



Arkansas Power & Light Company
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March 30, 1990

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U. S. Nuclear Regulatory Commission
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Subject: Arkansas Nuclear One - Units 1 & 2
Docket Nos. 50-213 and 50-368
License Nos. DPR-51 and NPF-6
1989 Annual Financial Report

Gentlemen:

In accordance with 10CFR50.71(b) and 10CFR140.15(b)1, enclosed are 20 copies of the 1989 Annual Financial Report for Arkansas Power and Light Company. This report contains certified financial statements for the fiscal years 1987, 1988, and 1989. The financial statements include balance sheets, operating statements, plus supporting schedules which may be needed for interpretation of the balance sheets and operating statements.

Very truly yours,

James J. Fisicaro
Manager, Licensing

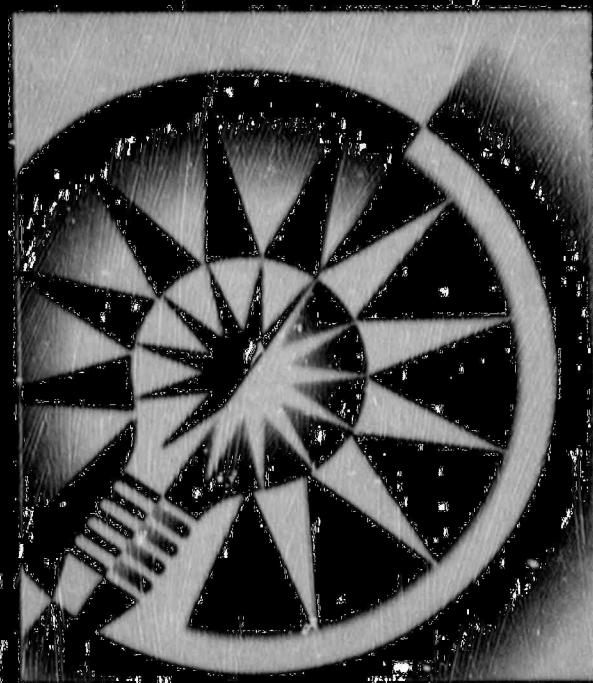
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AP&L

1989 Annual Report





AP&L

1997 Annual Report





Our cover illustration symbolizes innovation — ideas that illuminate new horizons. The symbol also signifies electricity — a breakthrough technology that has made possible much of the progress of the last century.



For most of that century, Arkansas Power & Light Company has supplied electricity to the people and businesses of Arkansas and southeastern Missouri. A subsidiary of Entergy Corporation, AP&L forms part of the four-state Middle South Electric System. For a description of the Company's business and a map of the System's service area, see the inside back cover.

PERFORMANCE HIGHLIGHTS

Arkansas Power & Light Company

	1989	1988	% Increase/ (Decrease)
Total operating revenues (millions)	\$1,382	\$1,357	1.8
Operation and maintenance expenses (millions)	\$1,072	\$1,114	(3.8)
Allowance for funds used during construction (millions)	\$ 5	\$ 11	(54.5)
Net income (millions)	\$ 132	\$ 131	0.7
Capitalization—at year-end (millions)	\$2,529	\$2,499	1.2
Construction expenditures (millions)	\$ 138	\$ 136	1.5
Total utility plant—at year-end (millions)	\$4,265	\$4,134	3.2
Electric customers—at year-end	595,708	589,921	1.0
Energy sales to retail customers (million kwh)	14,575	14,345	1.6
Employees—at year-end	4,765	4,673	2.0
Peak demand (megawatts)	3,691	3,893	(5.2)
Average residential use per customer (kwh)	9,950	10,229	(2.7)
Average commercial use per customer (kwh)	57,355	57,478	(0.2)

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CHAIRMAN'S/PRESIDENT'S LETTER

Arkansas Power & Light Company

For AP&L, 1989 was a watershed year. We cast off the rigid, traditional ways of a regulated monopoly and embraced a vision characterized by an entrepreneurial spirit, creativity and the aggressive pursuit of change. Groundbreaking ideas were generated and put into effect like never before.

Events during the year show how these ideas are bearing fruit, how our vision is becoming a brave new reality—for our stockholders, our customers and our employees.



Jerry L. Maulden, R. Drake Keith

Consider these measures of performance:

- The Company's 1989 net income of \$132 million increased slightly over 1988. Net operating income in 1989 increased seven percent.
- The Company's net cash from operating activities prior to reduction for deferred purchased power/excess capacity was \$259 million, which met cash requirements relating to payment of dividends and the Company's construction program.

- In July the Company's financial position allowed it to retire \$50 million in high-cost debt by issuing new, lower cost debt. In addition, in early 1990 the Company repurchased \$100 million of its outstanding common stock as part of its long-term program to reduce the cost of capital.

- Our return on equity, a good "bottom line" indicator of our overall financial strength, was 10.8 percent, a modest increase from 10.7 percent in 1988.

- Revenues from retail sales increased \$45.5 million in 1989, up five percent from 1988. Revenues from industrial sales alone were up \$20.3 million, a jump of seven percent.

- Our industrial sales of electricity increased four percent in 1989. Overall mwh retail sales were up two percent.

- Our non-fuel operations and maintenance expenditures were 0.1 percent below 1988 expenditures, while the rate of inflation for the same period was 4.8 percent. Also, we came in \$6 million below our construction expenditure prediction.

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ithout question, AP&L is a trimmed down, smarter working, more innovative operation than it was a few years ago. Today, stabilizing product costs and increasing customer satisfaction dominate our planning and execution.

In 1986, following two years of public controversy with regulators and customers— a period of high media profile— only 36 percent of our customers had a high positive attitude about us. Today, 62 percent do; 22 percent are neutral and 16 percent say we need to do a better job. In 1989, AP&L was awarded Entergy Corporation's Chairman's Award for excellence in customer service. Solid improvement, yes, but we will continue to pursue improved customer relations through quality performance.

Our Teamwork Arkansas/Missouri program of economic development is maturing into a significant catalyst for economic growth and was a key player in Arkansas' record year in economic development. It accounted for 4,450 new jobs in our service territory; 227,900 mwh were added based on projected sales from new plant locations and plant expansions.

We have aggressively supported programs to improve the job skills of our future work force, with special emphasis on math and science. Our education efforts were selected by the Edison Electric Institute to receive the prestigious Common Goals Award in 1989 for "outstanding achievement in community service." In February, 1990, this program was honored with the Chairman's Award for community service from Entergy Corporation.

These are great strides. But ensuring a profitable future will require ever-increasing innovations on the part of today's electric company.

Project Olive Branch is the best example of what we're doing. It is an effort to make peace with regulators and customers— candid recognition on the part of this Company and its

parent, Entergy Corporation, that if we are to position our Middle South Electric System (System) for tomorrow's competitive environment, we have to be willing to seek new solutions and break with old ways. Components of Project Olive Branch include the write-off of Grand Gulf 2, a partially completed nuclear unit in Mississippi, by System Energy Resources, Inc., another Entergy Corporation subsidiary; a proposal that would remove approximately \$168 million from our books and rate base by the sale of our share of two generating units to form an independent power supply company; a proposed consolidation of management operations for the System's four nuclear units; and a pledge not to seek a general rate increase until at least 1992 if the Arkansas Public Service Commission (APSC) permits the proposed sale and the consolidation. The APSC held hearings in January and February. A ruling is pending.

