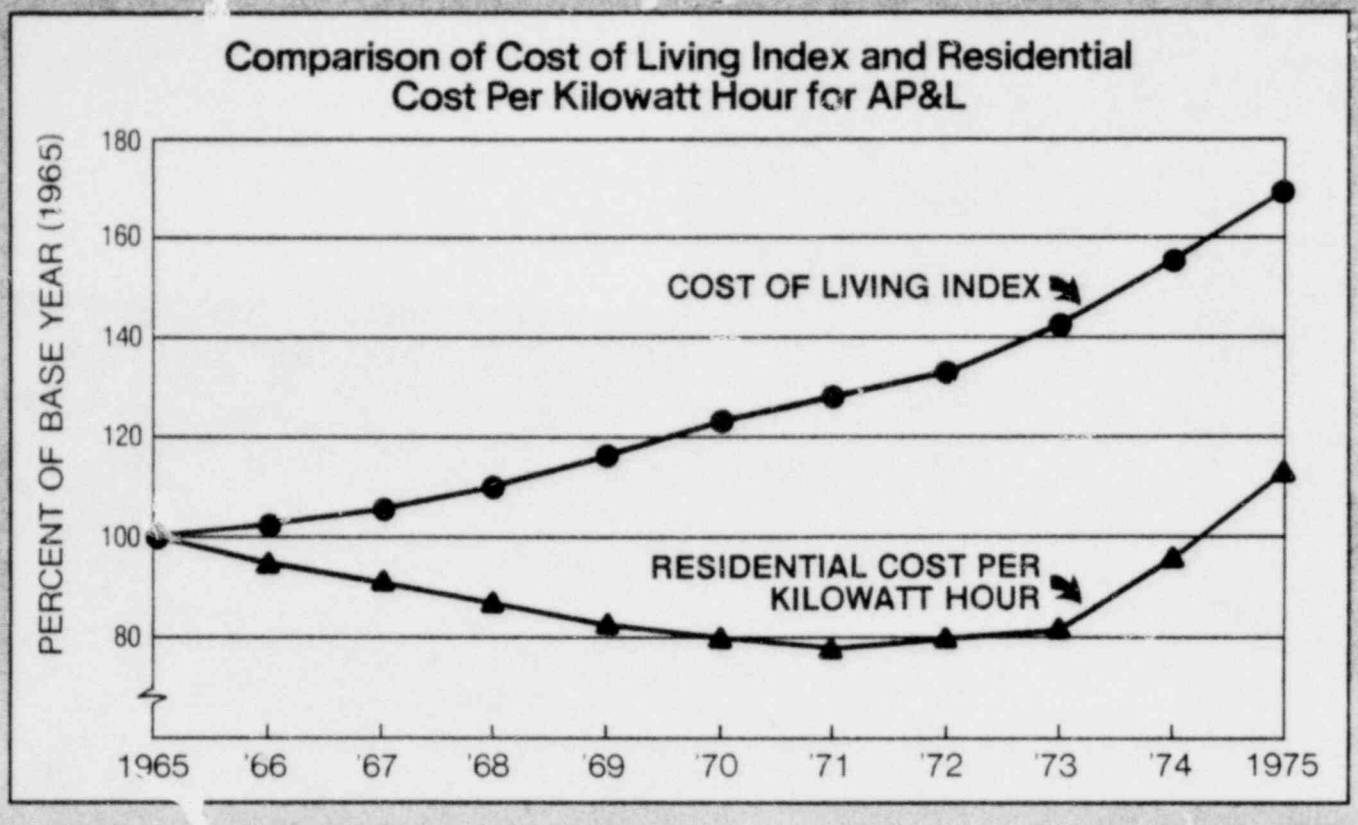
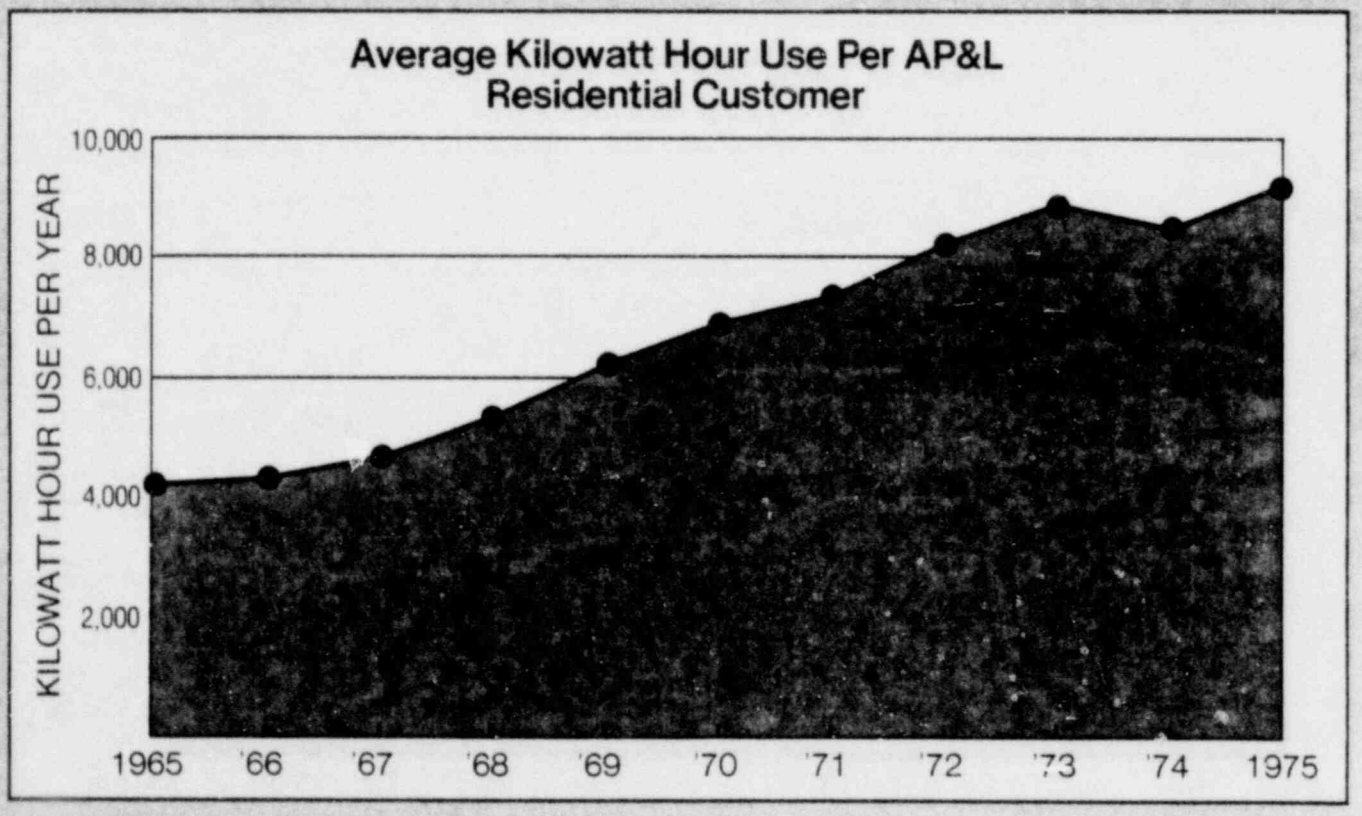
Arkansas Power & Light Company Annual Report 1975

