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

April 2, 1985

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

Attention: Document Control Desk

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 10CFR50.71(b), enclosed are thirteen (13) copies of the 1984 Annual Financial Report for Arkansas Power & Light Company. This report contains financial statements for the fiscal years 1982, 1983, and 1984. 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,

J. Ted Enos

J. Ted Enos
Manager, Licensing

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ARKANSAS POWER & LIGHT COMPANY
1984 ANNUAL REPORT

Arkansas Wildlife Federation Honors AP&L As 1984 Conservation Organization of the Year

Recognizing a heritage of environmental concern and care for Arkansas' natural beauty and resources, the Arkansas Wildlife Federation named Arkansas Power & Light Company as the 1984 Conservation Organization of the Year. That historic award is shown on the front cover of this Annual Report.

In presenting the award, the Federation said, "Our state is quite lucky to have a utility company that works closely with the environmental community to help maintain and improve our quality of life. AP&L has repeatedly demonstrated a genuine concern for wildlife conservation and the preservation of vulnerable habitat."

Jerry L. Maulden, AP&L president and chief executive officer, accepted the award for the Company saying that "we have always been and will always be a strong supporter of preserving the natural assets of our state. That same corporate citizenship extends throughout the operations of AP&L as we seek to be mindful about environmental considerations."

As evidence of that companywide concern, the Wildlife Federation named Nesbit R. Bowers, an employee in AP&L's Customer Service Division at Pine Bluff, as Conservationist of the Year. Bowers was recognized as an active champion of conservation causes. Recently, he led campaigns against ditching in waterfowl areas, channelization of waterways and timber harvesting that threatened wildlife.

Presentation of these Wildlife Federation awards is indicative of AP&L's continued involvement in outreach programs across a broad spectrum of its service area. While the Company's first responsibility is to provide competitively priced and reliable electric service, AP&L and its employees are at work in numerous activities that demonstrate a commitment to helping people and advancing Arkansas and Southeast Missouri.

Various aspects of the Company's public-spirited leadership are highlighted in this Annual Report, beginning on Page 4.

AP&L President Jerry L. Maulden (left) accepts the Arkansas Wildlife Federation award from Arkansas Governor Bill Clinton at the Federation's Annual Conservation Achievement Awards Banquet.

Performance Highlights

	1984	1983	% Increase
Revenues from operations (000)	**$1,307,683**	$1,206,145	8
Operation and maintenance expenses (000)	**$ 806,771**	$ 770,603	5
Allowance for funds used during construction (000)	**$ 24,327**	$ 27,780	(12)
Net income (000)	**$ 143,367**	$ 126,896	13
Capitalization—end of year (000) (investment required to provide service)	**$2,259,818**	$2,179,864	4
Construction expenditures (000)	**$ 205,050**	$ 247,449	(17)
Total utility plant investment—end of year (000)	**$3,440,991**	$3,241,847	6
Customers:			
Electric (end of year)	**555,694**	545,309	2
Gas (end of year)	**65,687**	65,710	-
Energy sales to retail customers:			
Electric (millions of kilowatt-hours)	**15,719**	14,755	7
Natural gas (millions of cubic feet)	**12,053**	10,960	10
Employees (end of year)	**5,311**	5,285	-
Peak demand (megawatts)	**3,650**	3,748	(3)
Average use per customer (kilowatt-hours):			
Residential	**9,801**	9,867	(1)
Commercial	**53,297**	51,445	4

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President's Perspective

For Arkansas Power & Light Company, 1984 was a year marked both by historic achievement and significant regulatory uncertainty.

•Most notably, we completed our 17-year fuel diversification program. The commercial operation in December of our fourth western coal unit, coupled with our two nuclear units, gives the Company a solid base of American energy sources for the 21st Century.

•Our nuclear units performed well, providing 53% of our generated electricity. Unit 1 of Arkansas Nuclear One (ANO) completed its tenth year of operation, and during that time has saved our customers hundreds of millions of dollars. Unit 2 of ANO was one of the better performing units in the nation, setting a new Middle South System generation record.

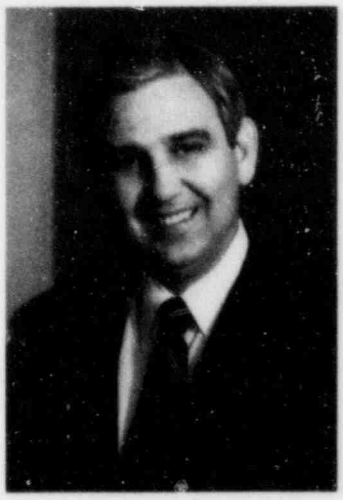
•Our new marketing department began to take shape in 1984 and scored impressive achievements.

•And in 1984 our Company continued its trend of improved financial performance. Several factors contributed to this accomplishment. Retail energy sales were up 7%, reflecting the improved and growing economy of our service area. We also benefited from the first full year's effects of 1983 rate increases granted in both Arkansas ($39.8 million) and Missouri ($3.2 million). Net income was up 13% to $143.4 million, and the quality of earnings improved. Only 17% of net income was attributable to Allowance for Funds Used During Construction (AFDC).

The "winding down" of our construction program and tight budgetary controls throughout the Company were principal reasons internally generated funds accounted for 58% of our '84 construction costs.

It was, however, the regulatory arena that seemed to dominate public attention, especially on the federal level. Two vitally important Company and Middle South System questions are presently pending before the Federal Energy Regulatory Commission (FERC). The first concerns the capacity and energy allocation from the Grand Gulf nuclear plant in Mississippi to the operating companies that comprise the Middle South System (Arkansas Power & Light, Louisiana Power & Light, Mississippi Power & Light, and New Orleans Public Service).

The second, and equally volatile, issue is the proposal to "average" System production costs on the Middle South System. This pricing concept is an outgrowth of hearings on a proposed new Middle South "System Agreement." The System Agreement sets forth the pricing of power sales within the System. It was during hearings to routinely modify the System Agreement that the concept of System average production costing was proposed by the FERC staff and others. If that concept were ultimately approved by the FERC, it would make the ownership of any Middle South unit—including Grand Gulf—moot.



AP&L has vigorously opposed the concept of System average production costing since it would raise our rates by approximately 50%. In the other case, we have pursued a regulatory and legal course to lessen the 36% allocation of Grand Gulf assigned to our Company by a FERC law judge in February of last year.

In January 1985, all of the operating companies of the Middle South System joined together proposing a settlement agreement that included mutually-agreed-to allocation amounts for Grand Gulf and also carried the stipulation that the concept of System average production costing would be rejected. Under the agreement, AP&L would be allocated 17% of Grand Gulf initially, with another 11% coming in 1991. Under the settlement agreement the stockholders of Middle South Utilities would shoulder a portion of the early years' cost of Grand Gulf. (For more details, see Note 4 to the Financial Statements—"Commitments and Contingencies.")

We believe the proposed settlement would have resolved these cases in a fair and equitable manner. Unfortunately, the other parties to these cases have been unwilling to agree to this settlement. The reasonableness of this settlement agreement was further underscored in February of this year when a second administrative law judge hearing the System Agreement case ruled against the System average production costing concept. However, in making that ruling, he did recommend a systemwide allocation of Grand Gulf which is different from that in last year's ruling, and it is different from the one contained in the settlement agreement. Under this ruling, AP&L would be assigned about 33% of the unit. Consequently, the FERC now has before it two law judges' rulings, and the operating companies' settlement agreement. We believe 1985 will be the year we get a final decision from the FERC. In light of the recent rejection of System average production costing by the administrative law judge in the System Agreement case, we are more optimistic than ever that the outcome will be a reasonable one.

On the state regulatory scene, the staff of the Arkansas Public Service Commission has proposed a $54 million rate decrease for the Company. During hearings on the reduction proposal, the Company presented what we feel was overwhelming evidence that the staff proposal was without merit. A decision is expected at any time.

We have retail rate cases filed before both the Arkansas and Missouri Public Service Commissions. We are seeking annual increases of $140 million in Arkansas and $7 million in Missouri. We also expect to file wholesale cases this year. Decisions for the various rate filings are expected by fall.

In connection with both the Arkansas and Missouri filings, we have added "riders" to permit a phase-in recovery of any Grand Gulf allocation. A phase-in would moderate the impact of any Grand Gulf allocation. For example, if the highest allocation proposed (36%) were ordered—the phase-in rate increase would be a ten-year cumulative total of about 14%. If the lower allocation of the settlement agreement were implemented—17% of Grand Gulf now and an additional 11% in 1991—the increase would total about 8% at the end of the ten-year phase-in.

Quite naturally, the regulatory uncertainties facing our Company have tended to dominate our corporate life this past year. They have created unprecedented media, regulatory and political commentary. The fair and equitable solution of these issues has been a top priority throughout 1984. However, we have not lost sight of our commitment and responsibility to serve. Elsewhere in this Annual Report, you'll see some of the ways we are demonstrating our corporate citizenship.

It is easy in times of controversy to lose sight of your long-range goals—a tendency we have sought to avoid. Nor, do we want our customers to lose sight of the character of the men and women who make up this Company.

We believe that, especially in times of controversy, our need to communicate with our public is more important than ever. We have not and are not going to abandon the public platform to our critics. We know we're a caring Company, staffed by men and women who feel a deep sense of responsibility and pride in their job, and the product and service they provide. We've got a positive story to tell, and we're telling it.

•Our rates are among the nation's lowest, and an allocation of Grand Gulf is not going to change that.

•We've built an outstanding electric energy supply system that is based on American resources of coal and uranium.

•Just a few years ago, we were burning millions of barrels of expensive oil, and today, oil has been virtually eliminated from use on our System.

•Our electric energy sources are complete and in place, ready to provide the electricity of today and tomorrow.

•Our economy is growing, and we're helping existing industries to expand, while attracting new industries to locate within our service area.

•We see outstanding opportunities for market expansion. Our All-Season Heat Pump program in 1984 had the highest market penetration of new home construction in our Company's history.

•We're striving to be the kind of corporate citizen our area deserves. Recent environmental and humanitarian awards point to how we are achieving this goal.

•We recognize that education is the key to both our state's economic future and the personal future of the young people who live here. That's why we have taken a lead in building educational opportunities for our students and teachers and why we have made such a substantial corporate commitment to support all areas of education.

•And while we have felt the effects of controversy on our corporate image, most of our customers are supportive and recognize we are working toward their long-range best interest.

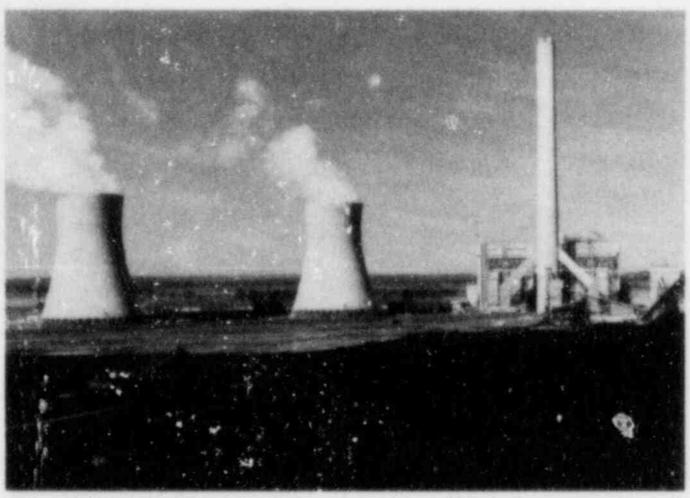
In 1968, when we began breaking ground on the banks of the Arkansas River for our first nuclear unit, no one could have possibly foreseen the events ahead. Still to come were the energy crisis, double-digit inflation, soaring interest rates, Three Mile Island, and all the other economic and governmental tremors that would bring monumental and unprecedented change to our industry. But change has always been the real challenge of management.

We've built a solid managerial team at AP&L. We also have outstanding leadership from our Board of Directors. I urge you to take a few moments and review the backgrounds of our Board (pages 8 and 9) and the broad base of expertise they bring to our Company.

We are proud of our record of service to Arkansas and Southeast Missouri and are optimistic about the future development of our service area and Company. While we are committed to meeting our public trust in supplying reliable, competitively-priced electric service, we are also dedicated to being a partner in progress that will enhance this area's economic development, will protect its environmental beauty and will advance its quality of life. As you review this report, I believe you will see this pledge at work throughout our operations. "Helping Build Arkansas and Southeast Missouri" isn't just a slogan; it's a commitment.

Jerry L. Maulden

Jerry L. Maulden
President & Chief Executive Officer



When Unit 2 of the coal-fueled Independence Steam Electric Station near Newark was placed into commercial operation in December 1984, it marked the end of AP&L's intensive fuel diversification program that began in the late Sixties.

At Arkansas Power & Light, we recognize the important bond that exists between our Company and the communities we serve.

Our successes track the growth and development of our service area. As a result, we gladly accept an obligation to the people of Arkansas and Southeast Missouri that goes far beyond providing electricity.

We have a responsibility to work toward the betterment and prosperity of these areas and are fulfilling that public trust with both corporate and individual involvement.