If the 1980s proved anything, it is that our employees have the ability to meet and conquer tough obstacles. On every rung of the AP&L ladder, our employees take pride in helping carry forward the Company's vision for the future. But in place of rhetoric about dedication and productivity, the Company and the System have initiated for 1990 an incentive program. Called Teamsharing, it ties pay and performance to meeting Company and System goals. Further, it promises to foster greater cohesiveness

within the operating companies and throughout the System, creating a smooth-working team capable of meeting the considerable challenges ahead.

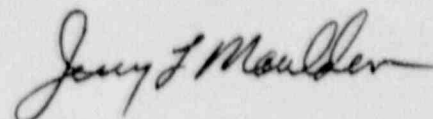
We have our work cut out for us. While our financial position is improved, the future is admittedly somewhat more uncertain. It is more important than ever to improve our competitive position relative to surrounding utilities. That presents great challenges, but if we can continue to market our product and hold down costs, we can, over time, become more competitive.

Our job is clear: balance the desire to cut costs and avoid rate increases with the need to maintain quality service to our customers, market our product and our service area, generate a fair return to our investors and become a more productive and highly motivated work force.

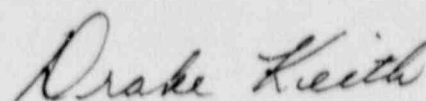
Following the successes of 1989, AP&L embarks on a new decade with a renewed sense of vigor, innovation and achievement.

We're accomplishing what we set out to do.

Our team is winning.



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



R. Drake Keith
President and Chief Operating Officer

THE POWER OF IDEAS

Arkansas Power & Light Company

Ideas are curious things. Nothing so excites controversy, stirs emotions or catalyzes action as a powerful idea. History is the record of ideas playing themselves out in the fabric of human events.

In 1989, the same powerful forces drove AP&L. Ideas and innovation are re-forming our Company, bringing its present actions and future directions into sharp focus.

Ideas are in and of themselves of little consequence. It is only when they are exchanged, grasped hold of and thrust into action that they acquire meaning.

To bring our ideas to fruition, we have developed a five-year business plan which sets forth the Entergy vision: "During the next decade, the Company will become and be widely recognized as a customer-oriented, socially responsible, financially strong, successful competitor in the evolving electric energy business."

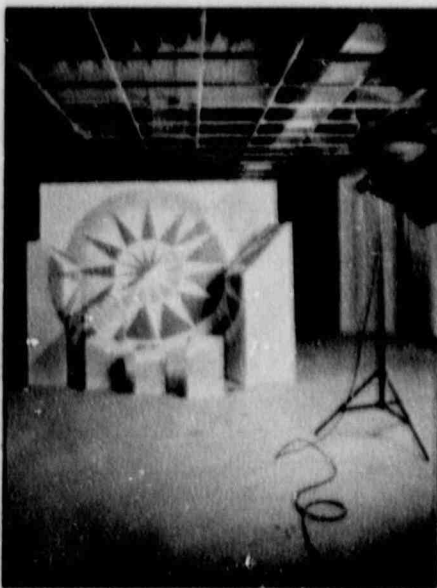
The plan is a living, changing document, revised annually for the next five-year horizon. It states not only sweeping aspirations, but measurable goals which mark our progress. We are well on the way to achieving our vision. In 1989 we operated for the first full year under the plan, and met or exceeded 29 out of 38 major goals.

"I think the most important thing is execution. It doesn't make any difference what you run, as long as you execute, and a well executed play takes practice, timing and confidence." Nolan Richardson, head coach of the Arkansas Razorbacks basketball team, in a message to AP&L employees.

AP&L is feeling the competitive forces that are reshaping the electric industry, and in 1989 continued positioning itself more favorably.

An example is our Precision Pricing program for industry, in which we can offer market rates when energy prices are a determining factor in a decision to locate or co-generate. Precision Pricing was instrumental in attracting the TrefilARBED company to Pine Bluff in 1989, with 400 jobs and 6.5 mw of load. In Malvern, it allowed us to reach an agreement with Willamette Industries and retain 11 mw of load.

"We are seeing evolution, not revolution [in the electric industry]. A tenet of evolution is that only those who can adapt to change will survive." Martha O. Hesse, chairman of the Federal Energy Regulatory Commission.



Ideas are in and of themselves of little consequence. It is only when they are exchanged, grasped hold of and thrust into action that they acquire meaning.

A more sweeping example of our aggressive new positioning is embodied in Project Olive Branch, perhaps one of the most daring initiatives ever advanced by a utility.

A joint proposal by AP&L, Entergy Corporation, System operating companies and System Energy, Project Olive Branch is an attempt to move beyond the more serious regulatory conflict and public controversy that

has dogged us for the past two decades. Its effects promise to be far-reaching.

In exchange for the write-off of Grand Gulf 2, we will see an end to most of the litigation involving our attempt to recover the costs of Grand Gulf 1. The proposed formation of Entergy Power as an independent power producer would remove approximately \$168 million from our rate base with its purchase of our interest in two generating units and is a key to avoiding a general rate increase. But just as importantly, it would position our Company and the System at the forefront of the new competitive environment.

Project Olive Branch is an unprecedented move for any electric system, but it is already paying off in an improved operating, political, regulatory and financial environment. It should set the stage for us to move confidently into the 1990s.

"I feel like the company and the state of Arkansas as a whole will get some benefit from stopping the litigation and having a period of peace where maybe AP&L could concentrate on some of the economic development issues it's been doing some fine work on..." Mary Stallecup, Arkansas deputy attorney general, quoted in the Arkansas Democrat, Nov. 12, 1989.

Critical to AP&L's carving a more competitive market position is avoiding a general rate increase—which in turn rests on its success in containing costs. We are building a value-conscious corporate culture, which recognizes the importance of saving money in every facet of our operation—from plant construction to paper clips.

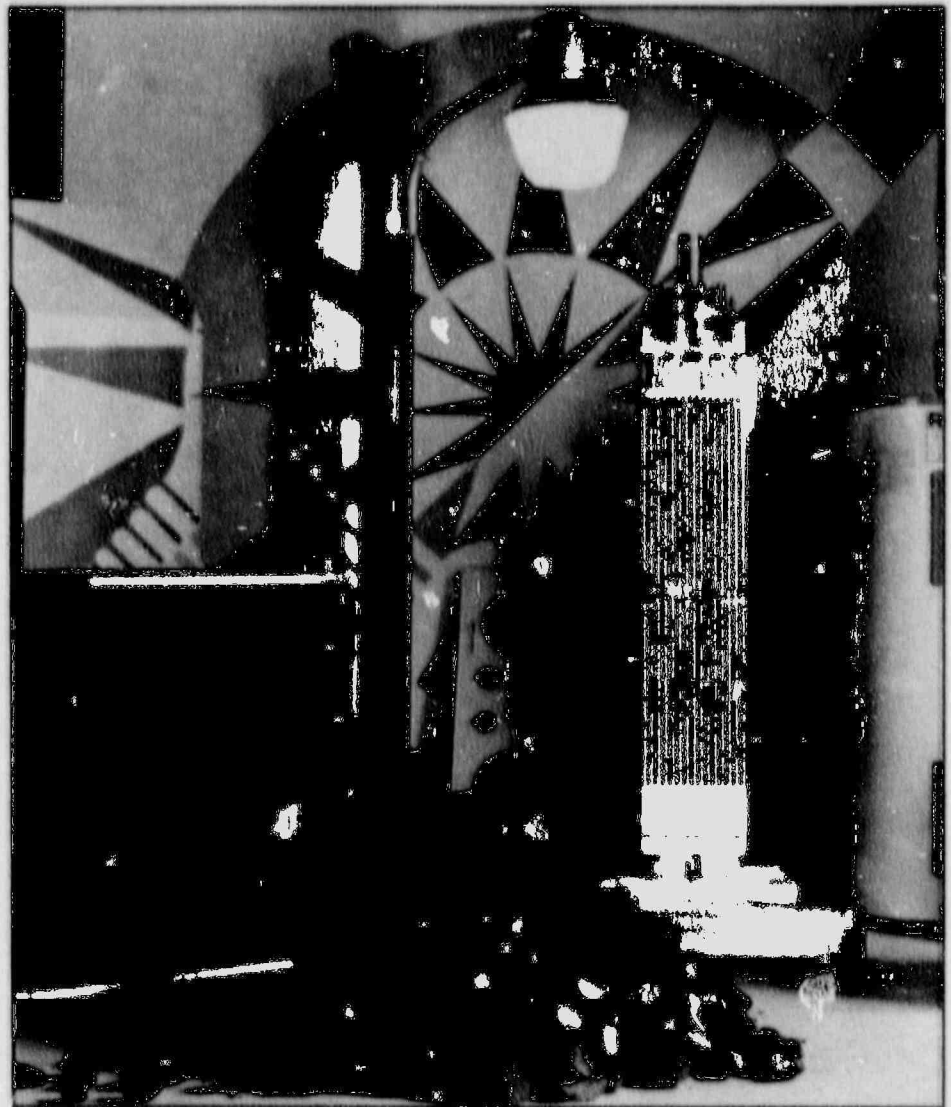
A simple example of how this attitude is working where the work is being done: In the Jacksonville business office, four meter readers were underutilized, while two employees who handled collections had a workload beyond their abilities. The group brainstormed the problem and hit on a solution: all would read meters one-half a day and handle collections the other half. The result: delinquencies were cut by over two-thirds, and overall productivity climbed.