THIS DOCUMENT CONTAINS

POOR QUALITY PAGES

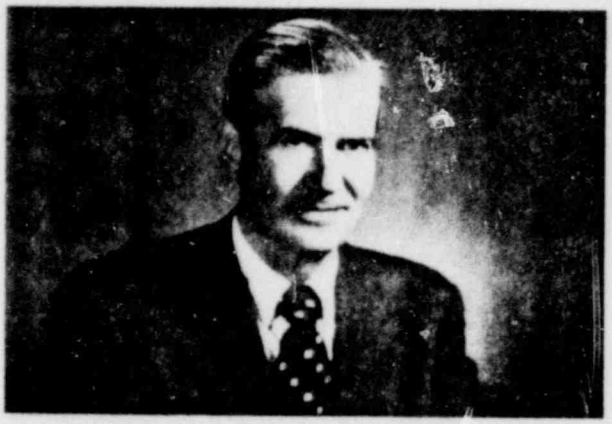
OPERATING COST





The three scenes on the front cover: (Top scene) In 1975, Unit 1 of Arkansas Nuclear One generated almost 50% of the electricity generated by Arkansas Power & Light Company; construction continues on the second unit. (Middle scene) Much of the year was consumed with preparation for and public hearings on the retail rate increase filing of July, 1975. (Bottom scene) When the Company's request for immediate rate relief was denied, construction on the two coal-fired generating units at White Bluff had to be suspended.

A Message from the President



In recent years, the electric utility industry has undergone dramatic changes. Management has been required to develop new insights and new strategies to deal with these changes. There was a time when electric energy was known for its decreases in unit cost. Now we are an industry of increasing unit cost. This change was brought on by several major forces: inflation, raw energy shortages, increasing cost of fuels we use and the tremendous increase in cost of new generating facilities. We have had to change with the times.

Of particular interest to residential customers is what has happened to your cost of electric energy in recent years, which is depicted in the two charts on the opposite page. Using 1965 as a base year and comparing the cost of electric energy on a kilowatt-hour basis with the cost-of-living index, one sees that the cost per kilowatt hour dropped until about 1972 even though the cost of living was rising. Beginning in 1973, the cost began to rise due to the curtailment of natural gas supplies and the dependence on fuel oil coupled with rampant inflation. Even so, it was and is even now well below the cost-of-living index from 1965 to now. Also influencing your cost of electric energy is the fact that the average number of kilowatt hours used annually per residential customer in Arkansas in 1965 was 4,134 while, for 1975, the average annual use per customer was 9,211 kilowatt hours. This doubling in the use of electric energy by our residential customers during this ten-year period, while the price of a kilowatt hour has increased less than the cost of living during the same period, has contributed significantly to the higher bills being received by our customers today.

The generators needed to satisfy this growing electric energy usage are more complex and more costly than ever before. They must be built, however. The problems of financing these generators rest heavily on Arkansas Power & Light Company. If financing is to be found, consumers must pay rates which will provide a reasonable compensation to the investor for the use of his money. The Company, in turn, must give the consumer ample and reliable energy under prudent and efficient management. Thus, the primary thrust of my message to you, in this annual report, is the effect of the rate hearings in which we have been and are now involved.

My message in last year's annual report began by saying that 1974 was a most unusual year for the energy-related industries of America and that Arkansas Power & Light was no exception. Even though earnings at the year's end were at an acceptable level, it was pointed out that this resulted largely from benefits which were non-recurring in nature. Certainly experience has proven that statement to be accurate. When comparing net income for 1974 (after adjusting for the Arkansas Public Service Commission's order of March of 1975) to net income for 1975, it is readily apparent that, in spite of an increase of total revenues, net income decreased appreciably from $54.3 million in 1974 to $36.6 million in 1975, a 33 percent decrease. At the same time, equity capital, including preferred and common stock and retained earnings, increased from $434.6 million to $535 million, or 23 percent. The magnitude of the non-cash income from allowance for funds used during construction was emphasized in the 1974 report. This non-cash item in 1974 amounted to 47 percent of our total net income, while in 1975 it accounted for 51.8 percent. In 1975, net income, excluding allowance for funds used during construction, dropped to $17.6 million. This is the lowest level of such earnings since 1968.

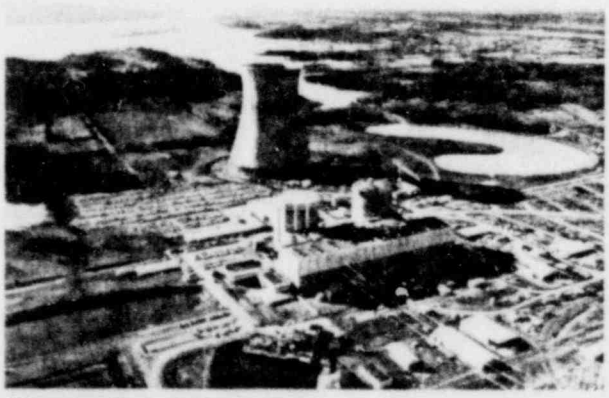
This deterioration vividly shows that the level of rate increases granted was totally inadequate. The Company filed for a $38.6 million increase in 1974, and the Public Service Commission subsequently granted $20.2 million (This decision is now being appealed by the Company to the Arkansas Supreme Court). It was then obvious to management that rate increases at this level would not permit the Company to continue the construction of all the major generating facilities which are necessary to serve the needs of the present customers in Arkansas in the future and to provide for new customers.

Arkansas Power & Light Company has the responsibility of providing the consumers in our service area with an adequate supply of reliable electric energy at the lowest cost practicable. This objective has been, is, and will continue to be the thrust of the Company's effort. Since the $20.2 million rate increase granted in March of 1975 would not permit the Company to finance and continue the needed construction program to fulfill its responsibility to the consumer, an application for an additional rate increase was filed on July 1 of 1975 asking for immediate relief. The Company's request for immediate relief was turned down, and it became necessary to begin an orderly shutdown of construction work on the two coal-fired generating units at White Bluff. Construction began on these two units in 1974. This is the first electric generating plant designed to burn domestically

available, low-sulfur coal in our system. The Arkansas Public Service Commission held hearings on this case in October and November of 1975. The Company had requested a rate increase of $56 million. The Commission ordered the Company to adjust the proposed rates to exclude the effect of construction work in progress from the rate base. This meant the rate increase was adjusted to approximately $34.4 million. This adjustment, with which we totally disagreed, was necessary before the rates could be placed in effect subject to refund. The $34.4 million rates, placed in effect to retail customers the latter part of 1975, are now being collected subject to refund pending the Commission's final decision. Also during 1975, a second application was filed before the Federal Power Commission for an increase in rates to wholesale customers. These rates were designed to yield additional revenues of approximately $8.4 million, based on our then-projected energy sales to the affected customers for the 12-month period beginning October 8, 1975, as estimated at the time of preparation of the case. These rates have been collected subject to refund since December 1, 1975.

The resumption of construction on the two coal-fired units at White Bluff is contingent now on favorable action of the Arkansas Public Service Commission on the pending rate increase case.

While the level of earnings obtained in 1975 presents a rather bleak picture, Arkansas Power & Light Company management continues to be optimistic about the future. Total energy sales in 1975 were down due to the aluminum industry and other industry loads being off due to the recession. However, consumption by residential and commercial customers showed a good increase over the previous year. A continued growth in energy use as the economy and industry return to normal is anticipated. It is further anticipated that more and more customers will turn to the use of electric energy due to the shortage of natural gas, the high cost of alternate fuels and the requirements to install electrically operated environmental protection devices. Further, it is felt that regulatory authorities will allow the necessary increases in revenue which will restore financial stability and permit the Company to again be able to attract the investor's dollars to carry out the construction program for needed generating facilities.