We encourage each of our employees to actively serve their communities in whatever ways they can, ranging from volunteer activities to holding elected public office, from helping with local youth programs to serving in economic development roles.

From a corporate perspective, AP&L works diligently to earn a reputation as a caring member of the community. We are committed to those less fortunate in our society and are proud of such efforts as our "Helping Hand" programs which have aided virtually thousands of people since their inception in 1982.

We have renewed our dedication to and support of minority owned and operated business ventures, promoted preservation of wildlife and natural beauty, broadened the educational opportunities of our young people, and advanced the social and economic well-being of our service area.

The following capsule reports illustrate significant programs that demonstrate how we at AP&L are "Helping Build Arkansas and Southeast Missouri."

Working for a Diversified Economy

Ever since founding president Harvey Couch learned that outside investment capital was hard to obtain for a primarily agricultural state, AP&L has been a leader in Arkansas' industrial and economic development efforts. We still are.

President Jerry L. Maulden's strong personal commitment to economic development culminated in 1984 with a leadership role in three important state organizations at the same time. He was chairman of the Arkansas Industrial Development Commission, vice president of the Arkansas State Chamber of Commerce, and president of the Greater Little Rock Chamber of Commerce, all of which gave him a respected forum for his views on economic and industrial development. He continues to actively support their goals and objectives.

Manager of Economic Development, G.B. "Bill" Fountain, and his staff conduct numerous community clinics and industrial seminars to train local leaders to position their communities to attract and keep industry. Their expertise is respected and widely sought. During 1984 the Company's Corporate Communications Department completed three videotape programs about Arkansas communities—Batesville, Newport and El Dorado—that will be used by their chambers of commerce to help "sell" industrial prospects on what these communities have to offer. Other such videotapes are being produced, as time permits, to help other communities.

AP&L has also targeted specific industries. We were the first electric utility to be an exhibitor at an international Electric Furnace Conference, which has resulted in Arkansas being considered as the site for a future steel mill expansion.

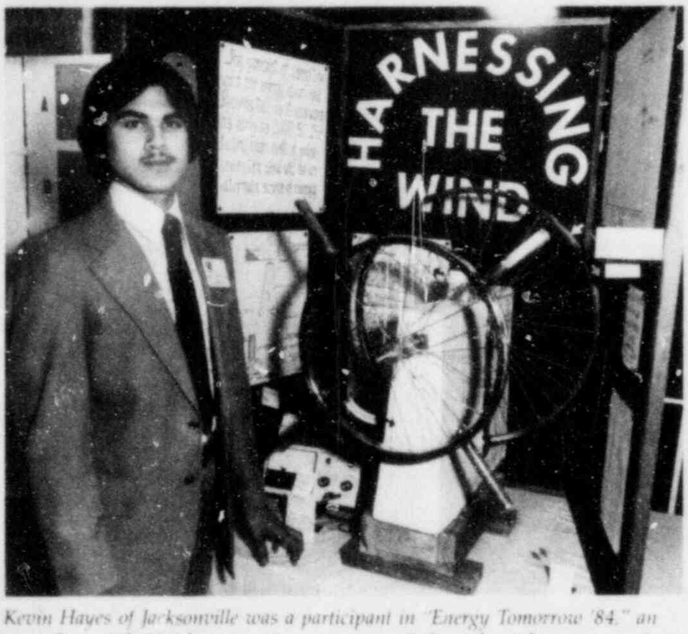
AP&L made history in 1984 when it became the first utility to be an exhibitor at the international Electric Furnace Conference held in Toronto, Canada. Alton Bush (right) and Randy Perdue helped staff the Company's booth.

The Company's new marketing department, established in 1984 under Vice President Kenneth R. Breeden, has economic development as one of its major goals.

AP&L continues to promote its service area through such established successful programs as the Arkansas Community Development Program and the Arkansas Farm Family of the Year Program. It was also able to sponsor the annual meeting of the Southern Industrial Development Council at Little Rock in 1984.

Taking Energy Into the Classroom

Functioning as a readily available reservoir of accurate information on all the complex issues involving energy in our technological society, AP&L's Education/Youth Services Section of Corporate Communications is a resource education professionals can draw from. And an increasing number of teachers are tapping this source of in-house expertise as the section enters its fourth year.



Kevin Hayes of Jacksonville was a participant in "Energy Tomorrow '84," an annual event designed to encourage young people from throughout our service area to engage in scientific investigation in the energy field.

The basic goal of this section and its highly-trained personnel is to acquaint and educate our young people—from kindergarten to college—about energy and its interrelationship with our economy, the environment and society as a whole.

From written material to hands-on computer-graded classroom decisions in the "business game"—which is designed to teach youngsters the type of day-to-day problem solving every businessman must cope with in our society—the section's goal is to disseminate accurate information about energy. We want these students—our customers of tomorrow—to know the entire fascinating story behind that common switch on the wall that is now such an integral part of their lives.

And our emphasis on quality education goes beyond the customary teaching aids. Last summer the Company, in cooperation with the Arkansas Department of Education, financed scholarships to help certain teachers obtain certification to teach math and science subjects—a critical need in Arkansas. Also, AP&L funded a special summer course in physics and computer graphics for qualified high school students who needed the credits to pursue college courses in engineering, science and medicine but could not obtain physics credits in their local schools.

In another educational effort aimed at adults, AP&L spearheaded the massive publicity effort needed for the successful "Project Second Chance" series on the Arkansas Educational Television Network that enabled more than 1,500 Arkansans to earn a high school equivalency diploma at home. The program, aired in the fall of 1984, will be repeated in the spring of 1985.

Education is the fuel that will power Arkansas' economic progress and AP&L is helping see that our youngsters get the aid they need.

Bringing Minorities into the Mainstream

AP&L's corporate commitment is based on the premise that our service area cannot reach its full potential without equal opportunity for all its citizens.

The Company was one of the first in the nation to join the NAACP in a "Fair Share Principles Agreement" program and increase its existing efforts to obtain more employee advancement for minorities within the Company and more business opportunities for minority vendors outside the Company. AP&L President Jerry L. Maulden now serves on the NAACP's National Board of Directors.

Walter Loyd (left), AP&L's manager of Minority Business Development, meets with Ed Jacobs of Arkansas Ebony Vendors. The Company's commitment to increasing its transactions with minority firms made AP&L a national leader in this business sector.

In 1984, its first year of operation, AP&L's new Minority Business Development Section established communications with many qualified vendors and increased their share of AP&L's business from approximately $200,000 in 1983 to approximately $5 million. Seminars have been held, and more are planned in 1985, to identify minority businesses and acquaint their management with the proper procedures for doing business with AP&L. And this co-operative spirit of "show us what you can do" within the competitive framework of the free-enterprise system has paid off in new business for vendors and quality goods and services for AP&L at savings to our customers.

The Company has minority representation on its board of directors, in top management and in supervisory positions of great responsibility and has pledged to provide even more opportunities for individual advancement within the Company.

And our sincere efforts to extend a helping hand to minorities wherever possible have been recognized and appreciated. Last year, AP&L and its president, Jerry L. Maulden, were honored for their contributions to the success of the Watershed Project, a community self-help endeavor in the impoverished College Station area led by Rev. Hezekiah Stewart and the Mt. Nebo AME Church. The Watershed Project weatherized essentially all of the homes in the College Station area that qualified for the Project Conserve program. Our Company also participated in the NAACP's 75th anniversary benefit concert by entertainer Ray Charles, which netted more than $50,000 for NAACP projects. President Maulden was co-chairman of the event.

The Company's involvement in a wide range of minority projects is based on the principle that Arkansas' future depends on uplifting all its citizens and we have no intention of losing sight of that goal.

A Gift of 'Quiet Beauty'

In May of 1984, AP&L officially deeded Electric Island, a 118-acre "island of quiet beauty" on Lake Hamilton near Hot Springs, to The Arkansas Nature Conservancy, the state field office for The Nature Conservancy, a national organization.

The Company made the gift because of its belief that Electric Island should remain a place of tranquil beauty for all citizens to enjoy.

The island was created in 1931 when Carpenter Dam on the Ouachita River formed Lake Hamilton.

The Arkansas Nature Conservancy is leasing the island to the Arkansas Game and Fish Commission for its non-game wildlife program.

Game and Fish Commission representatives, commenting on the donation, emphasized that AP&L has a history of cooperation and encouragement of outdoor sports. The Company previously donated land for Lake Catherine State Park and the Lake Hamilton Fish Hatchery.

The Nature Conservancy, which has acquired more than two million acres of natural areas throughout the nation since 1950, commended corporate citizens such as AP&L for making much of its preservation program possible.

AP&L's dedication to wildlife and natural beauty was evidenced in May 1984 when Senior Vice President Jack King (left) turned over the deed to Electric Island to Kay Kelley Arnold (center) of the Arkansas Nature Conservancy and Steve Wilson of the Arkansas Game & Fish Commission.

Continuing a 71-year Tradition of Community Volunteerism

From the frenzied Saturday afternoon competition of a Little League baseball game to the studied deliberation of a school board financial crisis, AP&L employees have a tradition of serving their communities in a host of ways long after their normal working hours are over.

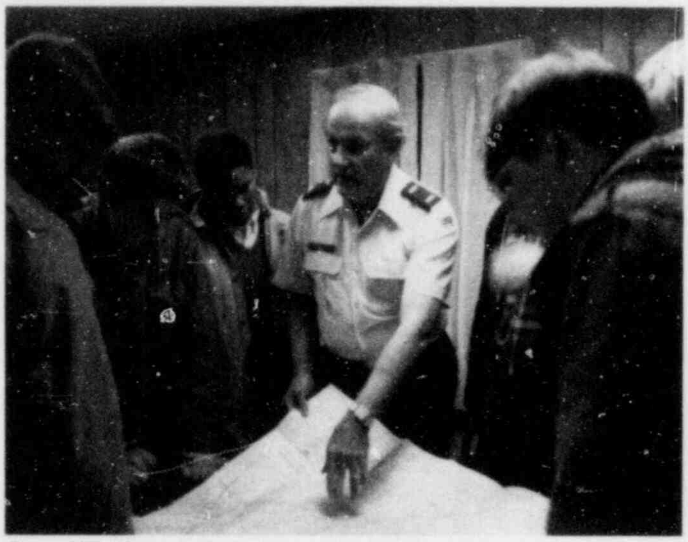
Name a volunteer community service activity and somewhere within AP&L's service area you will find an employee filling that need—from providing telephone counseling for a troubled youth to leading a United Way campaign or working on an industrial development program. Our more than 5,300 employees are intensely involved in a staggering number of community service programs. It's a tradition that dates back to the Company's founding in 1913.

Two years ago we initiated a special program to recognize the community leadership qualities of these individuals and say "thank you" for a job well done. The honorees are nominated and selected by their fellow employees and a banquet is held in their honor. Many more volunteer community leaders will be honored in 1985 as this program continues to gain recognition both within and without our Company.

In 1983, AP&L became the first utility company to receive the Arkansas Corporate Humanitarian of the year award from the Governor's Office of Volunteerism and KARK-TV, Little Rock. The Company was also honored as the "Arkansas Conservation Organization of the Year" for 1984 by the Arkansas Wildlife Federation, and one of its employees—Commercial Service Representative Nesbit Bowers of Pine

Bluff—was named the "Arkansas Conservationist of the Year." Also, AP&L board member Kaneaster Hodges, Jr., of Newport was honored for his many contributions to the "Arkansas Acres for Wildlife" program of the Arkansas Game and Fish Commission.

In every field where volunteers are needed, the AP&L tradition lives on.

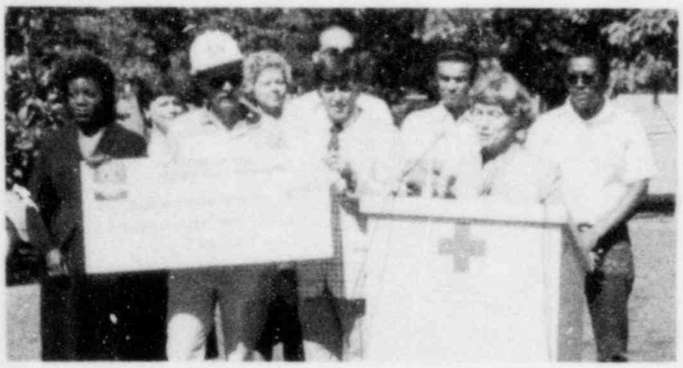


George Hill, administrative assistant in telecommunications, discusses search and rescue tactics with Little Rock area cadets of the Civil Air Patrol. Hill, who is a first lieutenant with the C.A.P., is deputy commander for cadets with the Patrol's Little Rock Composite Squadron.

Nearly 9,000 Families Assisted

We are indebted to the thousands of AP&L customers, employees and stockholders who have generously contributed $449,597 to Project Deserve since it and the other "Helping Hand" programs were established in the spring of 1982.

This money, which is administered by American Red Cross chapters throughout our service territory, provided direct aid to 8,797 families who were faced with short-term, energy-related emergencies during the first three years of the program.