"The large dollar saving ideas have already been identified. Future savings will for the most part be the result of an accumulation of many individually small efforts that over time would have a large impact..."
From the report of an AP&L task force charged with identifying ways to improve the Company's rate of return on common equity.

We are working under a fairly simple equation. To avoid a general rate increase, our profits must outpace costs. Marketing saw tremendous advances in 1989—exceeding goals by a resounding 90 percent. To achieve that, we employed aggressive, incentive-driven tactics and fostered a marketing/customer awareness throughout the Company.

A new non-residential lighting program had everybody selling in 1989. A renewed emphasis on involving all employees in marketing turned clerks, linemen and others into some of the Company's most aggressive and successful business development personnel. Sales were 776 percent of the goal, accounting for 3,117 kw added load and \$1.6 million in new revenue.

In another effort, home comfort and customer satisfaction with heat



Competitive forces in the industry not only challenge AP&L to become more market- and customer-driven, but demand that it become more effective in the generation and transmission of its product.

pumps has risen since the Arkansas Heat Pump Association began educating contractors in proper installation. AP&L's heat pump sales were up 27 percent in 1989 over 1988.

"It started with some people of vision ... who took a risk ... Through a lot of people's efforts, we've seen this idea grow from an idea into a pretty powerful, pretty strong organization." Jim Brown of Mountain Home, president of the Arkansas Heat Pump Association, on AP&L's involvement in its founding.

Results in 1989 show that our vision of Teamwork Arkansas/Missouri is an idea whose time has come. The five-year, \$15 million effort begun in 1987, fosters development through private-public partnership. AP&L specialists work on the one hand to help communities become more development-savvy, and on the other hand work locally, nationally and internationally to develop leads for new or expanding industries.

The bottom line results for 1989? Recruiting trips, mailings and trade journal ads identified 419 prospects

THE POWER OF IDEAS

Arkansas Power & Light Company

and generated 76 actual site visits, resulting in 113 decisions for new and expanding industries. Twenty-nine new plants created 2,821 new jobs; expansions at 84 existing plants created 1,629 more for a total of 4,450 new jobs. New industrial megawatt-hour sales in 1989 added a projected 227,900 mwh load.

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P&L spends millions of dollars every year for goods and services, which allows it to impact economic development in another way. "Fair Share," the minority business purchasing program the Company started in 1984, grew to \$26.7 million in total expenditures. Our Buy Arkansas/Missouri program increased local manufacturer and distributor purchases from 29 percent (\$26.2 million) in 1985 to 45 percent (\$109 million) in 1989.

"I could not do half as much industrial prospecting if it wasn't for AP&L. Organizations like ours are not big enough and don't have the financing to do the background work necessary for high quality recruiting." Jim Flowers, executive director of Arkansas Delta Development.

To meet the challenge of a changing industry, AP&L is making the transition from a construction company to an operating company. Our task now becomes generating the highest quality, most competitively priced energy available—a task that requires continual rethinking. We see progress at many levels.

A pilot program called "Premium Power" offers industries engineering analyses and, when necessary, high-tech power conditioning equipment to protect sensitive electronics from voltage fluctuations.



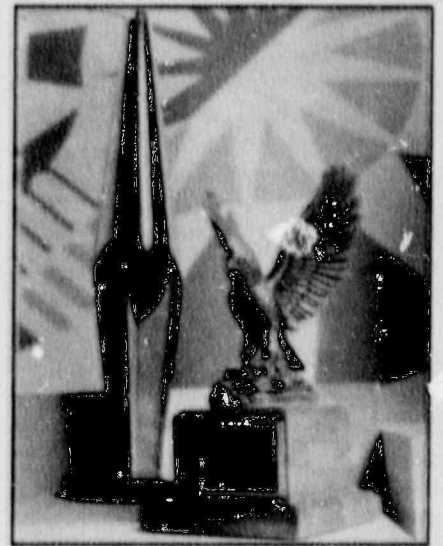
Its employees are this Company's past, present and future. Without them, there is no vision, no innovation, no execution.

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lsewhere, with the proposed consolidation of the System's nuclear generating facilities, we seek to create an economy of scale and specialization that will ultimately move these operations into a position of national, even international, excellence.

In another example, creative management and teamwork among 3,000 employees and contractors allowed us to refuel ANO's Unit 2 in a Company record-smashing 56 days, 20.5 hours.

"For the past dozen or so years, we as a state have been building and using some of the cleanest burning coal facilities in the country—so we have already paid a substantial price for clean air." U.S. Senator David Pryor on March 2, 1990, commenting on compromise proposal to the pending federal clean air legislation.



AP&L garnered a number of prestigious awards in 1989. And while an award is itself no reason for undertaking a task, it is an acknowledgement of an idea well-executed and a measure of a program's success and impact on the community.

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e moved ahead in 1989 in our efforts not only to protect the environment, but to enhance it. A task force investigated environmental issues and developed strategies for supporting groups actively working to protect and restore the environment.

Since 1987, participation has tripled in our "Rights-of-way for Wildlife" program to plant wildlife food on AP&L's 4,900 miles of transmission line rights-of-way.

"...the AP&L Rights-of-way for Wildlife program is a great educational tool for teaching people, especially youth groups, how to make wildlife habitat improvements." Price Holmes, president of the Arkansas Wildlife Federation.

AP&L's education initiatives continue to be the focus of some of its most creative thought.

To help address the shortage of math and science teachers in the state, for instance, AP&L offers up to ten \$1,500 "investment scholarships" each year to college juniors and seniors who agree to teach these subjects in the Arkansas public schools for at least three years after graduation.

"The public needs to know that Arkansas Power & Light is very deeply involved in promoting and supporting programs and practice which produce a healthy educational climate in our state." Science teacher C. Gordon Smith, in a guest editorial November 3, 1989, in the Searcy Daily Citizen.