Arkansas Nuclear One

The Company in 1975 had many accomplishments in areas other than financial which were very favorable and reflected real strength and overall optimism. Unit One of Arkansas Nuclear One ranked eighth in power generation among the 132 nuclear generating units operating around the world during the first ten months of 1975. This 836-megawatt unit generated 49 percent of the total 1975 energy produced by the Company and saved an equivalent of 8.3 million barrels of fuel oil. It is expected to generate nearly 50 percent of the Company's electricity production in 1976.

Also, during the summer of 1975, Arkansas Power & Light Company conducted an experimental program involving radio-controlled switches for the cycling of central air conditioning compressors, which has a very real potential for saving money for the Company and its customers. Over 300 housing units participated in the first experimental period covering the summer months of 1975. Preliminary test data indicates that the use of such switches on a significant portion of air conditioning units in the service area could, indeed, lower our system peak demands during hot afternoon peak electric load hours, thus reducing the amount of generation that must be installed. We plan to continue the test program during the summer of 1976.

The Company also had success in an "Energy Saving Home" program which is receiving nationwide recognition and acceptance. This energy saving home design has been developed through a cooperative effort between Arkansas Power & Light Company and the Little Rock Area Office of the Department of Housing and Urban Development. Tests show that this type home can reduce the use of energy for heating and cooling as much as 65 percent while still maintaining comfortable temperatures. These energy savings result primarily from more and better insulation and insulating techniques.

The Company also is involved in a study of time-of-day pricing to determine its effectiveness. This study is a cooperative effort of the Arkansas Public Service Commission, the Federal Energy Administration and Arkansas Power & Light Company. Through these and other innovative approaches, we are constantly working to provide new insights and strategies to meet the needs of our customers tomorrow.

I am optimistic that, in the near future, Arkansas Power & Light Company will again be in a more favorable position to fulfill its responsibilities to its customers of assuring them an adequate supply of reliable electric energy at a reasonable cost and paying an appropriate return for the use of the investor's dollars necessary for the construction of needed plant facilities. All of your questions cannot possibly be answered in my message, but I will continue to welcome your questions or comments.

Reeves Ritchie

Reeves Ritchie
President

1975
Arkansas Power & Light Company
Financial Review

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. System of Accounts

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

B. Revenues

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

C. Utility Plant and Depreciation

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

Depreciation is computed on the straight-line basis at rates based on the estimated service lives of the various classes of property. Depreciation provided in 1975 and 1974 amounted to approximately 3.3% and 3.2%, respectively, on average depreciable property. Principally all of the Company's utility plant is subject to the lien of the First Mortgage Bond Indenture.

D. Pension Plan

The Company has a pension plan covering substantially all of its employees. Pension costs in 1975 and 1974 amounted to $5,035,000 and $4,183,000, respectively, including amortization of unfunded prior service costs over a remaining period of 11 years. The policy of the Company is to fund pension costs accrued. The actuarially computed value of vested benefits exceeded pension fund assets by approximately $5,800,000 at December 31, 1974, the most recent evaluation date.

The Company has completed a study of the Employee Retirement Income Security Act of 1974 and the Company's pension plan has been amended, effective on and after January 1, 1976, to comply with the Act. It is anticipated that the amendments, which are essentially technical in nature, will not have any significant effect on pension costs.

E. Income Taxes

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

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

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

Beginning January 1, 1975, the Company has included in Other Income and Deductions an amount representing the income tax effect of the debt portion of the allowance for funds used during construction. Net income is not affected since the income tax effect was previously credited to operating expenses.

F. Allowance for Funds Used During Construction

In accordance with the regulatory system of accounts, the Company capitalizes an allowance for funds used during construction representing the net cost of funds (interest on borrowed funds and a reasonable rate on other funds) used to finance construction, with a corresponding credit to non-operating income. This practice recognizes these amounts as appropriate costs of utility plant which, in accordance with established regulatory practices, will be recovered through future billings to customers. A composite accrual rate of 7½% per annum was used in 1975 and 1974 in accruing the allowance for funds used during construction.

G. Reserves

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

ARKANSAS POWER & LIGHT COMPANY

ASSETS

	1975	1974
	In Thousands	
Utility Plant:		
Electric plant	$1,097,913	$1,051,248
Construction work in progress	350,941	215,794
Nuclear fuel (Note 6)	8,179	5,229
Total	1,457,033	1,272,271
Less - accumulated depreciation	240,014	211,456
Utility plant—net	1,217,019	1,060,815
Other Property and Investments:		
Investments in associated companies, at equity (Note 4)	17,157	18,152
Other, at cost (less accumulated depreciation)	1,094	1,464
Total	18,251	19,616
Current Assets:		
Cash	9,878	9,923
Special deposits	2,222	238
Temporary investments, at cost which approximates market	21,104	
Notes receivable (less allowance for doubtful notes - $43,000)	1,313	1,524
Accounts receivable:		
Customer and other (less allowance for doubtful accounts - $410,000 in 1975 and $290,000 in 1974)	18,400	18,658
Associated companies	85	125
Materials and supplies, at average cost	5,961	6,746
Prepayments	672	439
Other	3,491	1,689
Total	63,126	39,342
Deferred Debits:		
Advances for fuel oil purchases (Note 4)	10,863	2,806
Other	2,174	1,598
Total	13,037	4,404
Total	$1,311,433	$1,124,177

See Notes to Financial Statements

ANCE SHEET AT DECEMBER 31, 1975 AND 1974

ABILITIES

	1975	1974
	In Thousands	
Capitalization:		
Equity capital:		
Preferred stock (Page 8)	$ 161,720	$ 101,657
Common stock ($12.50 par value), authorized 50,000,000 shares; issued and outstanding 26,990,000 shares in 1975 and 23,390,000 shares in 1974	337,375	292,375
Retained earnings (Notes 3 & 5)	35,917	40,593
Total equity capital	535,012	434,625
Long-term debt (Page 8)	586,318	546,284
Total	1,121,330	980,909
Current Liabilities:		
Notes payable (Note 2):		
Banks		10,000
Commercial paper		3,000
Accounts payable:		
Associated companies	8,720	5,940
Other	26,998	9,741
Customer deposits	5,904	5,442
Taxes accrued	21,721	14,288
Interest accrued	12,480	10,170
Dividends declared	2,684	1,650
Other	1,983	1,922
Total	80,490	62,153
Deferred Credits:		
Accumulated deferred income taxes (Note 1)	53,572	51,240
Accumulated deferred investment tax credits	24,932	19,093
Revenues subject to possible refund plus interest (Note 5)	26,892	6,379
Other	3,219	3,540
Total	108,615	80,252
Reserves	998	863
Commitments and Contingencies (Note 4)		
Total	$1,311,433	$1,124,177

See Notes to Financial Statements

STATEMENTS OF INCOME AND RETAINED EARNINGS

For the Years Ended December 31, 1975 and 1974

	1975	1974
	In Thousands	
Statement of Income		
Operating Revenues (Note 5)	$309,065	$294,243
Operating Expenses:		
Operation:		
Fuel	76,322	83,840
Purchased power	56,022	55,936
Other	41,239	32,528
Maintenance	13,684	11,072
Depreciation	33,790	23,885
Taxes other than income taxes	17,989	13,973
Income taxes (Note 1)	16,072	9,641
Total	255,118	230,875
Operating Income	53,947	63,368
Other Income and Deductions:		
Allowance for funds used during construction	18,978	25,486
Miscellaneous—net	3,020	2,795
Income taxes (Note 1)	5,111	(1,443)
Total	27,109	26,838
Interest Charges:		
Interest on long-term debt	40,553	32,554
Other interest—net of debt premium	3,894	3,366
Total	44,447	35,920
★Net Income (Note 5)	$ 36,609	$ 54,286
★Income from revenues	$ 17,631	$ 28,800
Non-cash income from allowance for funds	18,978	25,486
Net Income	$ 36,609	$ 54,286
Statement of Retained Earnings		
Retained Earnings, January 1	$ 40,593	$ 36,827
Add—Net income	36,609	54,286
Total	77,202	91,113
Deduct—Cash dividends:		
Preferred stock—at prescribed rates of each series	8,034	6,682
Common stock*	33,251	43,838
Total	41,285	50,520
Retained Earnings, December 31 (Note 3)	$ 35,917	$ 40,593

*Includes in 1974, a $15,000,000 special dividend paid to the parent company which was concurrently reinvested in the Company's common stock.