The Company's customers, employees and stockholders in 1984 contributed more than $130,000 to Project Deserve. The funds, which are administered by the American Red Cross chapters throughout our service territory, have assisted nearly 9,000 families.

It is gratifying to note that the primary recipients of the funds collected through Project Deserve have included people who are ill, the elderly with no dependent support, and the unemployed who have been burdened with mounting bills.

While our stockholders have donated over $135,000 to this worthwhile effort, a majority of the tax-deductible contributions to this continuing program have come from AP&L customers who have faithfully added $1 to their bill each month, earmarked for Project Deserve.

Helping Reduce Energy Costs

Approximately 50 volunteer groups, churches and other organizations in Arkansas and Southeast Missouri participated in Project Conserve in 1984, broadening the influence of this innovative program which offers financial assistance and training to volunteers who assist the less fortunate with home weatherization projects to reduce energy costs.

More than 1,300 homes across Arkansas and Southeast Missouri have been made more energy efficient through Project Conserve, a program funded by our Company's stockholders. Over $250,000 has been spent through this program since it began in 1982.

In the last three years, more than 150 organizations have participated in this special effort.

Over 400 homes were weatherized in 1984, with more than 1,300 homes becoming more energy efficient as a result of Project Conserve since 1982.

With funding from AP&L stockholders, Project Conserve has provided in excess of $250,000 toward the purchase of insulation, weatherstripping and caulking.

Other "Helping Hand" programs that have assisted our customers include Project Billsaver, Project Timepay and Levelized Billing. As an example of the impact of these programs, Project Billsaver has helped an average of 270,000 AP&L customers lower their electric costs each year, with the savings totalling over $2.6 million in the past three years.

John A. Cooper, Jr.

As president of Cooper Communities, Inc., this University of Arkansas graduate oversees a company that has pioneered the concept of "graduated retirement" in such thriving people-oriented recreation-retirement communities as Cherokee Village, Bella Vista and Hot Springs Village. Active in the civic, cultural and political life of northwest Arkansas, he is also a director of Wal-Mart Stores, Inc., and Worthen Banking Corporation.

Cathy Cunningham

Combining her expertise in real estate, securities and insurance with a love for Helena's historic past, her restoration of the elegant homes of this riverport city into unique inns and business offices has earned acclaim from preservationists and today's traveler and businessman. While rescuing the best of the past from ruin, she works to ensure a brighter future. She is immediate past president of the Helena/West Helena Chamber of Commerce and is a former member of the Arkansas Industrial Development Commission.

Richard P. Herget, Jr.

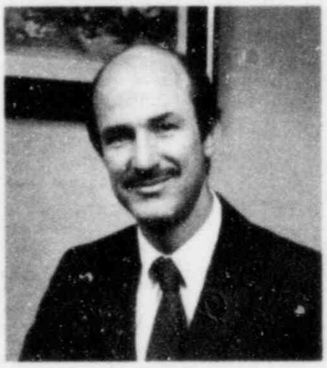
Born into a pioneering family insurance agency at Paragould, he is nationally recognized as a leader in the operation and management of insurance agencies and has authored three books on the subject. Now the president of Atkins Insurance Corporation at Little Rock, he is active in the state Democratic Party and the education field, having served as chairman of the Board of Trustees of Arkansas State University and is currently a member of the University's Foundation.

Kaneaster Hodges, Jr.

A former U.S. Senator, a farmer, lay minister in the United Methodist Church, and an attorney at Newport since 1967, he is a man who has excelled in many fields. He filled the unexpired term of the late Senator John L. McClellan with distinction (1977-79) and his varied business interests include being a director of Worthen Banking Corporation. An avid conservationist, he is a former member of the Arkansas Game and Fish Commission and has won awards from several organizations for his conservation work in Arkansas.

Roy L. Murphy

The chairman and president of Mid-South Engineering Company at Hot Springs combined an education in mechanical engineering and industrial management with a love for the outdoors to first earn prominence as a leader in the state's important forest products industry. Now active in many business ventures, he is also a member of the Arkansas State Chamber of Commerce board, the University of Arkansas at Little Rock's Board of Visitors, and has served as president of the Garland County United Way organization. The Ouachita Area Council of the Boy Scouts has honored him with its "Silver Beaver" award.



William C. Nolan, Jr.

A partner in the law firm of Nolan & Alderson at El Dorado, his diverse business interests range from radio broadcast executive to timber corporation entrepreneur. He is also a board member of Warner Brown Hospital, Murphy Oil Corporation and First Financial Federal Savings and Loan Association. Long interested in state government, he was a delegate to the Arkansas Constitutional Convention of 1970 and served as a legal advisor to former Governor and now Senator David Pryor. He is also a supporter of the South Arkansas Arts Center and the El Dorado Boys Club.

Robert D. Pugh

As chairman of the Portland Gin Company, he heads a diversified family farming operation that has a long history of leadership in the Arkansas agricultural community. A strong personal interest in furthering education in Arkansas has led him to the chairmanship of the University of Arkansas' Board of Trustees and he is a former member of the University's Development Council. A banker and businessman, he is past president of the prestigious Cotton Council International.

George K. Reeves

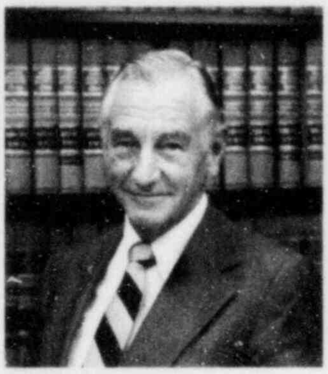
A former special agent with the Federal Bureau of Investigation and a partner in the law firm of Ward & Reeves at Caruthersville, Missouri, this distinguished Missourian now resides at Memphis. After earning his undergraduate degree at the University of Alabama, he received his law degree from the University of Missouri. He also served as a director of the Arkansas-Missouri Power Company prior to its consolidation with AP&L in 1981 as the Ark-Mo Division.

Advisory Directors

All Past Directors of the Company

Lawrence Blackwell
Attorney
Pine Bluff, Arkansas

Richard C. Butler
Past Chairman of the Board of Commercial National Bank and Peoples Savings & Loan Association
Little Rock, Arkansas



Hal E. Hunter, Jr.

One of Missouri's most distinguished attorneys, the senior member of the firm of Hunter and Hunter is a 1944 graduate of Notre Dame University who returned to his home town of New Madrid to establish a law practice. He has served as prosecuting attorney of New Madrid County since 1952 and has been city attorney at New Madrid since 1946. In 1984 he was re-elected to the Democratic State Committee for a two-year term.

Floyd W. Lewis

The chairman, president and director of Middle South Utilities, Inc., has long been active in all phases of the electric utility industry and currently has an international reputation for his expertise in nuclear power. He helped form the industry's Institute for Nuclear Power Operations and is a former chairman of the board of both the Edison Electric Institute and the Electric Power Research Institute. He is a member of the Board of Directors of the U.S. Committee for Energy Awareness.

Jerry L. Maulden

The president and chief executive officer of Arkansas Power & Light Company is a leader in the state's economic development efforts and in 1984 served as chairman of the Arkansas Industrial Development Commission, vice president of the Arkansas State Chamber of Commerce, and president of the Greater Little Rock Chamber of Commerce. He is also a member of the National Board of Directors of the NAACP. A "Hall of Fame" honoree at the North Little Rock Boys Club, he is now on the National Board of Trustees, Boys Clubs of America.

Raymond P. Miller, Sr., M.D.

A specialist in internal medicine, this native of Cotton Plant has been in private practice since 1970 and is currently assistant clinical professor at the University of Arkansas School of Medicine. A past chairman of the University of Arkansas Board of Trustees (1980), he now serves on the board of the University of Arkansas Foundation, Inc. His championship of quality education was recognized in 1982 when he was presented the Distinguished Service Award by the Association of Governing Boards of Universities and Colleges.

Reeves E. Ritchie

As president of Arkansas Power & Light Company from 1962 until 1976 and chairman from 1976 until 1979, this utility industry pioneer set in motion many of the completed programs that now ensure AP&L customers an ample electric energy supply from stable domestic fuels. In retirement, he serves on the Little Rock Civil Service Commission, the Advisory Board of Directors of Superior Federal Bank, and the Board of Trustees of the First Christian Church.

Mary Anne Stephens

A philanthropist and supporter of the arts, she sees an improved educational system as the key to Arkansas' future and has become widely recognized as an authority on the state's complex and varied educational needs. She now serves on the Board of Trustees of the College of the Ozarks at Clarksville and on the International Advisory Board of the J. William Fulbright College of Arts and Sciences at the University of Arkansas at Fayetteville.

Gus B. Walton, Jr.

An attorney by profession, he also is devoted to the development of Arkansas tourism and is now an owner of Poe Travel in Little Rock. He also serves as vice president of the Arkansas Valley Travel Association. In his legal career, he served as a member of the Executive Council and the House of Delegates of the Arkansas Bar Association. He is a member of the Board of Directors of Friends of the Zoo and is the immediate past president of the organization.

Michael E. Wilson

The president of Lee Wilson & Company at Wilson, he has been a leader in many state and national agricultural organizations. This experience has led him to an awareness of the importance of economic education and he is active in this field as a trustee of the prestigious Joint Council on Economic Education, the New York-based coordinating agency for all state councils on economic education. He is immediate past chairman of the Arkansas State Council on Economic Education.

L.C. Carter
Past President
Riceland Foods, Retired
Stuttgart, Arkansas

Dr. Marshall T. Steel
Past President of
Hendrix College, Retired
Pine Bluff, Arkansas

R.E.L. Wilson
Chairman of the Board & Chief Executive Officer
Lee Wilson and Company
Wilson, Arkansas

1984 MANAGEMENT DISCUSSION AND FINANCIAL REPORT

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

Financial Condition

The Company's financial condition continued to improve in 1984. With the commercial operation in December 1984 of the second coal-fueled Unit of the Independence Steam Electric Station (ISES 2), the Company completed implementation of a major fuel diversification program. As a result, construction work in progress decreased from $306.4 million at December 31, 1983 to $105.8 million at December 31, 1984. Cash earnings should continue to improve as these costs are included in rates. Mortgage and charter coverage ratios remained well above the minimum requirements for issuance of additional first mortgage bonds (Bonds) and preferred stock. For the first time since 1978 the Company earned the return on equity authorized by the Arkansas Public Service Commission, its primary regulatory agency. During the past ten years the Company earned an average return on equity of approximately 12% compared to an average of the returns authorized during the ten-year period of approximately 14%.

Liquidity and Capital Resources

Increased liquidity and access to capital markets were important indicators of the Company's improving financial condition. Improvement resulted primarily from increased cash earnings, reductions in construction expenditures and increased rate levels authorized in the third quarter of 1983 which allowed the Company to earn its authorized rate of return during 1984.

The Company has short-term borrowing authority for the lesser of $125 million or ten percent of capitalization. The Company had no short-term debt at December 31, 1983 or 1984.

The Company's interest coverage ratio for Bonds, which must be a minimum of 2.0 times the annual mortgage interest requirement for issuance of additional bonds, was 3.26, 3.14 and 2.65 at December 31, 1984, 1983 and 1982, respectively. The steady improvement in this ratio, and the preferred stock earnings ratio discussed below, is significant considering outstanding Bonds increased approximately $114 million between 1982 and 1984. While the December 31, 1984, interest coverage ratio of 3.26 would have permitted the Company to issue an additional $515.9 million Bonds, assuming an interest rate of 15%, the Company could have issued only $417.4 million additional Bonds, based on available fundable property at that date, plus any Bonds issued for refunding purposes.

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 new preferred stock, was 1.73, 1.73 and 1.54 at December 31, 1984, 1983 and 1982, respectively. At December 31, 1984, assuming a dividend rate of 15%, the Company could have issued $171.0 million additional preferred stock.

At December 31, 1984, the Company had temporary cash investments of $95.4 million. This level of temporary investments was primarily the result of the issuance of $100 million new Bonds in December 1984, and lower than expected construction expenditures.

During the three-year period ending February 1982, the Company sold $225 million Bonds with an average maturity of 7 years and a weighted average interest rate of approximately 16%. Since February 1982, $200 million 30 year maturity Bonds have been issued with a weighted average interest rate of approximately 14%. This access to longer maturity, lower cost capital is an important factor in the liquidity position of capital intensive utilities.

In 1985 $1.4 million Bonds and $7.5 million preferred stock will be retired pursuant to sinking fund requirements and an additional $18 million Bonds will mature.

Construction expenditures (excluding AFDC and nuclear fuel) were $181 million, $220 million and $185 million in 1984, 1983 and 1982, respectively. Projected expenditures (excluding AFDC and nuclear fuel) for 1985, 1986 and 1987 are $213 million, $206 million and $193 million, respectively.