An old philosophy in the electric industry was "our customers need us." In 1989, AP&L embraced ever more forcefully its new watchwords: "we need our customers." Much effort and innovation was devoted to improving not only the quality of service in our area, but the quality of life as well.

"Care Clinics" were expanded in 1989 to provide medical screening to

needy elderly citizens who might not otherwise have sought medical attention. An adult learning center that AP&L and Entergy Corporation started with a \$77,000 grant to fight illiteracy in Phillips County was named in January 1990 by President Bush as "an outstanding example" of a private sector "Point of Light."

We didn't limit the customers we helped to our own, though. AP&L mobilized its forces to respond to the devastation of Hurricane Hugo in October, sending 114 employees who restored power to thousands of people; AP&L employees gathered and sent 18 tons of relief supplies.

"Many times we take for granted the virtually uninterrupted flow of electricity into our homes and businesses and the efforts required to keep that flow dependable through all types of weather and conditions. The next time you see an AP&L employee... how about a 'Thank You' for a service that makes all of our lives easier and and more comfortable." Caption for photograph of AP&L employee at work, Bald Knob Banner, September 6, 1989.

Innovation and creativity played a key role in making 1989 a very successful year at AP&L. For the future, we are positioned to continue tapping the power of ideas.



Our customers cut across all political, socio-economic and industry boundaries. Much effort was devoted not only to improving the quality of service they receive, but their quality of life as well.

ABBREVIATIONS AND TERMS

Arkansas Power & Light Company



Abbreviations and terms used in this report include the following:

AFDC	Allowance for Funds Used During Construction	FMB	First Mortgage Bonds
ANG	Associated Natural Gas Company	Grand Gulf Station	Grand Gulf Steam Electric Generating Station (nuclear)
ANO	AP&L's Arkansas Nuclear One Generating Station	Grand Gulf 1	Unit No. 1 of the Grand Gulf Station
ANO 1	Unit No. 1 of ANO	Grand Gulf 2	Unit No. 2 of the Grand Gulf Station
ANO 2	Unit No. 2 of ANO	ISES	Independence Steam Electric Generating Station (coal)
AP&L or Company	Arkansas Power & Light Company	ISES 2	Unit No. 2 of ISES
APSC	Arkansas Public Service Commission	June 13 Decision	The FERC's June 13, 1985, decision allocating Grand Gulf 1 costs among the System operating companies
DOE	Department of Energy	LP&L	Louisiana Power & Light Company
Entergy Operations	Entergy Operations, Inc., a proposed subsidiary of Entergy Corporation that will assume operating responsibility for Grand Gulf 1, Waterford 3 and ANO	Middle South Electric System or System	Entergy Corporation and its various direct and indirect subsidiaries
Entergy Power	Entergy Power, Inc., a proposed subsidiary of Entergy Corporation that will market capacity and energy from certain generating facilities to other parties, principally non-affiliates, for resale	Money Pool	Middle South Electric System Money Pool which allows certain System companies to borrow from, or lend to, certain other System companies
FASB	Financial Accounting Standards Board	MP&L	Mississippi Power & Light Company
FERC	Federal Energy Regulatory Commission	NOPSI	New Orleans Public Service Inc.
FERC Settlement	Settlement offer filed with the FERC on June 9, 1989 by AP&L, LP&L, MP&L, NOPSI and System Energy and approved by FERC on July 21, 1989, to settle, among other things, certain then pending Grand Gulf Station related issues, litigation and other rate matters	NRC	Nuclear Regulatory Commission
		PSCM	Public Service Commission of Missouri
		Revised Settlement Agreement	AP&L's September 1985 Settlement Agreement, as modified by the APSC order issued October 6, 1988, to bring the Grand Gulf 1-related phase-in plan into compliance with the requirements of SFAS No. 92
		Ritchie 2	Unit No. 2 of AP&L's R.E. Ritchie Steam Electric Generating Station (natural gas/oil)
		SEC	Securities and Exchange Commission
		SEC Settlement Agreement	Agreement effective September 9, 1985, adopted by the APSC, settling AP&L's Grand Gulf 1-related and other rate issues for the state of Arkansas
		SFAS	Statement of Financial Accounting Standards
		SFI	System Fuels, Inc.
		System Energy System operating companies	System Energy Resources, Inc. AP&L, LP&L, MP&L and NOPSI, collectively

REPORT OF MANAGEMENT

Arkansas Power & Light Company

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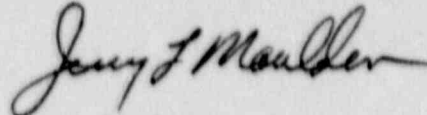
he management of Arkansas Power & Light Company has prepared and is responsible for the financial statements and related financial information included in this annual report. The financial statements are based on generally accepted accounting principles, consistently applied. Financial information included 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 an appropriate division of responsibility, the selection and training of qualified personnel, a performance accountability program and a comprehensive internal audit program. To further enhance the internal accounting control environment, the Company has a Code of Conduct that addresses our commitment to the highest standards of integrity and fairness.

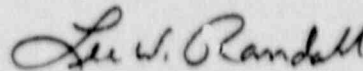
The Board of Directors pursues its responsibility for reported financial information through its audit committee, composed entirely of outside directors. The audit committee meets periodically with management, the internal auditors and the independent certified public accountants (Deloitte & Touche) 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 as they deem necessary to reach and express an opinion on 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
Chairman of the Board & Chief Executive Officer



Lee W. Randall
Senior Vice President & Chief Financial Officer

AUDIT COMMITTEE CHAIRMAN'S LETTER

Arkansas Power & Light Company

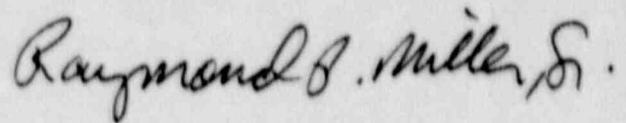
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he Arkansas Power & Light Company Audit Committee of the Board of Directors is comprised of seven Directors who are not officers of the Company: Dr. Raymond P. Miller, Sr., Chairman; Tommy H. Hillman; Hal E. Hunter, Jr.; John J. Flake; Robert D. Pugh; Woodson D. Walker; and Michael E. Wilson. The committee held four meetings during 1989.

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors and provides reasonable assurance to the Board that sufficient operating, accounting, and financial controls are in existence and are adequately reviewed by programs of internal and external audits.

The Audit Committee discussed with the Company's internal auditors and the independent certified public

accountants (Deloitte & Touche) the overall scope and specific plans for their respective audits. The committee also discussed the Company's financial statements and the adequacy of the Company's internal controls. The committee met, together and separately, with the Company's internal auditors and independent certified public accountants, without management present, to discuss the results of their audits, their evaluation of the Company's internal controls, and the overall quality of the Company's financial reporting. The meetings also were designed to facilitate and encourage private communication between the committee and the internal auditors and/or independent certified public accountants.



Dr. Raymond P. Miller, Sr.
Chairman, Audit Committee

MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS

Arkansas Power & Light Company

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RESULTS OF OPERATIONS

Changes between 1989 and 1988 and between 1988 and 1987 in selected factors affecting results of operations are detailed in Table 1. However, reference is made to both Table 1 and the Statements of Income for purposes of the following discussion.

Net Income

The Company's 1989 results were basically unchanged from 1988 as evidenced by an increase in net income of less than 1 percent, while 1988 net income reflected a reduction of 7.1 percent from 1987 net income. Factors impacting results of operations are discussed in more detail below.