See Notes to Financial Statements.

STATEMENT OF SOURCE OF FUNDS FOR UTILITY PLANT ADDITIONS

For the Years Ended December 31, 1975 and 1974

	1975	1974
	In Thousands	
Source of Funds:		
From operations:		
Net income	$ 36,609	$ 54,286
Depreciation	33,790	23,885
Deferred income taxes and investment tax credit adjustments—net	8,170	13,828
Allowance for funds used during construction	(18,978)	(25,486)
Total	59,591	66,513
Dividends declared:		
Preferred stock	(8,034)	(6,682)
Common stock*	(33,251)	(43,838)
Total	(41,285)	(50,520)
Funds retained in business	18,306	15,993
From (increase) decrease in working capital (excluding short-term securities)	28,657	(33,165)
From sale of nuclear fuel		31,186
Less funds used for:		
Advances for fuel oil purchases	(8,058)	(2,806)
Investments in associated company	995	(8,714)
Miscellaneous—net	20,219	8,102
Total	60,119	10,596
From issuance (retirement) of securities:		
Common stock*	45,000	35,000
Preferred stock	60,000	
First mortgage bonds:		
Issues	40,000	100,000
Retirements		(30,000)
Debentures		(4,475)
Short-term securities—net	(34,104)	49,822
Total	110,896	150,347
TOTAL	$171,015	$160,943
UTILITY PLANT ADDITIONS:		
Construction expenditures (excludes allowance for funds used during construction)	$151,056	$156,647
Fabrication costs of nuclear core	2,434	5,376
Other plant additions—net	17,525	(1,080)
TOTAL	$171,015	$160,943

*Includes in 1974, a $15,000,000 special dividend paid to the parent company which was concurrently reinvested in the Company's common stock.

See Notes to Financial Statements

SCHEDULE OF PREFERRED STOCK AND LONG-TERM DEBT

Preferred Stock	Shares Authorized	Shares Outstanding 1975	Shares Outstanding 1974	Current Call Price Per Share
CUMULATIVE $100 PAR VALUE:				
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	104.33
7.32% series	100,000	100,000	100,000	104.67
7.80% series	150,000	150,000	150,000	109.10
7.40% series	200,000	200,000	200,000	108.35
7.88% series	150,000	150,000	150,000	108.91
10.60% series*	200,000	200,000		112.04
11.04% series*	400,000	400,000		112.54
Unissued	886,500			
TOTAL	2,500,000	1,613,500	1,013,500	
		In Thousands		
STATED AT $100 A SHARE		$161,350	$101,350	
PREMIUM ON PREFERRED STOCK		370	307	
TOTAL		$161,720	$101,657	

Long-Term Debt	1975	1974
FIRST MORTGAGE BONDS:	In Thousands	
2-7/8% series due 1977	$ 11,000	$ 11,000
3-1/8% series due 1978	7,500	7,500
2-7/8% series due 1979	8,700	8,700
2-7/8% series due 1980	6,000	6,000
3-5/8% series due 1981	8,000	8,000
9-1/4% series due 1981	60,000	60,000
3-1/2% series due 1982	15,000	15,000
3-1/4% series due 1984	7,500	7,500
3-3/8% series due 1985	18,000	18,000
4-7/8% series due 1991	12,000	12,000
4-3/8% series due 1993	15,000	15,000
4-5/8% series due 1995	25,000	25,000
5-3/4% series due 1996	25,000	25,000
5-7/8% series due 1997	30,000	30,000
7-3/8% series due 1998	15,000	15,000
9-1/4% series due 1999	25,000	25,000
9-5/8% series due 2000	25,000	25,000
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	
Total first mortgage bonds**	583,700	543,700
UNAMORTIZED PREMIUM ON LONG-TERM DEBT	2,618	2,584
TOTAL	$586,318	$546,284

*Commencing in the year 1980, and annually thereafter, 10,000 shares of the 10.60% series and 20,000 shares of the 11.04% series must be redeemed at $100 per share plus accumulated dividend to date of redemption.

**Annual sinking fund requirements, which may be met by certification of property additions at the rate of 167% of such requirements, amount to $5,537,000 in 1976.

See Notes to Financial Statements.

Notes to Financial Statements

ncome Taxes

Income tax expense consists of the following:

	1975	1974
Charged to operating expenses:	In Thousands	
Current:		
Federal	$ 6,059	$ (4,965)
State	1,843	778
Total	7,902	(4,187)
Deferred-net:		
Federal	1,968	4,284
State	363	647
Total	2,331	4,931
Investment tax credit adjustments - net	5,839	8,897
Total	16,072	9,641
Charged (credited) to other income & deductions	(5,111)	1,443
Total income tax expense	$10,961	$11,084

Total income tax expense reflects reductions resulting primarily from:

a) the exclusion from taxable income of the allowance for funds used during construction,

b) the effects of currently deducting certain overhead costs, which for book purposes are capitalized as part of the cost of utility plant,

c) the allocated tax benefit of the parent company operating loss, and

d) the difference between straight-line tax depreciation and book depreciation, including nuclear fuel.

The effective income tax rates for 1975 and 1974 were 23.0% and 17.0%, respectively.

The provision for deferred income tax expense represents principally the net amounts resulting from the excess of liberalized tax depreciation and amortization over the straight-line tax depreciation and amortization, less the taxes on unbilled revenues related to meters read before the end of the year but billed in the subsequent year, and revenues collected subject to refund which are deferred for accounting purposes.

The Federal income tax returns for the years 1967 through 1970 have been examined and assessments have been proposed by the Internal Revenue Service which are or will be protested; also, the years 1971-1975 remain open. Management is of the opinion that adequate provisions have been made for any taxes that may ultimately be assessed.

2. Lines of Credit and Short-Term Borrowings

The Company has arrangements with certain banks and a commercial paper dealer providing for short-term borrowings of up to $95,000,000. Accounts are maintained with certain lending Arkansas banks and, although balances in some of these accounts may be deemed to be compensating balances, most of these accounts are working accounts and fluctuations in their balances do not reflect or depend upon fluctuations in the amounts of bank loans outstanding. In support of the arrangements with non-Arkansas banks, the Company maintains compensating balances ($4,000,000 at December 31, 1975) equal to 2½% to 10% of the lines of credit with these banks which are not restricted as to withdrawal. Borrowing under these arrangements requires compensating balances of 10% to 20% of the average annual amount of outstanding loans from these banks. The amount of the unused lines of credit as of December 31, 1975, was $95,000,000.

The bank and commercial paper notes are unsecured short-term loans with various maturity dates not in excess of nine months. Interest rates on bank loans are the prime rates in effect from time to time of the lending banks. During 1975 the maximum aggregate amount of short-term borrowings outstanding at the end of any month was $60,608,000. The average amount of short-term borrowings outstanding during 1975 (based on the average of the sum of daily outstanding principal balances) approximated $4,827,000 of bank loans and $19,625,000 of commercial paper. The approximate average interest rate (determined by dividing the actual interest expense on short-term borrowings during the year by the average short-term borrowings) was 7.43% for bank loans and 6.96% for commercial paper.