Internally generated funds, after preferred and common stock dividends, amounted to 58%, 63% and 58% of 1984, 1983 and 1982 construction expenditures (excluding AFDC), respectively. Due to the uncertainties surrounding the Grand Gulf allocation, the conflicting proposals before the Federal Energy Regulatory Commission (FERC) for allocation of Middle South System production costs, timely recovery through rates of any resulting costs (see Note 4 to the Financial Statements—"Commitments and Contingencies"), and the possible requirement to finance deferred recoveries of such costs (see Note 2 to the Financial Statements—"Rate Matters"), the Company's overall financing requirements in 1985 and thereafter might be significantly increased and the availability of internally generated funds to support projected construction expenditures diminished.

Results of Operations

Net income increased to $143.4 million in 1984 from its 1983 and 1982 levels of $126.9 million and $107.4 million, respectively. The improved quality of income is illustrated by increases in 1984 net income excluding AFDC of $19.9 million and $34.9 million over corresponding 1983 and 1982 levels. With the commercial operation of ISES 2 in December 1984 and with the construction of no new generating units included in projected expenditures, AFDC as a percent of net income can be expected to remain low.

Revenues for 1984 increased $101.5 million, 8.4%, and $261.5 million, 25.0%, when compared to 1983 and 1982, respectively. Electric revenues increased $98.7 million over 1983 of which $37.4 million can be attributed to increased sales to Reynolds Metals Company (Reynolds). Reynolds increased energy requirements in 1984 over 1983 are the result of increased operation levels in 1984 as compared to reductions in their normal operations in 1983. Reynolds reduced their level of operations again in the fourth quarter of 1984. Other increases in electric revenues for 1984 are due primarily to increases in usage, rate increases implemented in the third quarter of 1983 (annual retail and wholesale increases of approximately $39.8 million and $3.2 million, respectively) and to an increase in the number of average retail customers of 1.8%.

Operation expense in 1984 increased $27.4 million, 3.9%, and $114.7 million, 18.4%, over 1983 and 1982, respectively. Fuel and fuel related costs increased $75.5 million over 1982 but decreased $18.5 million compared to 1983. The decrease in 1984 fuel cost is directly related to a 42.0% increase in more cost efficient nuclear generation and a 26.5% decrease in purchased power.

Maintenance expense in 1984 increased $8.7 million, 14.8%, and $22.6 million, 49.9%, over 1983 and 1982, respectively. In the second quarter of 1984, the Company established a nuclear-refueling maintenance reserve for Unit 2 of Arkansas Nuclear One (ANO) in order to accrue such costs ratably over the fuel cycle. These costs are associated with nuclear power plant refueling outage cycles and do not reflect a permanent increase in the Company's overall nuclear maintenance expense for the unit. The Company plans to establish a maintenance reserve for ANO Unit 1 in the first quarter of 1985.

Effects of Inflation

Despite the reduced level of inflation in 1984, 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 (Unaudited).")

Overview

The Company's financial position has progressively improved during the past four years. Maintaining and/or continuing such improvement is largely contingent on the receipt of timely and adequate rate relief in connection with the Company's pending rate applications seeking to recover costs and allow for a fair rate of return on its owners' investment. (See Note 2 to the Financial Statements—"Rate Matters.") The Company's costs could increase substantially if the Company is allocated a material portion of 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. as recommended by administrative law judges in two separate FERC proceedings, or if, in one of these two cases, a proposal for averaging system 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. The Company joined with the other Middle South System operating companies in proposing to the FERC a settlement agreement, filed on January 4, 1985, which would resolve both of the matters discussed above. The Company believes the settlement agreement is in the best interest of the customers, the Company and the Middle South System. Acceptance by the Company's regulatory agencies of this settlement agreement and a Company proposed plan for deferral of the recovery of Grand Gulf costs would reduce the initial impact to customers while allowing the Company to continue to earn a fair return. (See Note 4 to the Financial Statements—"Commitments and Contingencies.")

Consolidated Balance Sheets

	December 31,	
ASSETS	**1984**	1983
	(in thousands)	
Utility Plant (Notes 4 and 5):		
Electric plant	**$3,269,726**	$2,871,858
Gas plant	**38,182**	38,612
Construction work in progress	**105,762**	306,398
Nuclear fuel	**27,321**	24,979
Total	**3,440,991**	3,241,847
Less—accumulated depreciation and amortization	**766,537**	679,232
Utility plant—net	**2,674,454**	2,562,615
Other Property and Investments:		
Investments in associated companies, at equity (Note 4)	**39,716**	36,165
Other, at cost (less accumulated depreciation)	**279**	664
Total	**39,995**	36,829
Current Assets:		
Cash and special deposits	**12,967**	7,831
Temporary investments, at cost which approximates market:		
Associated companies (Note 7)	**91,500**	29,000
Other	**3,925**	2,060
Notes receivable—net	**1,939**	1,622
Accounts receivable:		
Associated companies	**33,044**	23,555
Customer (less allowance for doubtful accounts —$2,179,000 in 1984 and 1983)	**41,149**	71,007
Other	**13,003**	17,918
Deferred fuel cost	**(14,178)**	5,717
Fuel inventory, at average cost	**83,998**	44,610
Materials and supplies, at average cost	**42,245**	33,711
Prepayments and other	**8,066**	10,750
Total	**317,658**	247,781
Deferred Debits	**28,710**	12,292
Total	**$3,060,817**	$2,859,517

See Notes to Consolidated Financial Statements.

LIABILITIES	December 31, 1984	December 31, 1983
	(in thousands)	
Capitalization:		
Common stock, $12.50 par value: authorized 325,000,000 shares; issued and outstanding, 54,980,196 shares in 1984 and in 1983 (Note 9)	**$ 687,252**	$ 687,252
Paid-in capital	**7,053**	6,045
Retained earnings (Note 8)	**26,101**	28,158
Total common shareholder's equity	**720,406**	721,455
Preferred stock and premium, without sinking fund (Note 9)	**126,890**	126,890
Preferred stock and premium, with sinking fund (Note 9)	**124,170**	133,931
Long-term debt (Note 10)	**1,288,352**	1,197,588
Total	**2,259,818**	2,179,864
Other Non-current Liabilities (Note 1)	**23,030**	14,352
Current Liabilities:		
Currently maturing long-term debt (Note 10)	**19,365**	9,865
Accounts payable:		
Associated companies	**2,649**	6,896
Other	**90,928**	87,007
Customer deposits	**7,519**	6,723
Taxes accrued	**55,201**	35,784
Accumulated deferred income taxes (Note 3)	**(6,987)**	2,798
Interest accrued	**45,185**	43,975
Dividends declared	**35,791**	26,254
Nuclear refueling reserve	**19,104**	12,651
Fuel inventory advances, co-owners	**54,729**	27,370
Other	**13,985**	14,590
Total	**337,469**	273,913
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes (Note 3)	**260,309**	246,640
Accumulated deferred investment tax credits (Note 3)	**160,067**	129,252
Other	**20,124**	15,496
Total	**440,500**	391,388
Commitments and Contingencies (Notes 2, 4 and 5)		
Total	**$3,060,817**	$2,859,517

See Notes to Consolidated Financial Statements.

Consolidated Statements of Income and Retained Earnings

	Years ended December 31,		
	1984	1983	1982
		(in thousands)	
Statements of Income			
Operating Revenues (Notes 2 and 11):			
Electric	**$1,247,597**	$1,148,891	$ 994,124
Natural gas	**60,086**	57,254	52,019
Total	**1,307,683**	1,206,145	1,046,143
Operating Expenses:			
Operation:			
Fuel	**338,429**	322,658	262,604
Purchased power	**133,964**	166,126	178,841
Gas purchased for resale	**44,894**	44,150	40,986
Other	**221,679**	178,610	141,824
Maintenance	**67,805**	59,059	45,242
Depreciation	**97,451**	92,621	84,194
Taxes other than income taxes	**34,818**	32,813	31,861
Income taxes (Note 3)	**126,457**	98,831	69,285
Total	**1,065,497**	994,868	854,837
Operating Income	**242,186**	211,277	191,306
Other Income and Deductions:			
Allowance for equity funds used during construction	**15,844**	18,095	12,722
Miscellaneous—net	**9,216**	6,372	7,062
Income taxes (Note 3)	**1,988**	8,085	5,625
Total	**27,048**	32,552	25,409
Interest Charges:			
Interest on long-term debt	**126,974**	119,466	108,557
Other interest—net of debt premium	**7,376**	7,152	11,272
Allowance for borrowed funds used during construction	**(8,483)**	(9,685)	(10,486)
Total	**125,867**	116,933	109,343
Net Income	**$ 143,367**	$ 126,896	$ 107,372
Statements of Retained Earnings			
Retained Earnings—January 1	**$ 28,158**	$ 33,365	$ 43,134
Add—Net income	**143,367**	126,896	107,372
Total	**171,525**	160,261	150,506
Deduct—Cash dividends:			
Preferred stock	**23,753**	24,715	25,274
Common stock	**121,671**	107,388	91,867
Total	**145,424**	132,103	117,141
Retained Earnings—December 31 (Note 8)	**$ 26,101**	$ 28,158	$ 33,365

See Notes to Consolidated Financial Statements.

Arkansas Power & Light Company and Subsidiary

Consolidated Statements of Changes in Financial Position

	1984	1983	1982
	Years ended December 31, (in thousands)		
Funds Provided By:			
Operations:			
Net income	**$143,367**	$126,896	$107,372
Depreciation	**97,451**	92,621	84,194
Deferred income taxes and investment tax credit adjustments—net	**34,583**	78,127	56,696
Allowance for equity funds used during construction	**(15,844)**	(18,095)	(12,722)
Total funds provided by operations	**259,557**	279,549	235,540
Other:			
Allowance for equity funds used during construction	**15,844**	18,095	12,722
Decrease in working capital*	**58,329**	—	—
Reserve for spent nuclear fuel disposal	—	—	12,341
Miscellaneous—net	—	12,943	2,987
Total funds provided excluding financing transactions	**333,730**	310,587	263,590
Financing transactions:			
Common stock	—	65,000	80,000
First mortgage bonds	**100,000**	25,000	155,000
Installment purchase transactions	**2,553**	44,900	8,325
Long-term bank loans	—	—	6,000
Long-term obligation—Department of Energy (Note 4)	**8,509**	49,400	—
Obligations under capital leases	**4,164**	—	—
Book value of utility plant sold	**628**	291	10,302
Total funds provided by financing	**115,854**	184,591	259,627
Total funds provided	**$449,584**	$495,178	$523,217
Funds Applied To:			
Utility plant additions:			
Construction expenditures for utility plant	**$205,050**	$247,449	$208,248
Expenditures for nuclear fuel	**2,342**	8,110	6,655
Capital leases	**5,000**	—	—
Other—net	**(2,472)**	932	(837)
Total gross additions (includes allowance for funds used during construction)	**209,920**	256,491	214,066
Other:			
Dividends declared on preferred stock	**23,753**	24,715	25,274
Dividends declared on common stock	**121,671**	107,388	91,867
Increase in working capital*	—	11,778	67,389
Reserve for spent nuclear fuel disposal (Note 4)	—	36,019	—
Miscellaneous—net	**10,301**	—	—
Total other funds applied	**155,725**	179,900	184,530
Financing transactions:			
Redemption of preferred stock	**9,704**	7,175	2,979
Retirement of first mortgage bonds	**8,865**	2,297	16,719
Repayment of installment purchase transactions	**1,005**	40,050	—
Repayment of long-term bank loans	—	—	29,052
Repayment of short-term debt and investment in short-term securities—net	**64,365**	9,265	75,871
Total funds applied to financing	**83,939**	58,787	124,621
Total funds applied	**$449,584**	$495,178	$523,217

* *Increase (Decrease) in Working Capital:*

Current Assets	1984	1983	1982
Cash	**$ 5,709**	*$ (992)*	*$ 421*
Accounts receivable	**(34,773)**	*41,623*	*6,197*
Intercompany receivable/ payable—net	**13,736**	*6,209*	*2,016*
Deferred fuel cost	**(19,895)**	*(16,235)*	*21,773*
Fuel inventory	**39,388**	*(13,210)*	*23,483*
Materials and supplies	**8,534**	*761*	*12,197*
Other current assets	**(2,940)**	*2,667*	*(6,027)*
Total change in current assets	**$ 9,759**	*$20,823*	*$60,060*

Current Liabilities	1984	1983	1982
Accounts payable	**$ (3,921)**	*$ 229*	*$31,460*
Taxes accrued	**(19,417)**	*(2,088)*	*(1,323)*
Interest accrued	**(1,210)**	*(6,057)*	*(5,079)*
Dividends declared	**(9,537)**	*(1,624)*	*(1,182)*
Fuel inventory advances	**(27,359)**	*5,619*	*(9,157)*
Other current liabilities	**(6,644)**	*(5,124)*	*(7,390)*
Total change in current liabilities	**$(68,088)**	*$ (9,045)*	*$ 7,329*
Net increase (decrease) in working capital	**$(58,329)**	*$11,778*	*$67,389*

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 uniform 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 which is less than current cost set forth in Note 13 to the Financial Statements—"Effects of Inflation on Operations (Unaudited)." 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 1984, 1983 and 1982 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 of which have two units. 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, 1984	Percent Ownership
White Bluff Steam Electric Station	$394,836,000	57.0%
Independence Steam Electric Station	$292,149,000	31.5%

F. Postretirement Benefits

The Company has postretirement plans covering substantially all of its employees. The policy of the Company is to fund pension costs accrued and other postretirement plan costs as incurred.