The expiration on July 1, 1988, of the Company's authorization by the APSC to record a return on investment in alleged excess capacity to be subsequently recovered reduced each of the 1989 and 1988 results when compared to the prior year by approximately \$7.9 million. 1989 results were reduced as compared to 1988 due to the \$5.4 million after-tax gain in 1988 from the sale of ANG. It should be

noted that financial statements for 1987 have not been restated for the disposition of ANG since the effect of consolidation is immaterial. (See Note 1 to the Financial Statements - "Summary of Significant Accounting Policies.") 1989 results were favorably affected \$2.2 million due to a one-time credit received from System Energy pursuant to the FERC Settlement. (See Note 2 to the Financial Statements - "Rate and Regulatory Matters - FERC Settlement.") In addition, 1988 results were reduced approximately \$14.8 million, as compared to 1987, due to increases in reserves for nuclear maintenance expense, injuries and damages, hospitalization and environmental contingencies.

Revenues and Energy Sales

Revenue from retail customers increased \$45.5 million or 4.7 percent in 1989 as compared to 1988 due in part to increased energy sales and to increased current recovery of Grand Gulf I-related costs. Reductions in sales for resale of \$20.2 million or 5.5 percent in 1989 as compared to 1988 partially offset increased retail revenues resulting in an increase in 1989 operating revenue. Sales for resale decreased primarily due to decreased system sales of \$8.2 million and to decreased sales to the City of North Little Rock of \$9.5 million due to the installation by that city of new hydroelectric generating capacity.

The decrease in 1988 operating revenues compared to 1987 resulted primarily from the loss of gas revenue of \$39.8 million due to the sale of ANG. Electric revenues decreased \$8.3 million or 0.6 percent in 1988 as compared to 1987.

TABLE 1

Twelve Months Ended*	1989	1988	1987	1989 to 1988		1988 to 1987	
				Increase/ (Decrease)	Percent Change ^c	Increase/ (Decrease)	Percent Change
(\$ In Millions)							
Net income	\$132.0	\$131.1	\$141.2	\$0.9	0.7	\$(10.1)	(7.1)
Operating revenue	\$1,381.9	\$1,356.8	\$1,404.9	\$25.1	1.8	\$(48.1)	(3.4)
Fuel and fuel related							
expense - electric	\$297.8	\$282.1	\$350.1	\$15.7	5.6	\$(68.0)	(19.4)
Purchased power expense	379.1	435.8	431.7	(56.7)	(13.0)	4.1	0.9
Deferred purchased power	(81.1)	(128.9)	(168.0)	47.8	37.1	39.1	23.3
Net cost of energy - electric	\$595.8	\$589.0	\$613.8	\$ 6.8	1.2	\$(24.8)	(4.0)
Other operations & maintenance	\$395.5	\$395.9	\$335.1	\$(0.4)	(0.1)	\$60.8	18.1
Total energy sales							
- electric (MKWH)	26,703	27,489	29,401	(786)	(2.9)	(1,912)	(6.5)

* The financial statements for 1987 have not been restated for the disposition of ANG since the effect of consolidation is immaterial. See Note 1 to the Financial Statements - "Summary of Significant Accounting Policies."

MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS

Arkansas Power & Light Company

Revenues from retail customers increased \$38.1 million or 4.1 percent in 1988 compared to 1987, due primarily to increased sales to industrial customers. The Company's sales for resale declined in 1988 primarily due to a \$28.8 million decrease in sales to the Middle South System Power Pool as a result of the scheduled nuclear refueling outages for both ANO 1 and ANO 2 during 1988 and decreased total system sales to Tennessee Valley Authority of \$16.0 million.

Fuel and Purchased Power

Net cost of energy in 1989 as compared to 1988 increased primarily due to a \$17.0 million increase in the fuel related nuclear reserve which was impacted by the scheduled refueling outage of ANO 2 in 1989 and at both ANO units in 1988. Accruals to the nuclear reserve increase fuel expense when the units are in operation and are used to offset other fuel costs during refueling maintenance outages. (See Note 1 to the Financial Statements - "Summary of Significant Accounting Policies.") A reduction in MKWH purchases of 7.5 percent in 1989 as compared to 1988 contributed to decreased purchased power expense. However, significantly contributing to the reduction in purchased power expense was the \$18 million credit received from System Energy pursuant to the FERC Settlement and the reduction in System Energy's return on its investment in Grand Gulf I, \$14.5 million of the \$18 million credit was refunded to customers. (See Note 2 to the Financial Statements - "Rate and Regulatory Matters - FERC Settlement.")

The reduction in fuel expense in 1988 as compared to 1987 was primarily due to reduced nuclear and gas generation of 21.8 percent and 34.1 percent, respectively, resulting from scheduled refueling outages at both ANO units in 1988 and to an outage at the Company's Ritchie Steam Electric Generating Station. In 1988 as compared to 1987, the amount of purchased power (MKWH) increased 22.3 percent while purchased power cost increased less than one percent. These proportionately lower purchased power costs on a MKWH basis occurred because of lower capacity costs for Grand Gulf I and an increase in the amount of purchased power provided by Grand Gulf I.

Reductions in purchased power deferrals in 1989 compared to 1988, as well as 1988 compared to 1987, were due primarily to increased current collection of purchased power costs associated with the Company's allocated share of Grand Gulf I costs pursuant to the Revised Settlement Agreement.

Other Operating Expenses

Other operation and maintenance expenses remained stable in 1989 as compared to 1988. Other operation expenses increased \$3.7 million in 1989 as compared to 1988 due to increases in the reserve for hospitalization of \$4.9 million, increased amortization of previously deferred return on excess capacity of \$3.9 million, a reduction of \$16.2 million due to variance in the scheduled recovery of Grand Gulf I-related costs compared to actual collections, a 1988 reduction of \$6.9 million in reserves for contingencies recorded pursuant to applicable accounting standards and a reduction in 1988 of \$7.5 million due to the disposition of ANG. The decrease relating to collection variances for Grand Gulf I-related costs and the increase related to the amortization of the previously deferred return on excess capacity are the result of accounting entries to offset like amounts of revenue included in operating revenues.

The 1988 increase in other operation expenses of \$53.8 million as compared to 1987 was due to an increase of \$22.9 million due to variance in the scheduled recovery of Grand Gulf I-related costs compared to actual collections, increased reserves for injuries and damages, environmental contingencies and hospitalization of \$6.2 million, increased building rent expense of \$5.2 million, a reduction of approximately \$5.9 million in 1987 relating to a credit for dues to Electric Power Research Institute and increased materials and supplies relating to nuclear operations of \$2.9 million. These increases were offset in part due to the disposition of ANG which decreased other operation expenses \$7.5 million.

Maintenance expense decreased \$4.1 million in 1989 as compared to 1988 and increased \$7.0 million in 1988 as compared to 1987 due to corresponding changes in reserves for nuclear refueling maintenance expense.

Other Income

As compared to 1988, other income and deductions decreased \$14.9 million in 1989 due in part to a \$3.6 million reduction in AFDC, resulting from nuclear fuel being leased in 1989 rather than financed by the Company, a reduction of \$8.4 million associated primarily with the discontinuance in July 1988 of deferring a return on investment in alleged excess capacity and the \$5.4 million net after-tax gain associated with the disposition of ANG in June 1988.

Interest Charges

Interest charges decreased \$2.3 million in 1989 as compared to 1988 due in part to decreased interest accrued on potential income tax liability of \$3.0 million and decreased interest on bank loans of \$1.3 million offset by a decrease in AFDC of \$2.5 million and increased interest associated with the Department of Energy Spent Nuclear Fuel Disposal contract of \$2.0 million. Interest charges decreased \$12.3 million in 1988 as compared to 1987 primarily due to a favorable federal income tax settlement with the Internal Revenue Service in 1988 which allowed the reversal of \$8.5 million of accrued interest for the years 1977-1982.