3. Retained Earnings

The indenture relating to the Company's long-term debt provides for restrictions on the payment of cash

dividends on common stock. As of December 31, 1975, $26,837,000 of retained earnings are free from such restrictions.

4. Commitments and Contingencies

The Company's construction program contemplates expenditures of approximately $204,100,000 in 1976.

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

The Company has made loans to SFI to further its fuel supply business under certain loan agreements which provide for SFI to borrow from its stockholders up to $156,500,000. As of December 31, 1975, the Company had loaned $16,975,000 to SFI pursuant to the loan agreements, and the Company's share of the unused loan commitment is approximately $34,560,000. Loans mature in 10 and 25 years from the date of borrowing.

In connection with certain bank borrowings by SFI totaling $42,435,000 at December 31, 1975, the Company and the other SFI stockholders have covenanted and agreed severally in accordance with their respective shares of ownership of SFI's common stock, that they will take any and all action necessary to keep SFI in a sound financial condition and to place SFI in a position to discharge, and to cause SFI to discharge, its obligations to the lending banks.

During 1974, SFI entered into a contract with ECOL Ltd. (ECOL), a non-affiliated company, to purchase over a twenty-year period up to 50,000 barrels per day of No. 6 fuel oil to be produced in a refinery being constructed by ECOL in Louisiana. Deliveries of the refined oil to SFI are scheduled to commence in late 1976. The construction of the refinery is being financed in part by monthly advance payments for oil by SFI aggregating $67,500,000. These funds are being supplied to SFI by the Company and the other SFI stockholders as prepayments for future deliveries of oil. The Company's share of the prepayment is $23,625,000 of which $9,860,000 had been advanced through December 31, 1975. The prepayments plus interest thereon are to be repaid in fuel oil deliveries through the tenth contract year.

On June 25, 1975, the Company announced that, due to economic factors, the completion dates for its two coal-fueled units at the White Bluff Steam Electric Generating Station (White Bluff Plant) site had been extended from 1978 to 1979 for Unit No. 1 and from 1979 to 1981 for Unit No. 2. Subsequently, a decision to effect an orderly shutdown of construction of the White Bluff Plant was announced due to the failure of the Company to receive necessary rate relief. The shutdown of construction of the White Bluff Plant is presently scheduled to continue until approximately July, 1976. However, resumption of construction at that time is dependent upon the outcome of pending rate proceedings and the ability of the Company to raise adequate capital funds. Without an increase in earnings from operations (which will be largely dependent upon receiving fair and adequate rate relief) the Company will be precluded from issuing additional first mortgage bonds, except for refunding purposes, and additional shares of preferred stock. At December 31, 1975, approximately $82,000,000 in costs related to the White Bluff Plant were included in construction work in progress.

5. Rate Increase

On September 1, 1974, the Company placed in effect, subject to refund with interest, revised retail rate schedules designed to yield approximately $38,600,000 in additional annual revenues. In its order dated March 14, 1975, the Arkansas Public Service Commission (APSC) approved rate increases which would yield approximately $20,200,000 annually, and ordered the Company to refund all revenues collected in excess of that amount. The Company filed a petition for rehearing with the APSC; such petition for rehearing was deemed denied on May 2, 1975. On May 13, 1975, the Company filed a petition with the Circuit Court of Pulaski County, Arkansas, to review, partially set aside and modify the order of the APSC. The decision of that court, which is subject to appeal, was issued subsequent to December 31, 1975, upholding the APSC order.

Until December 23, 1975, the Company continued to bill its retail customers on the basis of the full rates placed in effect on September 1, 1974. However, pending final decision by the courts, the Company decided to defer, for accounting purposes, the difference between the amounts billed, retroactive to September 1, 1974, and the amounts allowed by the APSC and to accrue interest on the amounts so deferred. Consequently, the Financial Statements for 1974 have been restated. The effect of this action is to reduce operating revenues and net income for 1974 from previously reported amounts by $6,274,000 and $3,118,000, respectively, and for 1975 by $18,978,000 and $10,027,000, respectively.

On December 23, 1975, the Company placed in effect, subject to refund with interest, revised retail rate schedules designed to yield approximately $34,300,000 in annual revenues (reduced from the $56,000,000 re-

quested by the Company by order of APSC of October 29, 1975) in addition to those allowed by the APSC order of March 14, 1975

On January 1, 1974 and December 1, 1975, the Company placed in effect, subject to refund with interest, revised wholesale rate schedules designed to yield approximately $2,400,000 and $8,400,000, respectively, in additional annual revenues. Hearings have been held on the first increase with additional hearings to be held in early 1976. Hearings are expected to be held in 1976 on the second proposed increase.

Operating revenues for 1975 and 1974 include approximately $4,900,000 and $3,093,000, respectively, from increases under rate schedules placed in effect at various dates during the periods, subject to refund with interest.

6. Leases

On June 25, 1974, the Company sold to Southwest Fuel Company (an unaffiliated company) the initial core of nuclear fuel for Unit No. 1 of Arkansas Nuclear One for $31,185,701, representing book value. On the same date, acting pursuant to a Memorandum Opinion and Order issued by the Securities and Exchange Commission, the Company entered into a $40,000,000 fuel lease with Southwest Fuel Company under which Southwest Fuel Company leased the said nuclear fuel to the Company and agreed to lease additional fuel in the future for said Unit No. 1. Lease payments are based upon nuclear fuel use. The nuclear plant was placed into commercial operation on December 19, 1974, and $12,157,000 and $466,000 of nuclear fuel lease expense were charged to operations in 1975 and 1974, respectively. The lease, unless sooner terminated by one of the parties, will continue through December 31, 2013.

Subject to approval by the Securities and Exchange Commission, the Company has made a commitment to enter into an agreement with Razorback Nuclear Properties, Inc. (an unaffiliated company) to sell its interest in the supply of nuclear fuel for the initial core of Unit No. 2 of Arkansas Nuclear One, and simultaneously enter into a $50,000,000 fuel lease. The fuel company will pay the Company its book value at date of closing and will make additional payments to suppliers, processors and manufacturers, necessary to carry out the terms of the Company's contracts for nuclear fuel for Unit No. 2. Unit No. 2 lease payments will be based upon nuclear fuel use. It is expected that the fabrication of the initial core will be completed in 1977 and that fuel loading will commence in 1977. Annual lease payments, based on normal generation and an investment in the initial fuel core of approximately $30,000,000, will be approximately $16,000,000 and will be treated as cost of fuel. The lease, unless sooner terminated by one of the parties, will continue through June 30, 2018.

Rental expense under leases currently in effect, excluding the nuclear fuel lease, is not material.

7. Accounting Policies

The summary of significant accounting policies on page 3 is an integral part of these notes to financial statements.