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 uniform 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 9.1%, 8.8% and 9.1% for 1984, 1983 and 1982, 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. Non-current Liabilities

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

The Company is a party to certain agreements and proceedings concerning Middle South Energy, Inc. (MSE) and the Grand Gulf Station owned by MSE. (See Note 4 to the Financial Statements—"Commitments and Contingencies" with respect to these matters.)

On May 1, 1981, the Company filed an application with the Arkansas Public Service Commission (APSC) to increase its Arkansas retail rates by approximately $101.4 million annually. On March 1, 1982, the APSC entered an order authorizing an annual increase in retail rates of $26.2 million. The APSC also ordered the Company to refund approximately $19.3 million related to collections that the APSC stated resulted from the Company's past practice of tax normalization. The Company placed into effect in March 1982, the $26.2 million approved by the APSC. Following a rehearing, on September 8, 1982 the APSC granted an additional $2.8 million increase, raising the amount allowed to $29 million. The Company appealed to the Circuit Court of Pulaski County, Arkansas both the amount of the increase as well as the obligation to refund the approximate $19.3 million. On October 24, 1984, the Pulaski County Circuit Court ruled the Company had the right to collect an additional amount through a temporary surcharge to retail customers. With respect to the $19.3 million refund ordered by the APSC on the issue of tax normalization, the Court ruled partially in favor of both the Company and the APSC. As a result, the Company will be required to refund to retail customers approximately $4.8 million as of December 31, 1984. In January 1985, the APSC approved a surcharge, as directed by the Court, covering all issues decided in favor of the Company with the exception of a $17.9 million unrecovered fuel cost issue which is still unresolved. The Company implemented the surcharge on February 1, 1985 designed to collect $32.4 million including interest over a period of 31 months.

On July 18, 1984, the Company filed an application with the Public Service Commission of Missouri for an annual increase in Missouri retail rates of approximately $6.9 million. In addition the application includes approximately $11.2 million for Grand Gulf 1 costs in a Grand Gulf rider with implementation contingent on the Company being obligated to pay a portion of the costs associated with Grand Gulf 1. The Grand Gulf 1 rider includes a phase-in plan under which recovery of portions of any payments the Company is required to make associated with the Grand Gulf Station could be deferred.

On August 1, 1984, the APSC issued an order directing the Company to appear and show cause "why all contracts and agreements made by it with respect to any obligations to purchase power from or to pay for construction and operation costs of the Grand Gulf Project should not be held to be void *ab initio* as a matter of law" because prior APSC approval had not been obtained. The APSC asserted that the obligations imposed upon the Company by the agreements entered into in connection with the financing and construction of the Grand Gulf Station constitute *prima facie* violations of Arkansas statutes requiring APSC authorization for acquisition or lease of certain assets and issuances of certain securities and evidences of indebtedness. MSE filed suit against the APSC in the United States District Court for the Eastern District of Arkansas seeking (i) preliminary and permanent injunctions enjoining the APSC from taking any further actions in the proceeding described above and (ii) a declaratory judgment stating that the APSC has no jurisdiction over the validity and enforceability of the agreements encompassed by the APSC order of August 1, 1984, and that all past proceedings and orders of the APSC in such proceedings are null and void. On September 14, 1984, the Court concluded as a matter of law that the agreements encompassed by the APSC order of August 1 are agreements "for the purchase of wholesale power in interstate commerce or are so integrally related to such purchases that they are subject to the exclusive jurisdiction of the Federal Energy Regulatory Commission (FERC)" or are agreements "essential to the interstate wholesale sale of power and therefore are not subject to state jurisdiction." On that date, the Court permanently enjoined the APSC from further proceedings in this matter. This decision has been appealed to the United States Court of Appeals for the Eighth Circuit by the Arkansas Attorney General, the APSC and others. The Company believes that it has complied with all applicable federal and state laws and that such agreements are valid.

On August 24, 1984, the APSC, in response to a Staff motion, issued an order opening a proceeding to investigate the reasonableness of the Company's present rates. The Staff had alleged in its motion that the Company's rates were excessive. The Company's response requested the APSC to dismiss the docket and review the Company's rates in the context of the Company's new rate application which was filed on November 9, 1984, as discussed in the next paragraph. Subsequently, the APSC Staff filed testimony in this proceeding recommending a reduction in rates of approximately $54 million on an annual basis. The Company's position is that its rates, based on the time period reviewed by Staff (the year ended March 1984), were not excessive and, in fact, were deficient by approximately $70 million. Hearings were held in November 1984 on this matter and it is presently pending before the APSC.

On November 9, 1984, the Company filed an application with the APSC requesting an annual increase in Arkansas retail rates, based on the test year ended December 1984, of approximately $139.7 million above the level of rates currently approved. In addition the application includes a proposed rate rider, to be effective in the event the Company is required to make payments to MSE for costs associated with Grand Gulf 1. Based on the FERC administrative law judge's initial decision on the allocation of Grand Gulf 1 costs in the Unit Power Sales Agreement proceeding, this rate rider contains a phase-in plan under which recovery of portions of any payments the Company is required to make associated with Grand Gulf 1 could be deferred. The deferred amount filed was estimated to aggregate approximately $470 million during the first three years of commercial operation. The deferred amount would be recovered within the following seven years. Carrying charges on the deferral would be collected currently. The APSC has scheduled hearings regarding this application to commence on May 30, 1985.

3. Income Taxes

Income tax expense (credit) consists of the following:

	1984	1983	1982
		(in thousands)	
Current:			
Federal	$ 75,725	$ 6,396	$ 3,713
State	14,161	6,223	3,251
Total	89,886	12,619	6,964
Deferred—net:			
Liberalized depreciation	21,383	24,776	30,744
Deferred fuel cost	(9,785)	(7,994)	10,748
Nuclear fuel disposal costs	—	17,729	(6,074)
Nuclear maintenance and refueling costs	(4,169)	—	—
Other	(3,544)	(4,824)	(4,351)
Total	3,885	29,687	31,067
Investment tax credit adjustments—net	30,698	48,440	25,629
Recorded income tax expense	$124,469	$90,746	$63,660
Charged to operations	$126,457	$98,831	$69,285
Charged (credited) to other income	(1,988)	(8,085)	(5,625)
Recorded income tax expense	124,469	90,746	63,660
Income taxes applied against the debt component of AFDC	6,001	9,190	7,669
Total income taxes	$130,470	$99,936	$71,329

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:

	1984		1983		1982	
	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income
Computed at statutory rate	$123,204	46.0	$100,115	46.0	$78,675	46.0
Increases (reductions) in tax resulting from:						
Allowance for funds used during construction	(10,137)	(3.8)	(12,686)	(5.8)	(9,492)	(5.6)
State income taxes net of Federal income tax effect	8,339	3.1	6,086	2.8	4,406	2.6
Other—net	3,063	1.2	(2,769)	(1.3)	(9,929)	(5.8)
Recorded income tax expense	124,469	46.5	90,746	41.7	63,660	37.2
Income taxes applied against debt component of AFDC	6,001	1.1	9,190	2.4	7,669	2.7
Total income taxes	$130,470	47.6	$ 99,936	44.1	$71,329	39.9

Unused investment tax credits at December 31, 1984 amounted to $40.0 million, which if not used will expire in 1992 through 1999.

Pursuant to an order of the Arkansas Public Service Commission 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 which are required by the Internal Revenue Code or State law. During 1983, as a result of the nuclear fuel disposal contract with the Department of Energy, disposal costs for spent nuclear fuel became deductible for tax purposes.

Cumulative income tax timing differences for which deferred income tax expense has not been provided are $220.5 million, $214.9 million and $163.7 million in 1984, 1983 and 1982, respectively.

4. Commitments and Contingencies

Construction

The construction program contemplates Company construction expenditures (excluding AFDC and nuclear fuel) of approximately $213 million in 1985, $206 million in 1986 and $193 million in 1987.

Availability Agreement and Power Purchase Advance Payment Agreement

The Company, together with the other Middle South System operating companies, is obligated under the Availability Agreement, as amended, to Middle South Energy, Inc. (MSE) in accordance with stated percentages (the Company 17.1%, Louisiana Power & Light Company (LP&L) 26.9%, Mississippi Power & Light Company (MP&L) 31.3%, New Orleans Public Service Inc. (NOPSI) 24.7%) to make payments or subordinated advances adequate to cover all of the operating expenses and certain of the capital costs of MSE. In addition, under the Power Purchase Advance Payment Agreement the Company, together with the other Middle South System operating companies, agreed, if Grand Gulf 1 were not placed in commercial operation by December 31, 1983, to make advance payments to MSE for power purchases which in the aggregate total $12.5 million per month. Such payments, adjusted to exclude the Company as contemplated by the Reallocation Agreement as discussed in the next paragraph, commenced January 2, 1984 and will continue until commercial operation of Grand Gulf 1 or December 31, 1985, whichever occurs earlier. Through 1984, $3.9 billion had been expended by MSE on the Grand Gulf Station's two units, the first unit of which is scheduled for commercial operation in the second quarter of 1985.

Reallocation Agreement

Effective November 1981, the Company, together with the other Middle South System operating companies, entered into a Reallocation Agreement related to the Grand Gulf Station which provides that the other System operating companies have assumed all of the responsibilities and obligations of the Company with respect to these units under the Availability Agreement and the Power Purchase Advance Payment Agreement, and, in consideration thereof, the Company has relinquished its rights in the Grand Gulf Station. However, each of the System operating companies, including the Company, remain liable to MSE and its assignees for payments or advances under the Availability Agreement and the Power Purchase Advance Payment Agreement in accordance with the respective original percentages set forth in the immediately preceding paragraph. The Company would be obligated to make its share of the payments or advances only if the other System operating companies were unable to meet their contractual obligations. The percentage allocation to the System operating companies of capacity and energy available to MSE from Grand Gulf 1 and 2, as set forth in the agreements referred to above, are subject to the approval of the Federal Energy Regulatory Commission (FERC), which has jurisdiction in the matter. See the next paragraph for a more detailed discussion of the percentage allocations of Grand Gulf to the System operating companies, including the Company.

Unit Power Sales Agreement and New System Agreement

The System operating companies, including the Company, have requested from their respective state public utility commissions rate adjustments adequate to permit them to meet their obligations to MSE to purchase power under the Unit Power Sales Agreement. Under the Unit Power Sales Agreement, as filed with the FERC, the capacity and energy available to MSE from the Grand Gulf Station would be sold to LP&L, MP&L and NOPSI in accordance with the percentages set forth in the Reallocation Agreement. An Administrative Law Judge (ALJ) of the FERC has rendered his initial decision regarding such Agreement. The ALJ has deferred any decision on Grand Gulf 2 and has recommended that capacity and energy from Grand Gulf 1 be allocated to the Company as well as the other System operating companies. The ALJ's decision allocates MSE's share of the capacity and energy from Grand Gulf 1 as follows: 36% to the Company, 14% to LP&L, 33% to MP&L and 17% to NOPSI, compared to the percentage entitlements set forth in the Unit Power Sales Agreement of 38.6% to LP&L, 31.6% to MP&L, and 29.8% to NOPSI. This decision, which the Company is opposing, is subject to review of the FERC. In addition to the Company, the other three System operating companies have also intervened in the proceeding. The Company has filed with the Arkansas Public Service Commission (APSC) and the Public Service Commission of Missouri (PSCM) for increases in rates to cover any increased revenue requirements in the event the Company is required to make payments to MSE for costs associated with the Grand Gulf Station. See Note 2 to the Financial Statements—"Rate Matters" for discussions of these rate increase applications, including the Company's proposed phase-in plans under which recovery of portions of any payments the Company is required to make associated with Grand Gulf 1 could be deferred.

On April 30, 1982, Middle South Services, Inc. (MSS), on behalf of the Company and the other Middle South System operating companies, filed with the FERC for approval of the New System Agreement that provides for the coordinated planning, construction and operation of its generation and transmission facilities. Rates under the New System 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, if adopted, could cause significant changes in the allocation of production costs among the companies. Hearings concluded in December 1983. On February 2, 1984, MSS notified the presiding ALJ that the other Middle South System operating companies would 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 would continue to support the original proposal. Subsequently, each of the operating companies filed a separate statement of position. On February 4, 1985, the ALJ hearing the New System Agreement proceeding issued his initial decision recommending that the New System Agreement be adopted, as filed with the FERC, with certain modifications. Principally, the decision recommended that a 15.75% return on common

equity be granted; that no periodic review conditions be attached to approval of the New System Agreement; that production cost equalization of all System generating units, as proposed by various intervening parties, not be granted; and that the reserve equalization provisions in the New System Agreement, as filed, be adopted. However, the ALJ went on to recommend that the Grand Gulf Station be integrated into the New System Agreement by having each of the System operating companies pay for the capacity and energy costs of Grand Gulf based on the ratio that each System operating company's annual demand bears to the annual demand of the entire System and to include each System operating company's share of Grand Gulf in calculating such company's capability and consequently the calculation of reserve equalization payments. This decision is subject to review of the FERC.