F

FINANCIAL CONDITION

Liquidity

Cash and cash equivalents decreased \$28.1 million or 95.9 percent in 1989 as compared to 1988 and \$57.1 million or 66.1 percent in 1988 as compared to 1987. Reference is made to the Statements of Cash Flows for purposes of the following discussion.

Net cash from operating activities was \$185.6 million in 1989, \$73.7 million in 1988 and \$238.6 million in 1987. Reductions in deferred purchased power/excess capacity associated with increased recovery of Grand Gulf 1-related costs under the Revised Settlement Agreement increased net cash from operating activities \$64.6 million in 1989 and \$57.5 million in 1988. Reduced deferrals and increased current recoveries have a positive impact on net cash from operating activities. However, such deferrals continue to reduce net cash from operating activities since actual collection of revenues to recover these costs will not occur until the future. Even though deferral of Grand Gulf 1 purchased power costs (which are not currently recovered through rates to the extent of the deferrals) increase cash requirements, such deferral of Grand Gulf 1-related costs removes the impact of the phase-in plan from the Income Statement, excluding the portion retained by the Company (Retained Share). (See Notes 1 and 2 to the Financial Statements - "Summary of Significant Accounting Policies" and "Rate and Regulatory Matters," respectively.) Prior to

reduction for deferred purchased power costs/excess capacity of \$73.5 million, \$138.1 million and \$195.6 million in 1989, 1988 and 1987, respectively, net cash from operating activities was \$259.2 million, \$211.8 million and \$434.2 million for those respective periods. Other working capital accounts increased \$28.4 million in 1989 as compared to 1988 after decreasing \$39.2 million in 1988 as compared to 1987 primarily due to variances in the nuclear maintenance reserves associated with maintenance during refueling outages. Reduced contributions to nuclear decommissioning trust funds in 1989 of \$15.5 million were related to the establishment of external decommissioning trusts in 1988, and payment in 1988 to such trust of all collections prior to and including 1988 of \$25.4 million. Also contributing to the decrease in net cash from operating activities in 1988 was a decrease in taxes accrued of \$44.8 million as compared to 1987 primarily due to the receipt in 1987 of an overpayment of 1986 payments under the System income tax allocation agreement.

The Company's investment in utility plant of \$134.8 million, \$103.9 million and \$146.5 million were 72.6 percent, 141.0 percent and 61.4 percent of net cash from operating activities in 1989, 1988 and 1987, respectively. Nuclear fuel expenditures decreased \$26.0 million in 1989 as compared to 1988 due to financing under a new nuclear fuel lease of nuclear fuel previously purchased by the Company. (See Note 4 to the Financial Statements - "Commitments and Contingencies - Nuclear Fuel.") Proceeds of \$27.1 million received from the sale of ANG and repayment of \$27.7 million to the Company of notes receivable from SFI increased 1988's net cash from investing activities as compared to 1989 and 1987.

Net cash flow used by financing activities was \$80.3 million, \$83.4 million and \$142.5 million in 1989, 1988 and 1987, respectively, decreasing \$3.1 million between 1988 and 1989 and \$59.1 million between 1987 and 1988. These variances were primarily due to 1989 and 1987 cash requirements of \$55.7 million and \$85.0 million, respectively, to retire FMB in those respective years and by the increase in payment of common stock dividends of \$49.5 million in 1989 as compared to 1988 and \$25.6 million in 1988 as compared to 1987. Net proceeds of \$73.3 million from the 1989 sale of FMB and \$27.0 million in short-term borrowings provided 124.9 percent of net cash from financing activities in 1989.

MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS

Arkansas Power & Light Company

The Company and MP&L were parties to a Unit Power Purchase Agreement, which terminated on December 6, 1989, for the sale to MP&L of the Company's 31.5 percent share of capacity and energy from ISES 2. Revenue from the sale of such capacity to MP&L was approximately \$27 million in 1989. The Company's 1990 net income will be adversely impacted unless the Company is able to sell this capacity to other parties or to mitigate its impact by other means. Regulatory approvals for the sale of the Company's interest in ISES 2 and Ritchie 2 to a new subsidiary of Entergy Corporation, named Entergy Power, Inc., are pending, but subject to contest. There is no assurance that such approvals will be obtained. (See Note 2 to the Financial Statements - "Rate and Regulatory Matters - Entergy Power" for information on the Company's proposal to mitigate the impact of the termination of the Unit Power Purchase Agreement.)

Capital and Refinancing Requirements

The Company's construction program contemplates expenditures (including AFDC and excluding nuclear fuel) of approximately \$148.4 million in 1990, \$143.8 million in 1991, and \$151.7 million in 1992. In addition to construction expenditures, the Company will have capital requirements in 1990 of approximately \$45.4 million in connection with the phase-in of a portion of Grand Gulf 1-related costs into retail rates. In 1991-1992 the Company will be collecting Grand Gulf 1 costs incurred but not collected in previous years pursuant to the phase-in plan. During periods when deferred costs are recovered, revenue collections will exceed, to the extent of such current recovery, current cash requirements for these costs.

In addition to the above capital requirements, \$43.3 million will be required during the period 1990-1992 to meet long-term debt maturities and to satisfy sinking fund requirements. The Company anticipates that a significant portion of its capital and refinancing requirements will be met from internally generated funds for the years 1990-1992. The Company will require limited amounts of external financing during the period, which it expects to obtain through sales of FMB and/or preferred stock and/or such other financing arrangements as may be appropriate.

Capital Resources

The Company has received regulatory authorization to sell up to \$270 million of FMB through February 28, 1991. Pursuant to such authorization, the Company issued \$75 million FMB in July 1989 and \$150 million FMB in February 1990. Proceeds from the July 1989 sale were used in part for the early redemption of \$50 million outstanding higher cost FMB and proceeds from the February 1990 sale were used in part for the repayment of short-term debt incurred in connection with, among other things, the repurchase of \$100 million of the Company's common stock in January 1990. A reduction in the Company's level of common equity should have the effect of lowering the Company's cost of capital. (See Notes 9 and 10 to the Financial Statements - "Preferred and Common Stock" and "Long-Term Debt", respectively.) Proceeds of any additional sales of securities during the period through February 28, 1991 are expected to be applied to construction expenditures, to finance Grand Gulf 1 purchased power deferrals under the Revised Settlement Agreement, to the possible retirement of high cost securities, and for other corporate purposes.

In addition, the Company requested and has received necessary regulatory approval to proceed with arrangements for the possible redemption, purchase or other acquisition of certain of its securities, including all or a portion of certain outstanding series of the Company's high interest rate FMB up to an aggregate principal amount of \$200 million. In addition, the Company may enter into arrangements for the sale or sale and leaseback of property in which the proceeds from such transactions could be used to retire certain debt issues at special redemption prices, at or near par. (See Note 10 to the Financial Statements - "Long-Term Debt.")

In this connection, the Company has filed with the APSC and the SEC applications requesting, among other things, approval to sell and transfer its interest in ISES 2 and Ritchie 2 to Entergy Power. Other necessary regulatory approvals have also been requested. There is no assurance

as to when consummation of such transaction would occur or that this proposed transaction will in fact be consummated. In addition, the Company has been approached concerning a possible sale of its retail operations in Missouri. Preliminary discussions have been held with interested parties, but the Company has made no decision with regard to this matter. If either or both of these transactions were consummated, the Company could use all or a portion of the proceeds to redeem all or a portion of certain series of its outstanding FMB at special redemption prices, at or near par, pursuant to and in compliance with applicable provisions of its mortgage and deed of trust. The series of the Company's FMB being considered for redemption pursuant to these provisions include, but may not be limited to, the balance of the 13 3/8% series due December 1, 2012, and the 14 1/8% series due December 1, 2014. (See Notes 2 and 10 to the Financial Statements - "Rate and Regulatory Matters" (Entergy Power and Missouri Operations sections) and "Long-Term Debt", respectively.)