Accountants' Opinion

HASKINS & SELLS
Certified Public Accountants

Ten Broadway
Saint Louis, Missouri 63102

Arkansas Power & Light Company:

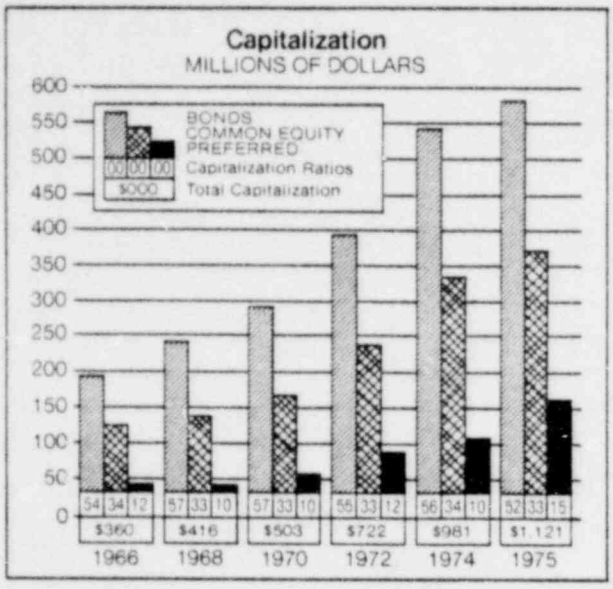
We have examined the balance sheet of Arkansas Power & Light Company as of December 31, 1975 and 1974 and the related statements of income, retained earnings, and source of funds for utility plant additions for the years then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

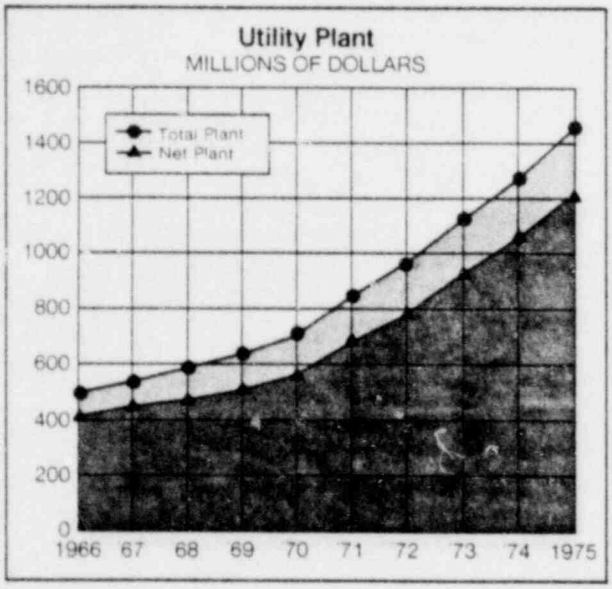
As discussed in Note 5 to financial statements, the Company has placed into effect electric rate increases which are subject to refund with interest and has excluded, retroactive to September 1, 1974, from operating revenues the amount disallowed by the Arkansas Public Service Commission in its order dated March 14, 1975, pending final adjudication of that order.

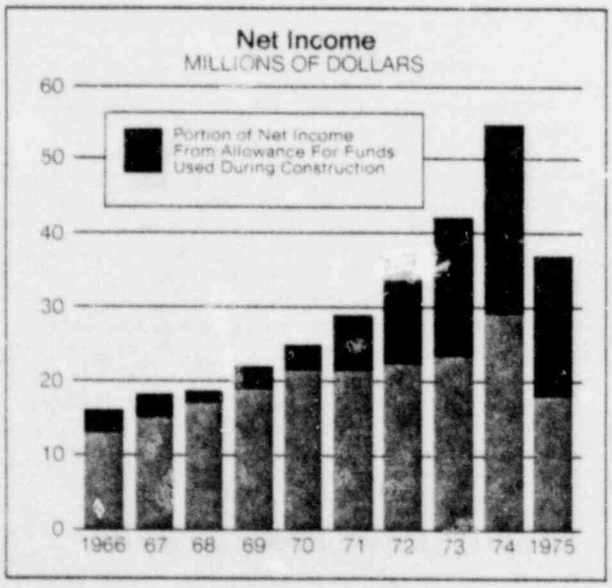
In our opinion, subject to the settlement of the rate matters referred to above, the above-mentioned financial statements present fairly the financial position of the Company at December 31, 1975 and 1974 and the results of its operations and its sources of funds for utility plant additions for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

January 30, 1976

/s/ HASKINS & SELLS







Ten Years of Progress/Financial

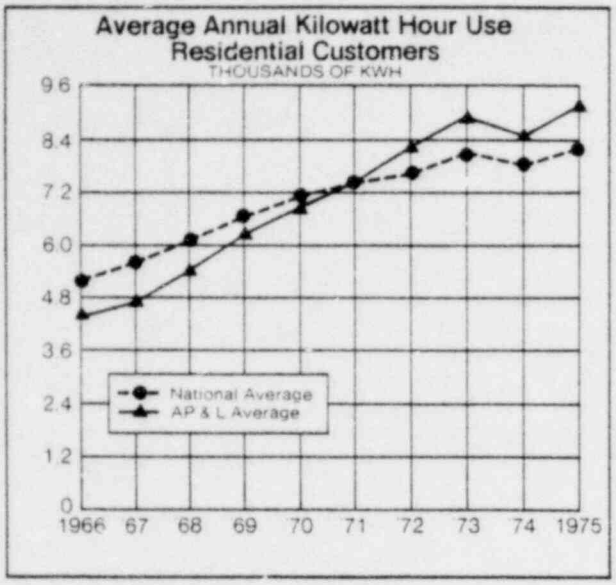
(In Thousands of Dollars)	1975
Capitalization—End of period:	
Equity capital:	
Preferred stock and premium	$ 161,72
Common stock	337,37
Retained earnings	35,91
Total	535,01
Long-term debt:	
First mortgage bonds and premium[1]	586,31
Sinking fund debentures	
Total	586,31
Total capitalization	$1,121,33
Annual Payment Requirements:	
Interest on first mortgage bonds	$ 42,83
Dividends on preferred stock	13,13
Utility Plant—End of period:	
Electric plant completed	$1,097,91
Construction work in progress	350,94
Nuclear fuel	8,17
Total utility plant	1,457,03
Less—accumulated depreciation	240,01
Net utility plant	$1,217,01
Income Statement:	
Operating revenues[2]	$ 309,06
Operating expenses:	
Fuel	76,32
Purchased power	56,02
Payroll—Operation and maintenance	24,28
Other operation and maintenance	30,63
Depreciation	33,79
Taxes[2]	34,06
Total	255,11
Operating income	53,94
Other income and deductions—net (excluding allowance for funds used during construction)	8,13
Interest and other charges:	
Interest on long-term debt	40,55
Other interest—net of debt premium[2]	3,89
Total	44,44
Income from revenues	17,63
Non-cash income from AFDC*	18,97
Net income	$ 36,60

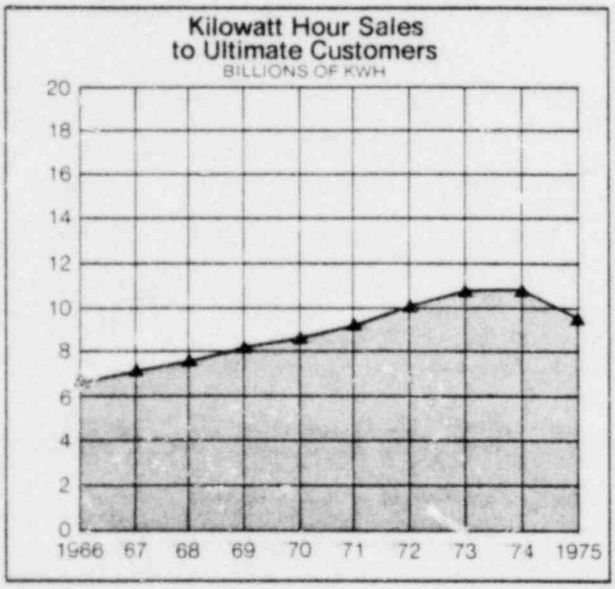
[1]Includes unamortized premium on long-term debt beginning in 1973.