In an effort to resolve the difficult and complex issues involved in the Unit Power Sales Agreement and the New System Agreement proceedings, the System operating companies, MSE, and MSS, as agent for the System operating companies, submitted an Offer of Settlement to the FERC on January 4, 1985. Under the terms of the Settlement Offer, the New System Agreement, as currently in effect would remain unchanged. The Unit Power Sales Agreement, as amended, would allocate MSE's share of the capacity and energy from Grand Gulf Unit 1, from the date of commercial operation through December 31, 1990, as follows: 17.1% to the Company, 14% to LP&L, 19% to MP&L, 17% to NOPSI and 32.9% as Inventoried Capacity. Effective January 1,1991, the allocation would change as follows: 27.87% to the Company, 27.48% to LP&L, 24.42% to MP&L and 20.23% to NOPSI. During the period from commercial operation through December 31, 1990, the Company would pay its pro rata share of certain costs associated with the Inventoried Capacity. Through December 31, 1990, MSE would have a right to sell the capacity and energy from the Inventoried Capacity. To the extent that such sales are not made, the System operating companies would buy the energy on a monthly basis in accordance with their respective responsibility ratio at a cost equal to the cost of energy displaced by such energy on the Middle South System. Accordingly, the Company would pay no more for the cost of such additional energy available to it than if such energy were not available. Partial recovery by MSE of the cost of capital on the Inventoried Capacity would be accomplished by the accrual and deferral of carrying charges during the period from the date commercial operation begins through December 31, 1990. The accumulated deferred costs would be amortized over the remaining life of Grand Gulf Unit 1 beginning January 1, 1991. Beginning January 1, 1991, the Company would commence paying its respective share of the full cost of service of Unit 1, including amortization of the deferred carrying charges over the remaining life of Unit 1, plus a return on the deferred carrying charges. This proposed Offer of Settlement is subject to review of the FERC.

Comments have been filed by most of the active participants in the two FERC proceedings in opposition to the Offer of Settlement. The FERC appointed a three-judge panel to preside over a settlement conference which convened on March 12, 1985. On March 13, 1985, the settlement conference concluded with no agreement reached. On March 14, 1985, the three-judge panel submitted a report to the FERC stating that since a negotiated settlement did not appear possible, further formal settlement procedures would be fruitless and the cases should go forward to decision. It is not possible to predict what decision or decisions the FERC will ultimately render in the New System Agreement and Unit Power Sales Agreement proceedings or with respect to the Offer of Settlement. If timely recovery of any costs allocated to the Company as a result of FERC decisions in these cases is not permitted by the Company's regulatory agencies, the Company's financial position could be adversely affected.

Unit Power Purchase Agreement

The Company and MP&L have entered into a Unit Power Purchase Agreement for sale to MP&L of the Company's 31.5% share of capacity and energy from Independence Unit 2 for a five-year term.

SFI

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 1, 1984, as amended January 1, 1985, which provides for SFI to borrow up to $120 million from its parent companies through December 31, 1985. The Company's share of the loan commitment is $39 million. Notes under this agreement mature December 31, 2010. In addition, the Company had loaned SFI $35 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 its obligations under these arrangements. At December 31, 1984, the total loan commitment under these arrangements amounted to $225 million of which $203.6 million was outstanding. 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, 1984, the aggregate discounted value of these lease arrangements was $80.8 million.

The Company has agreed to purchase 100 million tons of coal over an approximate 20-year period, which began in 1980, for use at the White Bluff Steam Electric Station. SFI has entered into a contract with a joint venture for a supply of coal from a mine in Wyoming which, based on estimated reserves, is presently expected to provide for at least thirty years of projected requirements of the Independence Steam Electric Station (ISES). By separate agreement, the Company has

contracted to purchase the coal from SFI. 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 Corporation (AECC), as co-owners in part of ISES, have agreed to make the investments rather than SFI and accordingly, have reimbursed SFI for investments previously made by it. Through December 31, 1984, the Company had invested $24.9 million in mine facilities and related capitalized assets. During 1985, it is presently estimated that an additional $1.5 million will be invested under this agreement. The Company's share of the additional investment would be $0.6 million. The Company has made the required investment on behalf of the municipal co-owners of ISES and is billing them monthly for their share of the investment.

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, SFI and AECC may undertake 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, is approximately 33 million tons, over a 30-year period. The contract, including the guaranty, is conditional upon the receipt of regulatory approvals for the construction of the plant.

Nuclear Fuel and Plant Decommissioning

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 1,118,250 kg of uranium over the next five 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 settlement of a past disposal contract, has recorded the amount necessary for the one-time payment to the DOE and has accrued interest on the obligation of approximately $8.5 million at December 31, 1984.

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 application. to its regulatory commissions.

Nuclear Liability Insurance

The Company is a member of Nuclear Electric Insurance Limited, 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 $500 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 $22 million.

As of December 31, 1984, the Price-Anderson Act limited the public liability of a licensee of a nuclear power plant to $620 million for a single nuclear incident. This limit will increase by $5 million for each additional operating license issued by the Nuclear Regulatory Commission (NRC). Insurance for this exposure is provided by private insurance and an indemnity agreement with the NRC. Every licensee of a nuclear power plant is obligated, in the event of a nuclear incident involving any commercial nuclear facility in the United States that results in damages in excess of private insurance coverage, 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, 1984, the Company had two licensed reactors.

Federal Income Tax Issues—IRS

The Federal income tax returns for the years 1971 through 1978 have been examined by the IRS. For the years 1971 through 1976, all issues, other than an issue involving the taxability of customer deposits, have been settled and a tax assessment of $1.4 million, plus interest of $1.6 million, has been paid. Payment of the tax assessment and interest did not have a material effect on net income. For the years 1977 and 1978, the IRS has proposed certain adjustments that are not material. A written protest has been filed with the IRS. Any additional tax liability that may result from resolution of the customer deposits issue would not have a material effect on net income.

5. Leases

The Company accounts for leases entered into prior to 1983 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. The Company accounts for capital leases entered into subsequent to 1982 in accordance with Statements of Financial Accounting Standards No. 13 and No. 71. Application of criteria used to define a capital lease entered into prior to 1983 would permit recording the following assets and liabilities on the balance sheet:

	1984	1983	1982
		(in thousands)	
Assets:			
Utility plant	**$111,363**	$115,549	$113,632
Accumulated amortization	**17,535**	16,742	14,505
Net leased property	**$ 93,828**	$ 98,807	$ 99,127
Liabilities:			
Noncurrent obligations under capital leases	**$ 90,284**	$ 94,882	$ 95,605
Current obligations under capital leases:			
Principal	**$ 3,544**	$ 3,925	$ 3,522
Interest accrued	**4,598**	4,419	3,566
Total	**$ 8,142**	$ 8,344	$ 7,088

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

At December 31, 1984, there were noncancellable leases, presently accounted for as operating leases, with minimum rental commitments as follows:

	(in thousands)
1985	$ 18,357
1986	17,461
1987	16,352
1988	16,586
1989	17,382
For years thereafter	165,079
Total	$251,217

Not reflected in the schedule above are two lease agreements which together allow the Company 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, 1984, 1983 and 1982 was $136,068,000, $138,708,000 and $145,531,000, respectively. Nuclear fuel expense, exclusive of negative salvage, of $72,667,000 in 1984, $49,687,000 in 1983 and $40,091,000 in 1982 was charged to operations.

Rental expense for capital and operating leases (excluding nuclear fuel) amounted to approximately $21,949,000, $20,476,000 and $19,039,000 in 1984, 1983 and 1982, respectively.

6. Postretirement Benefits

The Company has various postretirement plans covering substantially all of its employees.

Pension plans are administered by a trustee who is responsible for pension payments to retired employees. 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.

Total pension expense of the Company for 1984, 1983, and 1982 was $9,555,000, $7,294,000 and $8,266,000, respectively.

The comparison of the actuarial present values of accumulated pension plan benefits and plan net assets for the Company's defined benefit plans is presented on page 25. 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, 1984	1983
	(in thousands)	
Actuarial present value of accumulated pension plan benefits:		
Vested	$ 84,518	$ 71,498
Nonvested	4,661	4,444
Total	$ 89,179	$ 75,942
Net assets available for pension benefits	$149,349	$128,255

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

The Company also provides certain health care and life insurance benefits for retired employees. Substantially all employees may become eligible for these benefits if they reach retirement age while still working for the Company. These benefits and similiar benefits for active employees are provided through various means including payments of premiums to an insurance company and/or accruals for self insurance policies managed by an insurance company. The Company recognizes the cost of providing these benefits by expensing the payments made to the insurance company or accruing the cost as recommended by the managing insurance company. The cost of providing these benefits for retired employees is not separable from the cost of providing benefits for the active employees. The total cost of providing these benefits and the average number of active and retired employees for the last three fiscal years were as follows:

	1984	1983	1982
Total cost of health care and life insurance (in thousands)	$6,501	$4,636	$4,829
Average active employees	5,319	5,255	5,076
Average retired employees	941	888	706

7. Lines of Credit and Short-Term Borrowings

At December 31, 1984, 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 $180 million of consolidated lines of credit with banks outside the Middle South System service area. In February 1985, these non-territorial bank lines of credit were reduced to $140 million. Compensating balances 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 also has arrangements with a commercial paper dealer for the sale of its commercial paper. 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 amount of the unused lines of credit with Arkansas banks at the end of 1984 and 1983 was $70.2 million each year. The operating companies had available at the end of 1984 and 1983, $180 million and $122.1 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:

	1984	1983	1982
		(in thousands)	
Maximum borrowing	$15,000	$31,000	$90,700
Year-end borrowing	—	—	$ 750
Average borrowing:			
Bank loans	$ 176	$ 977	$23,030
Associated companies	$ 1,002	$10,793	$13,122
Average interest rate during the period:			
Bank loans	11.07%	10.31%	13.66%
Associated companies	10.22%	9.91%	10.50%
Average interest rate at end of period:			
Bank loans	—	—	11.50%

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, 1984, all retained earnings were free from such restrictions.

9. Preferred and Common Stock

Preferred stock outstanding at December 31, 1984 and 1983 consisted of the following:

Cumulative, $100 Par Value	Shares Authorized	Shares Outstanding 1984	Shares Outstanding 1983	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*:				
10.60% series	135,997	**135,997**	149,967	109.39
11.04% series	286,817	**286,817**	304,862	109.78
Total	422,814	**422,814**	454,829	
Unissued	2,386,500			
Total, $100 Par Value	3,822,814			
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	27.95
Total	1,000,000	**1,000,000**	1,000,000	
With sinking fund*:				
9.92% series	1,433,621	**1,433,621**	1,513,299	27.56
13.28% series	1,811,626	**1,811,626**	1,992,060	29.88
Total	3,245,247	**3,245,247**	3,505,359	
Unissued	5,400,000			
Total, $25 Par Value	9,645,247			

	1984 (in thousands)	1983 (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 $100 a share	**$ 42,281**	$ 45,483
Stated at $25 a share	**81,131**	87,634
Premium	**758**	814
Total preferred stock and premium, with sinking fund	**$124,170**	$133,931

The changes in the number of shares of common and preferred stock outstanding in 1982, 1983 and 1984 were:

	Common Stock Shares Sold	Preferred Stock Shares Sold (Redeemed) $100 Par	Preferred Stock Shares Sold (Redeemed) $25 Par
1982	6,400,000	(29,700)	(360)
1983	5,200,000	(48,180)	(94,281)
1984	—	(32,015)	(260,112)

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

10. Long-Term Debt

Long-term debt outstanding consisted of the following:

	1984	1983
	(in thousands)	
FIRST MORTGAGE BONDS:		
3-1/4% series due 1984	$ —	$ 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	418	463
17-3/8% series due 1988	75,000	75,000
5-5/8% series due 1990	1,000	1,100
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	5,460	5,880
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	2,760	2,960
5-7/8% series due 1997	30,000	30,000
8-3/4% series due 1998	8,200	8,600
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	3,800	4,000
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	25,000
14-1/8% series due 2014	100,000	—
TOTAL FIRST MORTGAGE BONDS	1,116,638	1,025,503
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%	71,645	71,650
Independence County, Arkansas; due 1984 at rate of 9-1/4%	—	1,000
Independence County, Arkansas; due 2013 at rate of 11-1/8%	45,000	45,000
Less: Amount held in construction funds	65	2,618
TOTAL INSTALLMENT PURCHASE CONTRACTS	137,380	135,832
LONG-TERM OBLIGATION—Department of Energy (See Note 4)	57,908	49,400
UNAMORTIZED PREMIUM AND DISCOUNT ON DEBT—NET	(4,209)	(3,282)
TOTAL	1,307,717	1,207,453
LESS: CURRENTLY MATURING PORTION	19,365	9,865
LONG-TERM DEBT EXCLUDING AMOUNT DUE WITHIN ONE YEAR	$1,288,352	$1,197,588

At December 31, 1984, the sinking fund requirements and maturities for long-term debt for the years 1985 through 1989 are as follows:

	Cash Sinking Fund	Sinking Fund*	Maturities
		(in thousands)	
1985	$1,365	$7,358	$18,000
1986	1,365	7,838	70,725
1987	1,365	7,718	810
1988	1,320	8,513	76,148
1989	1,320	8,688	925

* *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 companies of Middle South Utilities, Inc., its parent, under rate schedules filed with the Federal Energy Regulatory Commission. In addition, the Company purchases fuel from System Fuels, Inc., and receives technical and advisory services from Middle South Services, Inc.

