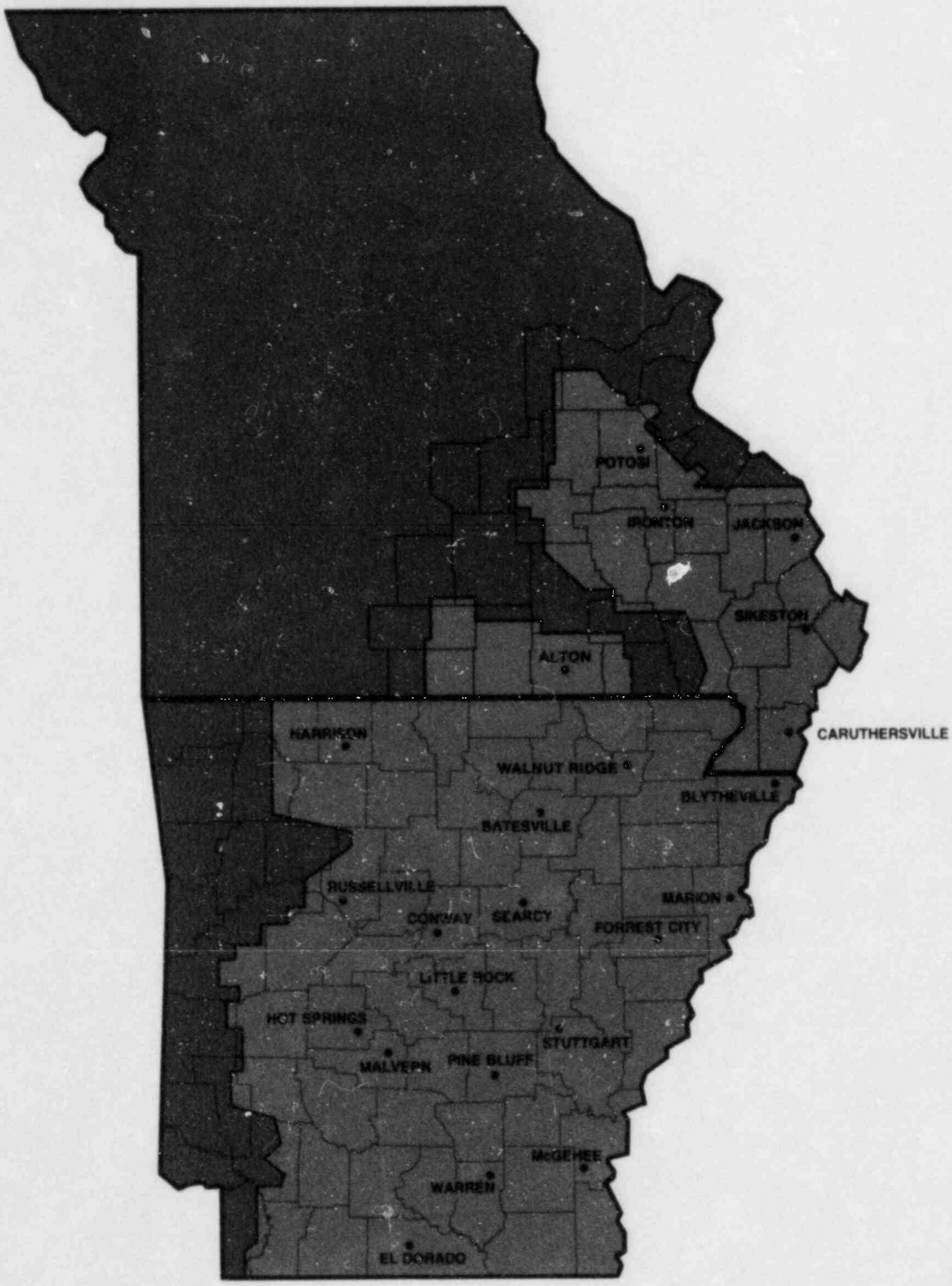
Charles Kelly
Vice President, Corporate Communications

Ralph C. Mitchell, III
Vice President, Conservation & Renewable Resources

Steve L. Riggs
Vice President, General Counsel & Secretary



W.R. Southern
Vice President, Administrative Services



Arkansas Power & Light Company Electric System and Service Area

Arkansas Power & Light Company owns electric facilities in 65 of Arkansas' 75 counties and in 13 of Missouri's 114 counties. At December 31, 1983, the Company furnished retail electric service in 321 Arkansas and Missouri incorporated municipalities. AP&L also provides power at wholesale to eight Arkansas and two Missouri municipalities and in Arkansas to two rural electric cooperatives and one association of rural electric cooperatives.

AP&L's system is interconnected with and operated as a part of the Middle South Utilities System, which supplies the power requirements of more than 1.6 million customers in a 92,000-square-mile area of Arkansas, Louisiana, Mississippi and southeast Missouri.

ARKANSAS POWER & LIGHT COMPANY
POST OFFICE BOX 551 LITTLE ROCK, ARKANSAS 72203 (501) 371-4000

April 5, 1984

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Mr. Harold R. Denton, Director
Office of Nuclear Reactor Regulation
U. S. Nuclear Regulatory Commission
Washington, DC 20555

SUBJECT: Arkansas Nuclear One - Units 1 & 2
Docket Nos. 50-313 and 50-368
License Nos. DPR-51 and NPF-6
Annual Financial Report

Gentlemen:

As required by 10CFR140.15(b)1 and 10CFR50.71b, enclosed are thirteen (13) copies of the 1983 Annual Financial Report for Arkansas Power & Light Company. This report contains financial statements for the fiscal years 1981, 1982, and 1983. It also includes balance sheets, operating statements and supporting schedules which may be needed for interpretation of the balance sheets and operating statements.

Very truly yours,

John R. Marshall

John R. Marshall
Manager, Licensing

JRM:SAB:ac

Enclosure

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