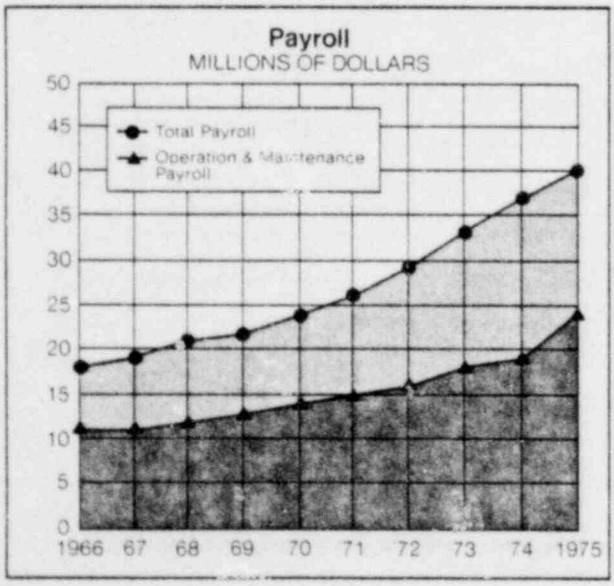
[2]1974 has been restated to reflect the effect of deferring the difference in rev-nues between new retail rates placed into effect on September 1, 1974 and t amount allowed by the Arkansas Public Service Commission in its order March 14, 1975.

*AFDC - Allowance for funds used during construction.

1974	1973	1972	1971	1970	1969	1968	1967	1966
$ 101,657	$101,657	$ 86,615	$ 51,529	$ 51,529	$ 51,529	$ 41,487	$ 41,487	$ 41,487
292,375	257,375	202,375	172,375	137,375	121,375	111,375	102,750	99,750
40,593	36,827	34,714	31,043	25,982	26,582	23,954	27,736	24,427
434,625	395,859	323,704	254,947	214,886	199,486	176,816	171,973	165,664
546,284	476,354	393,700	343,700	283,700	258,700	233,700	218,700	188,700
	4,475	4,475	4,700	4,925	5,150	5,375	5,600	5,825
546,284	480,829	398,175	348,400	288,625	263,850	239,075	224,300	194,525
$ 980,909	$876,688	$721,879	$603,347	$503,511	$463,336	$415,891	$396,273	$360,189
$ 38,787	$ 29,974	$ 23,524	$ 19,687	$ 15,000	$ 12,593	$ 10,281	$ 9,174	$ 7,412
6,600	6,600	5,418	2,768	2,768	2,768	2,036	2,036	2,036
$1,051,248	$762,319	$727,558	$684,668	$658,853	$587,608	$563,176	$540,917	$451,002
215,794	330,585	216,055	151,797	49,595	56,557	28,808	7,690	49,015
5,229	29,953	26,722	9,148					
1,272,271	1,122,857	970,335	845,613	708,448	644,165	591,984	548,607	500,017
211,456	193,400	175,144	160,665	145,712	131,726	120,060	108,114	98,796
$1,060,815	$929,457	$795,191	$684,948	$562,736	$512,439	$471,924	$440,493	$401,221
$ 294,243	$209,327	$184,810	$166,063	$149,317	$136,044	$118,943	$105,516	$ 97,058
83,840	46,605	36,648	30,151	27,124	20,516	17,187	10,639	12,910
55,936	28,737	25,334	16,705	9,592	13,808	9,052	14,663	8,223
19,486	17,647	15,731	14,841	13,840	13,108	12,045	11,124	10,780
24,114	19,416	16,799	15,621	14,501	12,396	11,206	9,421	9,249
23,885	21,373	19,609	18,742	17,400	16,059	15,060	12,970	12,212
23,614	25,766	25,288	30,235	31,110	29,375	26,685	21,955	21,470
230,875	159,544	139,409	126,295	113,567	105,262	91,235	80,772	74,844
63,368	49,783	45,401	39,768	35,750	30,782	27,708	24,744	22,214
1,352	572	45	75	(127)	(149)	(179)	(66)	(87)
32,554	25,528	21,843	17,750	13,594	10,543	9,888	8,976	7,343
3,366	1,557	1,002	592	701	1,164	635	439	493
35,920	27,085	22,845	18,342	14,295	11,707	10,523	9,415	7,836
28,800	23,270	22,601	21,501	21,328	18,926	17,006	15,263	14,291
25,486	18,676	14,170	7,407	3,429	2,878	1,405	3,039	1,425
$ 54,286	$ 41,946	$ 36,771	$ 28,908	$ 24,757	$ 21,804	$ 18,411	$ 18,302	$ 15,716







Ten Years of Progress/Operating 1975

Electric Operating Revenues:	
(In Thousands of Dollars)	
Residential	$109,25
Commercial	64,76
Industrial—Aluminum processing	12,65
Industrial—Other	66,43
Government and municipal	7,62
Revenue adjustment[1]	(20,37
Total from ultimate customers	240,35
Public utilities	65,34
Miscellaneous revenues	3,36
Total electric operating revenues	$309,06
Electric Sales (Millions of Kilowatt Hours):	
Residential	3,38
Commercial	2,07
Industrial—Aluminum processing	1,01
Industrial—Other	2,84
Government and municipal	29
Total sales to ultimate customers	9,60
Public utilities	3,54
Total energy sold	13,15
Number of customers—end of year:	
Residential	371,49
Commercial	45,65
Industrial—Aluminum processing	
Industrial—Other	10,43
Government and municipal	1,44
Total ultimate customers	429,02
Public utilities	
Total customers	429,05
Electric Energy:	
Source and disposition (Millions of Kilowatt Hours)	
Generated—net station output	
Gas	2,64
Oil	2,24
Nuclear	4,87
Hydro	1
Total generated	9,93
Purchased	4,07
Net interchange	10
Total	14,10
Less: Company uses, losses and unaccounted for	95
Total energy sold	13,15
Peak demand (Megawatts)	2,86

[1]The adjustment for 1974 and $18,978,000 of the adjustment for 1975 reflect t effect of deferring the difference in revenues between new retail rates plac into effect on September 1, 1974, and the amount allowed by the Arkans Public Service Commission in its order of March 14, 1975.

In addition, $1,395,000 was accrued in 1975 for a refund, which was made January 1976, resulting from an order of the APSC relating to the appropri date for placing the 1975 retail rate request into effect.