Based upon the most restrictive provisions of the Company's mortgage and charter and assuming an interest/dividend rate of 10% (and before giving effect to the issuance of \$150 million of FMB in February 1990), at December 31, 1989, the Company would have been permitted to issue \$384 million in additional FMB and \$204 million additional preferred stock, respectively. (See Notes 10 and 9 to the Financial Statements - "Long-Term Debt" and "Preferred and Common Stock", respectively, for information regarding minimum earnings coverage requirements.)

Short-term borrowings of \$125 million have been authorized by the SEC through 1990, subject to the availability of credit resources. Short-term borrowings can be effected through the Money Pool subject to the availability of funds which at any particular time may be limited, and through available territorial bank lines of credit. At December 31, 1989, the Company had \$27.0 million in short-term borrowings outstanding from the Money Pool and had available bank lines of credit of \$62.5 million all of which were unutilized. (See Note 7 to the Financial Statements - "Lines of Credit and Short-Term Borrowings.")

Accounting Issues

In December 1987 the FASB issued SFAS No. 96 "Accounting for Income Taxes", which was effective for fiscal years beginning after December 15, 1988. The FASB subsequently issued statements numbers 100 and 103, which delayed the effective date of SFAS No. 96 to fiscal years beginning after December 15, 1991. During this extension period, the FASB will be considering various requests for amendments to SFAS No. 96. Based upon a preliminary study, the Company expects that the adoption of SFAS No. 96, in its present form, would result in a net increase in accumulated deferred income taxes with a corresponding increase in assets. It is not expected that results of operations for the Company would be significantly impacted by the adoption of SFAS No. 96 in its present form. (See Note 3 to Financial Statements - "Income Taxes.")

BALANCE SHEETS*Arkansas Power & Light Company*

At December 31

1989

1988

*(In Thousands)***ASSETS****Utility Plant (Notes 1 and 4):**

Electric	\$3,909,526	\$3,797,479
Property under capital leases (Note 5)	97,573	98,038
Construction work in progress	90,125	75,387
Nuclear fuel	55	198
Nuclear fuel under capital leases (Notes 4 and 5)	168,060	162,744
Total	4,265,139	4,133,846
Less - accumulated depreciation and amortization	1,218,703	1,115,595
Utility plant - net	3,046,436	3,018,251

Other Property and Investments:

Investments in associated companies, at equity (Note 4)	11,219	11,303
Other, at cost (less accumulated depreciation)	213	150
Total	11,432	11,453

Current Assets:

Cash and cash equivalents (Note 12):		
Cash	1,190	6,279
Temporary investments, at cost which approximates market:		
Associated companies (Note 7)	—	20,000
Other	—	3,000
Total	1,190	29,279
Notes receivable - net	8,336	2,700
Accounts receivable:		
Associated companies	25,585	23,103
Customer (less allowance for doubtful accounts - \$4,290,000 in 1989 and 1988)	58,707	48,287
Other	5,913	5,109
Deferred fuel cost (Note 1)	(6,989)	(9,297)
Fuel inventory, at average cost	35,874	22,305
Materials and supplies, at average cost	58,901	49,887
Prepayments and other	17,426	13,461
Total	204,943	184,840

Deferred Debits:

Deferred purchased power costs (Notes 2 and 4)	666,256	584,527
Deferred excess capacity (Note 2)	72,250	80,462
Other	51,290	48,549
Total	789,796	713,538

Total

\$4,052,607**\$3,928,082***See Notes to Financial Statements.*

At December 31

1989

1988

*(In Thousands)***CAPITALIZATION AND LIABILITIES****Capitalization:**

Common stock, \$0.01 par value: authorized 325,000,000 shares; issued and outstanding - 54,980,196 shares in 1988 and 1989 (Note 9)	\$ 550	\$ 550
Paid-in capital	695,301	695,254
Retained earnings (Note 8)	314,602	303,105
Total	1,010,453	998,909
Preferred stock, net of premium and expense (Note 9):		
Without sinking fund	126,890	126,890
With sinking fund	127,554	137,379
Long-term debt (Note 10)	1,264,049	1,235,440
Total	2,528,946	2,498,518

Other Noncurrent Liabilities:

Obligations under capital leases (Note 5)	192,012	193,051
Other (Note 1)	28,054	28,229
Total	220,066	221,280

Current Liabilities:

Currently maturing long-term debt (Note 10)	3,680	2,580
Notes payable (Note 7):		
Associated companies	27,000	—
Other	667	667
Accounts payable:		
Associated companies	26,635	30,163
Other	105,737	91,644
Customer deposits	8,344	7,598
Taxes accrued	79,853	67,357
Accumulated deferred income taxes (Note 3)	—	(3,526)
Interest accrued	33,395	41,795
Dividends declared (Note 8)	5,584	5,863
Nuclear refueling reserve (Note 1)	7,136	3,834
Co-owner advances (Note 1)	27,543	16,815
Obligations under capital leases (Note 5)	73,421	67,731
Other	11,164	9,665
Total	409,559	342,186

Deferred Credits and Other Liabilities:

Accumulated deferred income taxes (Note 3)	604,834	575,013
Accumulated deferred investment tax credits (Note 3)	187,152	183,609
Other	102,050	107,376
Total	894,036	865,998

Commitments and Contingencies (Notes 2, 4 and 5)

Total	\$4,052,607	\$3,928,082
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See Notes to Financial Statements.

STATEMENTS OF INCOME (Note 1)*Arkansas Power & Light Company*

For the Years Ended December 31	1989	1988	1987
		<i>(In Thousands)</i>	
Operating Revenues (Notes 1, 2 and 11):			
Electric	\$1,381,871	\$1,356,789	\$1,365,080
Natural gas	—	—	39,776
Total	1,381,871	1,356,789	1,404,856
Operating Expenses:			
Operation (Note 11):			
Fuel and fuel related	297,795	282,051	350,059
Purchased power	379,095	435,811	431,716
Gas purchased for resale	—	—	26,000
Other	300,502	296,835	243,048
Maintenance	95,002	99,096	92,048
Depreciation	123,493	120,030	119,104
Taxes other than income taxes	34,858	36,400	39,466
Income taxes (Note 3)	(1,903)	(23,390)	(10,684)
Rate deferral:			
Deferred purchased power (Notes 2 and 4)	(81,122)	(128,897)	(167,956)
Income taxes (Note 3)	30,769	48,891	73,170
Total	1,178,489	1,166,827	1,195,971
Operating Income	203,382	189,962	208,885
Other Income and Deductions:			
Allowance for equity funds used during construction	2,657	6,303	5,605
Miscellaneous - net (Notes 1 and 2)	60,274	72,626	69,264
Income taxes (Note 3)	(20,384)	(21,514)	(14,062)
Total	42,547	57,415	60,807
Interest Charges:			
Interest on long-term debt	120,164	117,873	119,287
Other interest - net of debt premium	(3,910)	3,114	13,410
Allowance for borrowed funds used during construction	(2,304)	(4,759)	(4,165)
Total	113,950	116,228	128,532
Net Income (Note 13)	\$ 131,979	\$ 131,149	\$ 141,160

STATEMENTS OF RETAINED EARNINGS (Note 1)