Operating revenues include revenues from sales to associated companies amounting to $286.8 million in 1984, $305.5 million in 1983 and $223.7 million in 1982. Operating expenses include charges from affiliates for fuel cost, purchased power, and technical and advisory services totaling $48.1 million in 1984, $34.8 million in 1983 and $68 million in 1982.

12. Consolidated Quarterly Results (Unaudited)

Operating results for the four quarters of 1984 and 1983 were as follows (in thousands):

	Quarter ended			
1984	March	June	September	December
Operating Revenue	$315,704	$317,149	$387,468	$287,362
Operating Income	57,867	51,994	90,356	41,969
Net Income	37,307	27,389	64,409	14,262
1983				
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

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 No. 33, "Financial Reporting and Changing Prices," as amended by Statement of Financial Accounting Standards No. 82. 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, 1984
(in thousands)

	As Reported In The Financial Statements	Adjusted For Changes In Specific Prices (Current Costs)
Revenues[1]	$1,307,683	$1,307,683
Operating expenses (excluding depreciation)[1]	968,046	968,046
Depreciation	97,451	197,669
Total operating expenses	1,065,497	1,165,715
Operating income	242,186	141,968
Other income[1]	27,048	27,048
Interest and other charges[1]	125,867	125,867
Income from operations (excluding adjustment to net recoverable cost)	$ 143,367	$ 43,149
Increase in specific prices (current costs) of property, plant and equipment held during the year[2]		$ 156,639
Adjustment to net recoverable cost		39,695
Effect of increase in general price level		(197,585)
Excess (deficiency) of increase in specific prices, after adjustment to net recoverable cost, over increase in general price level		(1,251)
Gains from decline in purchasing power of net amounts owed		73,356
Net		$ 72,105

1. *Assumed to be in "average for the year" dollars and thus are not restated.*
2. *At December 31, 1984, current cost of property, plant and equipment, net of accumulated depreciation, was $5,176,000,000 while historical cost or net cost recoverable through depreciation was $2,674,454,000.*

FIVE-YEAR COMPARISONS OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

(in thousands of average 1984 dollars)

	Years ended December 31,				
	1984	1983	1982	1981	1980
Operating revenues	**$1,307,683**	$1,257,479	$1,125,753	$1,159,842	$946,028
Current cost information:					
Income from operations (excluding adjustment to net recoverable cost)	**$ 43,149**	$ 25,803	$ 13,708	$ 14,370	$ (1,428)
Excess (deficiency) of increase in specific prices after adjustment to net recoverable cost, over increase in general price level	**$ (1,251)**	$ 29,674	$ 18,366	$ (110,361)	$(192,356)
Net assets at year-end at net recoverable cost	**$ 710,359**	$ 739,521	$ 703,352	$ 652,392	$617,949
General information:					
Gain from decline in purchasing power of net amounts owed	**$ 73,356**	$ 59,136	$ 58,927	$ 146,763	$206,965
Average consumer price index	**311.1**	298.4	289.1	272.4	246.8

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 Consumer Price Index for all Urban Consumers (CPI-U).

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

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

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

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

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

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OPINION OF INDEPENDENT PUBLIC ACCOUNTANTS

Arkansas Power & Light Company:

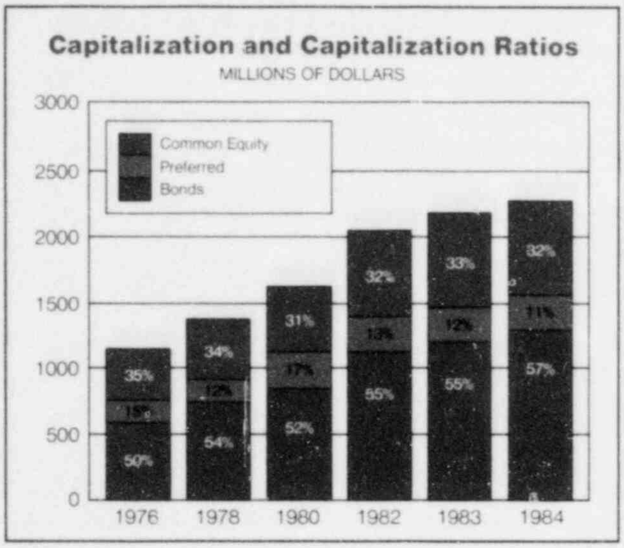
We have examined the consolidated balance sheets of Arkansas Power & Light Company and its subsidiary as of December 31, 1984 and 1983 and the related consolidated statements of income and retained earnings and of changes in financial position for each of the three years in the period ended December 31, 1984. 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.

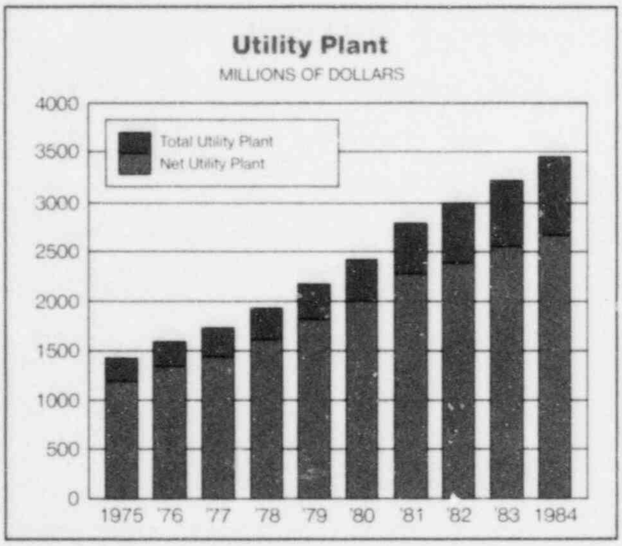
In our opinion, the above-mentioned consolidated financial statements present fairly the financial position of the Company and its subsidiary at December 31, 1984 and 1983 and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

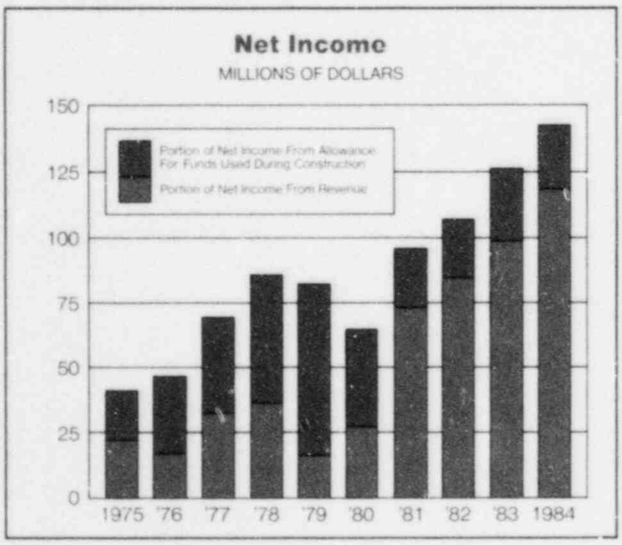
Deloitte Haskins & Sells

February 22, 1985

Ten Years of Progress/Financial (Consolidated)[1]





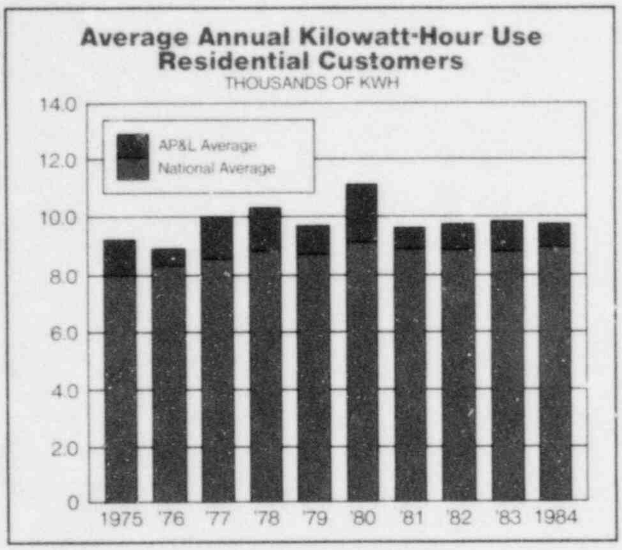


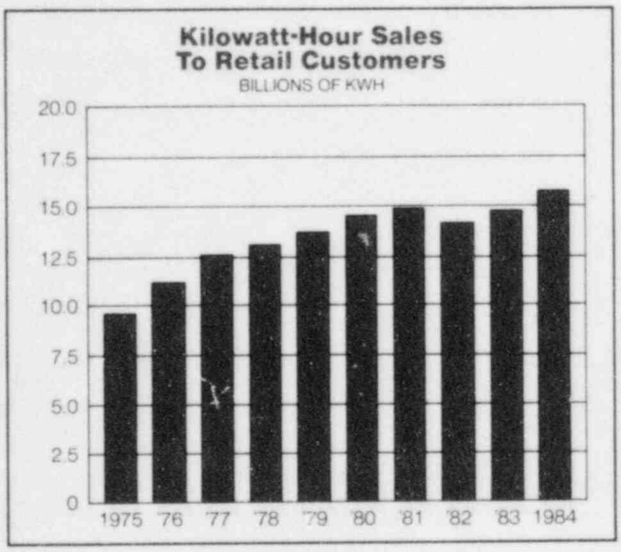
(in thousands of dollars)	1984
Selected Financial Data:	
Operating revenues	$1,307,683
Net income	143,367
Total assets	3,060,817
Long-term debt	1,288,352
Preferred stock, with sinking fund	124,170
Capitalization (end of period):	
Preferred stock and premium	$ 251,060
Common stock and paid-in capital	694,305
Retained earnings	26,101
Total	971,466
Long-term debt:	
First mortgage bonds[2]	1,093,065
Installment purchase contracts[2]	137,379
Long-term obligation—DOE[3]	57,908
Total	1,288,352
Total capitalization	$2,259,818
Annual Payment Requirements:	
Interest on:	
First mortgage bonds	$ 122,494
Installment purchase contracts	11,595
Dividends on preferred stock	23,222
Utility Plant (end of period):	
Plant completed	$3,307,908
Construction work in progress	105,762
Nuclear fuel in excess of fuel leases	27,321
Total utility plant	3,440,991
Less—accumulated depreciation	766,537
Net utility plant	$2,674,454
Income Statement:	
Operating revenues	$1,307,683
Operating expenses:	
Fuel	338,429
Purchased power	133,964
Gas purchased for resale	44,894
Payroll—operation and maintenance	97,659
Other operation and maintenance	191,825
Depreciation	97,451
Taxes	161,275
Total	1,065,497
Operating income	242,186
Other income and deductions—net (excluding AFDC[4])	11,204
Interest and other charges:	
Interest on long-term debt	126,974
Other interest—net of debt premium	7,376
Total (excluding AFDC[4])	134,350
Income from revenues	119,040
Non-cash income from AFDC[4]	24,327
Income from accounting change[5]	—
Net income	$ 143,367

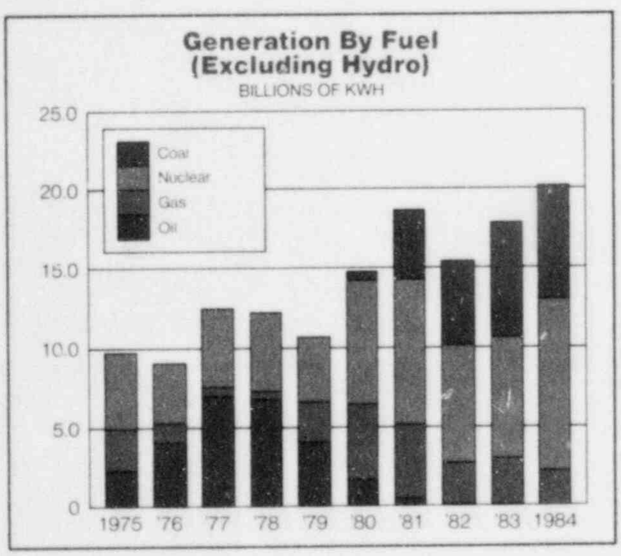
1. *On January 1, 1981, Arkansas Power & Light Company acquired Arkansas-Missouri Power Company. The financial data in this report for the years prior to 1981 have not been restated for the consolidation since the effect is immaterial.*
2. *Excludes currently maturing portion.*
3. *DOE—Department of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