1974	1973	1972	1971	1970	1969	1968	1967	1966
$ 87,329	$ 68,098	$ 57,976	$ 49,718	$ 45,230	$ 41,045	$ 36,998	$ 33,656	$ 31,552
53,975	43,448	38,092	33,989	31,214	28,697	26,575	24,631	22,731
28,061	17,358	14,803	13,132	12,334	12,147	12,173	11,247	8,523
60,601	43,865	36,380	31,141	27,930	27,246	25,057	22,740	21,322
6,126	4,737	4,248	3,836	3,594	3,424	3,139	2,952	2,789
(6,274)								
229,818	177,506	151,499	131,816	120,302	112,559	103,942	95,226	86,917
61,169	28,942	30,392	32,209	27,067	21,934	13,894	9,172	9,338
3,256	2,879	2,919	2,038	1,948	1,551	1,107	1,118	803
$294,243	$209,327	$184,810	$166,063	$149,317	$136,044	$118,943	$105,516	$ 97,058
3,077	3,103	2,770	2,393	2,182	1,917	1,644	1,401	1,300
1,893	1,903	1,753	1,614	1,503	1,373	1,247	1,116	1,025
2,569	2,594	2,569	2,540	2,574	2,574	2,564	2,511	2,312
3,042	2,920	2,702	2,426	2,230	2,170	1,969	1,753	1,677
284	290	285	276	265	262	242	229	233
10,865	10,810	10,079	9,249	8,754	8,296	7,666	7,010	6,547
3,640	2,899	3,382	4,594	4,906	4,123	2,470	1,297	1,259
14,505	13,709	13,461	13,843	13,660	12,419	10,136	8,307	7,806
364,954	355,673	343,468	330,566	318,732	311,815	306,950	301,335	296,211
44,957	44,073	43,188	46,785	45,606	44,771	44,195	43,747	42,930
1	1	1	1	1	1	1	1	1
9,926	9,508	9,175	4,733	4,638	4,532	4,428	4,259	4,076
1,396	1,317	1,282	1,235	1,188	1,131	1,085	1,043	1,002
421,234	410,572	397,114	383,320	370,165	362,250	356,659	350,385	344,220
25	25	24	71	75	75	78	73	77
421,259	410,597	397,138	383,391	370,240	362,325	356,737	350,458	344,297
3,209	3,919	5,932	7,630	9,676	7,386	6,416	4,000	5,586
3,920	4,089	2,484	1,496	382	177	82	21	14
171								
230	321	125	92	133	139	208	97	112
7,530	8,329	8,541	9,218	10,191	7,702	6,706	4,118	5,712
7,670	5,890	5,944	5,474	4,268	5,467	4,078	4,874	2,743
181	361	10	17	36	41	88	(62)	(43)
15,381	14,580	14,495	14,709	14,495	13,210	10,872	8,930	8,412
876	871	1,034	866	835	791	736	623	606
14,505	13,709	13,461	13,843	13,660	12,419	10,136	8,307	7,806
3,049	2,744	2,607	2,565	2,312	2,176	1,927	1,710	1,692

Directors

Lawrence Blackwell
Attorney
Pine Bluff, Arkansas
Elected 1958

Richard C. Butler
Chairman of the Board
Commercial National Bank
Little Rock, Arkansas
Elected 1967

L. C. Carter
President
Riceland Foods
Stuttgart, Arkansas
Elected 1960

Floyd L. Lewis
President
Middle South Utilities, Inc.
New Orleans, Louisiana
Elected 1971

William C. Nolan, Jr.
Attorney
El Dorado, Arkansas
Elected 1971

J. D. Phillips
Senior Vice President
of the Company
Pine Bluff, Arkansas
Elected 1972

Robert D. Pugh
Partner, Pugh and Company
Portland, Arkansas
Elected 1971

Reeves E. Ritchie
President of the Company
Little Rock, Arkansas
Elected 1962

Dr. Marshall T. Steel
President Emeritus
Hendrix College
Hot Springs, Arkansas
Elected 1967

R. E. L. Wilson
President
Lee Wilson and Company
Wilson, Arkansas
Elected 1967

Arkansas Power & Light Company Service Area

Arkansas Power & Light Company owns electric facilities in 62 of Arkansas' 75 counties. At December 31, 1975, the Company furnished retail electric energy in 252 incorporated municipalities. AP&L also furnished power at wholesale to eight municipalities, three rural electric cooperatives, one association of rural electric cooperatives, and one small investor-owned system. AP&L's system is interconnected with and operated as a part of the Middle South Utilities System, which supplies the power requirements of more than 1.3 million customers in a 92,000-square-mile area of Arkansas, Louisiana, Mississippi and Southeast Missouri.

Officers

Reeves E. Ritchie
President
AP&L since 1936

W. M. Murphey
Senior Vice President
AP&L since 1936

Ar Pettit
Se Vice President
AP&L since 1969

J. D. Phillips
Senior Vice President
AP&L since 1963

Jerry L. Maulden
Vice President
Treasurer & Secretary
AP&L Since 1965

Charles L. Steel
Vice President
AP&L since 1970

W. A. Mebane
Assistant Treasurer &
Assistant Secretary
AP&L since 1944

Mrs. Helen Leftwich
Assistant Secretary
AP&L since 1961

Company Directory

Transfer Agents for Preferred Stock—*Union National Bank of Little Rock, 1 Union National Plaza, Little Rock, Arkansas 72203, and The Commercial National Bank of Little Rock, Second and Main Streets, Little Rock, Arkansas 72203*

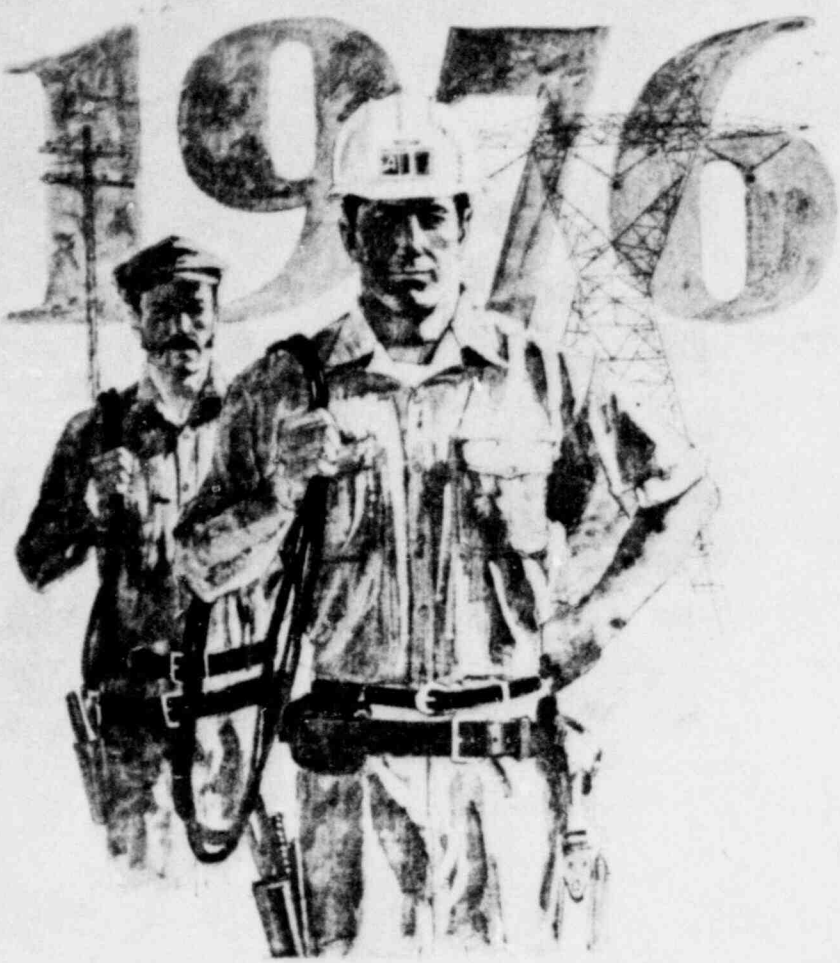
Registrar for Preferred Stock—*The First National Bank in Little Rock, Capitol and Broadway Streets, Little Rock, Arkansas 72203*

Certified Public Accountants—*Haskins & Sells, Ten Broadway, Saint Louis, Missouri 63102*

Executive Office—*The First National Building, Little Rock, Arkansas 72203, Phone (501) 371-4000*

Engineering Office—*Sixth Avenue and Pine Streets, Pine Bluff, Arkansas 71601, Phone (501) 534-1330*

Annual Meeting—*Fourth Thursday of May*



AMERICAN REVOLUTION BICENTENNIAL 1776-1976

200 YEARS
OF PROGRESS
FOR AMERICA

ARKANSAS
MIDDLE SOUTH
UTILITIES SYSTEM

63 YEARS
OF SERVICE
TO ARKANSAS

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