1983	1982	1981	1980	1979	1978	1977	1976	1975
$1,206,145	$1,046,143	$1,015,561	$ 750,497	$ 582,610	$ 553,605	$ 535,298	$ 396,597	$ 316,831
126,896	107,372	96,140	65,230	82,404	86,014	69,305	46,963	40,713
2,859,517	2,669,417	2,474,249	2,147,983	1,940,643	1,693,906	1,562,999	1,421,940	1,311,433
1,197,588	1,129,440	992,163	848,667	819,716	749,262	667,484	591,382	586,318
133,931	141,138	144,120	147,065	100,518	60,063	60,063	60,063	60,063
$ 260,821	$ 268,028	$ 271,010	$ 273,955	$ 227,408	$ 171,772	$ 171,772	$ 171,772	$ 161,720
693,297	627,709	547,185	458,569	427,960	397,960	382,960	367,960	337,375
28,158	33,365	43,134	54,700	86,333	78,462	54,261	39,040	41,297
982,276	929,102	861,329	787,224	741,701	648,194	608,993	578,772	540,392
1,014,797	1,000,255	849,585	765,430	763,549	709,549	642,979	575,184	586,318
133,391	129,185	143,578	83,237	56,167	39,713	24,505	16,198	—
49,400	—	—	—	—	—	—	—	—
1,197,588	1,129,440	993,163	848,667	819,716	749,262	667,484	591,382	586,318
$2,179,864	$2,058,542	$1,854,492	$1,635,891	$1,561,417	$1,397,456	$1,276,477	$1,170,154	$1,126,710
$ 108,727	$ 105,568	$ 82,986	$ 73,551	$ 62,436	$ 56,536	$ 49,364	$ 42,837	$ 42,837
11,688	10,386	14,016	6,593	4,980	4,980	4,103	1,224	—
24,366	25,131	25,456	25,778	19,548	14,020	14,020	14,020	13,136
$2,910,470	$2,623,319	$2,546,046	$2,133,704	$1,231,832	$1,178,601	$1,139,511	$1,111,119	$1,097,913
306,398	364,252	255,468	282,376	980,054	785,684	610,557	505,669	350,941
24,979	16,869	10,214	7,151	—	—	12,747	4,562	8,179
3,241,847	3,004,440	2,811,728	2,423,231	2,211,886	1,964,285	1,762,815	1,621,350	1,457,033
679,232	605,404	532,261	417,435	364,447	331,231	297,464	265,099	240,014
$2,562,615	$2,399,036	$2,279,467	$2,005,796	$1,847,439	$1,633,054	$1,465,351	$1,356,251	$1,217,019
$1,206,145	$1,046,143	$1,015,561	$ 750,497	$ 582,610	$ 553,605	$ 535,298	$ 396,597	$ 316,831
322,658	262,604	307,213	237,346	174,667	167,681	169,890	107,213	76,322
166,126	178,841	141,316	154,126	171,425	120,804	114,225	107,983	56,022
44,150	40,986	30,637	—	—	—	—	—	—
87,210	77,566	67,897	49,774	40,607	35,400	29,448	26,626	24,286
150,459	109,500	132,862	100,700	50,994	55,478	53,014	31,224	30,637
92,621	84,194	77,923	59,574	39,708	38,365	36,768	35,025	33,790
131,644	101,146	90,530	54,033	34,948	55,693	62,753	36,022	38,352
994,868	854,837	848,378	655,553	512,349	473,421	466,098	344,093	259,409
211,277	191,306	167,183	94,944	70,261	80,184	69,200	52,504	57,422
14,457	12,687	17,497	17,468	23,627	16,986	12,466	10,328	8,131
119,466	108,557	90,755	67,036	67,091	56,949	45,047	43,152	40,553
7,152	11,272	21,038	17,649	10,296	4,469	3,980	2,703	3,265
126,618	119,829	111,793	84,685	77,387	61,418	49,027	45,855	43,818
99,116	84,164	72,887	27,727	16,501	35,752	32,639	16,977	21,735
27,780	23,208	23,253	37,503	65,903	50,262	36,666	26,445	18,978
—	—	—	—	—	—	—	3,541	—
$ 126,896	$ 107,372	$ 96,140	$ 65,230	$ 82,404	$ 86,014	$ 69,305	$ 46,963	$ 40,713

Ten Years of Progress/Operating (Electric)[1]







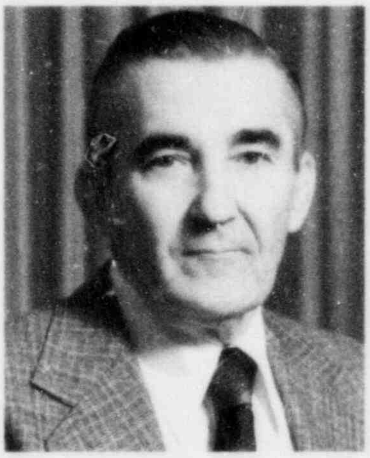
	1984
Electric Operating Revenues (thousands of dollars):	
Residential	$ 334,693
Commercial	187,595
Industrial—aluminum processing	94,067
Industrial—other	224,392
Government and municipal	23,288
Total from retail customers	864,035
Public utilities	364,581
Miscellaneous revenues	18,981
Total electric operating revenues	$1,247,597
Electric Sales (millions of kilowatt-hours):	
Residential	4,664
Commercial	3,079
Industrial—aluminum processing	3,060
Industrial—other	4,511
Government and municipal	405
Total to retail customers	15,719
Public utilities	8,918
Total energy sold	24,637
Number of Customers (end of year):	
Residential	480,133
Commercial	58,080
Industrial—aluminum processing	1
Industrial—other	14,811
Government and municipal	2,652
Total retail customers	555,677
Public utilities	17
Total customers	555,694
Electric Energy (millions of kilowatt-hours):	
Source and disposition	
Generated—net station output:	
Coal	7,191
Gas	2,111
Oil	3
Nuclear	10,770
Hydro	235
Total generated	20,310
Purchased	5,440
Net interchange	165
Total	25,915
Less: Company uses, losses and unaccounted for	1,278
Total energy sold	24,637
Peak demand (megawatts)[2]	3,650

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.*

1983	1982	1981	1980	1979	1978	1977	1976	1975
$ 315,960	$282,204	$257,801	$212,833	$160,992	$164,224	$154,403	$121,267	$104,440
169,367	153,393	148,938	128,477	100,741	98,293	92,999	75,641	62,325
56,629	50,175	69,527	69,171	65,861	43,972	40,482	33,100	12,652
200,296	183,975	179,331	140,422	112,515	104,930	102,264	83,844	61,619
20,989	19,081	14,787	12,824	11,447	11,234	10,468	8,536	7,144
763,241	688,828	670,384	563,727	451,556	422,653	400,616	322,388	248,180
379,598	299,724	298,781	181,650	125,980	124,653	128,174	70,362	65,346
6,052	5,572	5,569	5,120	5,074	6,299	6,508	3,847	3,305
$1,148,891	$994,124	$974,734	$750,497	$582,610	$553,605	$535,298	$396,597	$316,831
4,612	4,514	4,418	4,480	3,884	4,062	3,838	3,369	3,386
2,927	2,870	2,819	2,682	2,444	2,472	2,353	2,162	2,072
2,571	2,081	3,064	3,411	3,349	2,686	2,597	2,145	1,011
4,251	4,246	4,311	3,675	3,681	3,545	3,443	3,160	2,840
394	410	312	292	326	334	325	307	297
14,755	14,121	14,924	14,540	13,684	13,099	12,556	11,143	9,606
8,965	7,388	8,358	5,445	4,204	4,475	5,170	3,247	3,548
23,720	21,509	23,282	19,985	17,888	17,574	17,726	14,390	13,154
471,508	462,753	458,941	405,717	400,290	394,766	387,495	379,556	371,491
57,141	56,709	57,133	49,444	49,009	48,424	47,580	46,844	45,657
1	1	1	1	1	1	1	1	1
14,161	13,528	13,529	12,284	12,151	11,724	11,182	10,913	10,431
2,481	2,372	2,332	1,548	1,617	1,573	1,519	1,500	1,446
545,292	535,363	531,936	468,994	463,068	456,488	447,777	438,814	429,026
17	18	23	19	19	19	25	25	25
545,309	535,381	531,959	469,013	463,087	456,507	447,802	438,839	429,051
7,237	5,224	4,293	601	—	—	—	—	—
2,978	2,660	4,727	4,741	2,468	470	487	1,168	2,645
35	72	389	1,653	4,050	6,741	6,973	4,010	2,242
7,583	7,463	9,173	7,831	4,101	5,220	5,085	3,858	4,874
201	176	140	103	251	131	98	94	172
18,034	15,595	18,722	14,929	10,870	12,562	12,643	9,130	9,933
7,402	7,241	5,980	6,459	7,740	6,162	6,133	6,172	4,070
100	82	12	(209)	296	8	(65)	43	101
25,536	22,918	24,714	21,179	18,906	18,732	18,711	15,345	14,104
1,816	1,409	1,432	1,194	1,018	1,158	985	955	950
23,720	21,509	23,282	19,985	17,888	17,574	17,726	14,390	13,154
3,748	3,541	4,369	4,179	3,521	3,654	3,336	3,242	2,868

President's 1984 Message
Associated Natural Gas Company

A Wholly-Owned Subsidiary of Arkansas Power & Light Company



The favorable trends which the natural gas industry experienced in the previous year carried forward into 1984. What has been referred to as the "gas bubble" gives indications of becoming a proven long-term supply.

While there were minor fluctuations in the Company's cost of gas, the average unit price was approximately 7 percent below the prior year. This benefit was passed on to the ultimate consumer in the form of a reduced Purchased Gas Adjustment charge. The deregulation of a substantial portion of the gas supply on January 1, 1985, went largely unnoticed in the industry. Present indications are that competition with other fuels, particularly oil, will have a greater impact on future gas prices than will deregulation.

The abundance of supply has produced gas-to-gas competition. A large number of brokers seeking to arrange short-term, spot-market sales has created a demand among major industrial users for contract carriage. This development may cause problems for the Company which must have some assurance of a long-term supply to meet the needs of its residential and commercial customers. A loss of industrial sales to this direct purchase market would cause a shift in the cost of service to the detriment of the small consumer.

Cooler than normal weather during the first quarter of 1984 produced a substantial increase in residential and commercial sales. Industrial sales increased even though there was a fourth quarter slump when a number of textile industries either reduced or ceased production because of foreign competition. System sales showed an overall gain of 10 percent when compared with 1983.

As a result of research being carried on by the Gas Research Institute and the American Gas Association, new and expanded markets are being developed. More efficient heating equipment and other improved gas-consuming appliances are already on the market. The public interest being stimulated by this new equipment should have a beneficial effect upon future gas sales.

To meet the requirements of this more complex and competitive market, greater emphasis is being placed on employee training and skills development. The Company remains confident that it can successfully cope with the challenges in this transition phase of the natural gas industry.

L T McSpadden

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

Associated Natural Gas Company Officers

Jerry L. Maulden
Chairman of the Board and Chief Executive Officer
Age 48

L. Thurl McSpadden
President and Chief Operating Officer
Age 63

Ernest L. McKenzie
Vice President, Secretary, Treasurer and Chief Financial Officer
Age 62

Ralph M. Wafler
Vice President, Operations
Age 57

Glen E. Veteto
Assistant Treasurer
Age 42

Ricky A. Gunter
Assistant Treasurer
Age 35

Peggy Warrington
Assistant Secretary
Age 61

Associated Natural Gas Company Directors

Paul C. Hughes
President and Chief Executive Officer
Farmers Soybean Corporation
Blytheville, Arkansas

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

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

Robert G. McHaney
Vice President
McHaney Monuments
Blytheville, Arkansas

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

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

Guy Newcomb
President
Commonwealth Savings and Loan Association
Osceola, Arkansas

Kenneth E. Storey
President and Chief Executive Officer
Food Giant Super Markets, Inc.
Sikeston, Missouri

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

Arkansas Power & Light Company Officers

Jerry L. Maulden
President and Chief Executive Officer
Age 48

Michael B. Bemis
Senior Vice President, Finance, Regulation and Legal Services; Secretary and Assistant Treasurer
Age 37

John M. Griffin
Senior Vice President, Energy Supply
Age 39

Jack L. King
Senior Vice President, Energy Delivery and Services
Age 45

Charles L. Steel
Senior Vice President and Assistant to the President
Age 60

Cecil L. Alexander
Vice President, Public Affairs
Age 49

R. A. Allen
Vice President, Customer Services
Age 63

Kenneth R. Breeden
Vice President, Marketing
Age 36

Gene Campbell
Vice President, Nuclear Operations
Age 44

John J. Harton
Vice President, Chief Financial Officer, Treasurer and Assistant Secretary
Age 43

Charles Kelly
Vice President, Corporate Communications
Age 47

W. R. Southern
Vice President, Administrative Services
Age 53

Louis Burgess
Assistant Vice President and Special Assistant to the Senior Vice President, Energy Delivery and Services
Age 50

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—Third Wednesday of May

The Company's 1984 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. Michael B. Bemis, Sr. Vice President and Secretary, at the address below:

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

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, 1984, 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 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
MIDDLE SOUTH UTILITIES SYSTEM