For the Years Ended December 31	1989	1988	1987
		<i>(In Thousands)</i>	
Retained Earnings - January 1	\$ 303,105	\$ 244,025	\$ 151,063
Add - Net Income (Note 13)	131,979	131,149	141,160
Total	435,084	375,174	292,223
Deduct - Cash Dividends:			
Preferred stock	22,790	23,858	25,554
Common stock (Note 8)	97,692	48,211	22,644
Total	120,482	72,069	48,198
Retained Earnings - December 31 (Note 8)	\$ 314,602	\$ 303,105	\$ 244,025

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS (Note 1)

Arkansas Power & Light Company

For the Years Ended December 31

	1989	1988	1987
		<i>(In Thousands)</i>	
Operating Activities:			
Net income	\$131,979	\$131,149	\$141,160
Noncash items included in net income:			
Depreciation	123,493	120,030	119,104
Deferred taxes & investment tax credits	40,811	37,481	63,050
Allowance for equity funds used during construction (Note 1)	(2,657)	(6,303)	(5,605)
Provisions for estimated losses	(1,673)	(6,628)	(4,551)
Deferred purchased power cost/excess capacity (Note 2)	(73,517)	(138,077)	(195,612)
Net gain on sale of ANG (Note 1)	—	(5,350)	—
Changes in working capital:			
Accounts receivable	(13,706)	11,645	14,921
Accounts payable	9,480	(10,731)	11,652
Fuel inventory	(13,569)	6,820	(970)
Deferred fuel costs	(2,308)	570	4,968
Other working capital accounts	(10,733)	(39,131)	44
Taxes accrued	12,496	826	45,618
Decommissioning trust contributions	(9,837)	(25,385)	—
Other operating activities	(4,614)	(3,216)	44,776
Net cash - operating activities	185,645	73,700	238,555
Investing Activities:			
Utility plant:			
Construction expenditures (net of accruals)	(137,568)	(136,395)	(140,865)
Nuclear fuel expenditures - net	143	26,182	(11,253)
Allowance for equity funds used during construction (Note 1)	2,657	6,303	5,605
Other property - net	1,320	1,724	3,468
Proceeds received from sale of ANG (Note 1)	—	27,095	—
Reduction of investments in associated companies	—	27,674	—
Net cash - investing activities	(133,448)	(47,417)	(143,045)
Financing Activities:			
Proceeds from sale of first mortgage bonds	73,282	—	—
Repayment of installment purchase contracts	(925)	(865)	(837)
Long term obligations - DOE	6,659	4,628	4,377
Retirement of first mortgage bonds	(55,700)	(1,603)	(84,959)
Dividends paid:			
Common stock	(97,692)	(48,211)	(22,644)
Preferred stock	(23,070)	(24,255)	(25,321)
Redemption of preferred stock	(9,766)	(13,147)	(13,459)
Changes in short-term borrowing	27,000	—	667
Other financing activities	(74)	99	(285)
Net cash - financing activities	(80,286)	(83,354)	(142,461)
Net decrease in cash and cash equivalents	\$ (28,089)	\$ (57,071)	\$ (46,951)
Cash and cash equivalents at beginning of year	29,279	86,350	133,301
Cash and cash equivalents at end of year (Notes 7 and 12)	\$ 1,190	\$ 29,279	\$ 86,350

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

Arkansas Power & Light Company

1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principle of Consolidation

Prior to 1988, the financial statements included the accounts of the Company and its wholly owned subsidiary, ANG. On June 1, 1988, the Company, as required by the SEC, disposed of its interest in ANG by means of a cash merger of ANG with and into Arkansas Western Gas Company (Arkansas Western), a subsidiary of Southwestern Energy Company. The cash merger consideration was approximately \$27.1 million with Arkansas Western assuming all liabilities including approximately \$3.8 million of outstanding long-term debt of ANG. (See Note 6 to the Financial Statements - "Postretirement Benefits.") The Company recorded an \$8.2 million gain on the merger, with a tax effect of \$2.8 million, resulting in a net after-tax gain of \$5.4 million. The net gain on the sale of ANG, including the results of 1988 operations prior to the sale, are included in miscellaneous other income and deductions. Financial data shown for 1987 has not been restated for the disposition of ANG since the effect of consolidation is immaterial.

System of Accounts

The accounts of the Company are maintained in accordance with the uniform system of accounts prescribed by the FERC.

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 and purchased power 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 and purchased power 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 either ANO 1 or ANO 2 is down for scheduled maintenance and refueling. The reserve bears interest and

is used to reduce fuel expense for fuel adjustment purposes during the maintenance and refueling period.

Utility Plant and Depreciation

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 primarily 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 1989, 1988 and 1987 amounted to approximately 3.3 percent each year. Substantially all the Company's utility plant is subject to the lien of its mortgage and deed of trust.

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.

At December 31, 1989, the Company's percent of ownership, investment and accumulated depreciation, respectively, in these stations are: White Bluff Steam Electric Generating Station - 57%, \$396,832,000, \$106,257,000 and ISES - 31.5%, \$294,405,000, \$55,114,000.

Postretirement Benefits

The Company has postretirement benefit plans covering substantially all of its employees. The policy of the Company is to fund pension costs in accordance with contribution guidelines established by the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code of 1986, as amended, and to fund other postretirement plan costs as incurred. The costs of postretirement healthcare and life insurance benefit plans are accounted for on a cash basis.

Income Taxes

The Company joins its parent in filing a consolidated Federal income tax return. Pursuant to an intra-System income tax allocation agreement, income taxes are allocated to the Company in proportion to its contribution to the consolidated taxable income. In accordance with SEC

regulations no System company is required to pay more income taxes than would have been paid had a separate income tax return been filed. 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.

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, 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 noncash items, credits to the income statement for the return on equity funds have no effect on cash flows from operating activities. 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 9.0 percent, 9.2 percent, and 9.2 percent for 1989, 1988 and 1987, respectively.

Other Non-Current Liabilities

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

Reclassifications

Certain reclassifications of previously reported amounts have been made to conform with current classifications. These reclassifications had no effect on net income.

Rate Deferrals

Under the terms of the Revised Settlement Agreement (see Arkansas - Retail, Revised Settlement Agreement section of Note 2 to the Financial Statements - "Rate and Regulatory Matters"), the Company will variously retain,

defer and recover differing portions of the purchased power costs associated with its 36 percent allocated share of the capacity and energy from Grand Gulf 1. By deferring Grand Gulf 1 purchased power costs which are not currently recovered through rates, the impact of Grand Gulf 1-related costs has been removed from the income statement, excluding the portion retained by the Company (Retained Share). Only those costs permanently retained but not recovered through rates or through sales to third parties result in a reduction of net income. Because the actual collection of revenues to recover the deferred amounts will not occur until the future, the Company incurs cash requirements in the amount of these deferrals and at the same time records a deferred asset representing the amount of the deferral. The carrying charges associated with the financing of the deferrals are recovered currently from customers. During periods when deferred costs are recovered, revenue collections will exceed, to the extent of such current recovery, current cash requirements for these costs.

2

NOTE AND REGULATORY MATTERS

Grand Gulf Nuclear Station

The Company is a party to certain agreements and proceedings concerning System Energy and the Grand Gulf Station, of which 90 percent is owned or leased by System Energy. (See "Unit Power Sales Agreement and Controversies Concerning Grand Gulf 1" below and Note 4 to the Financial Statements - "Commitments and Contingencies - Availability Agreement and Reallocation Agreement", with respect to these matters.)

Unit Power Sales Agreement and Controversies Concerning Grand Gulf 1

Pursuant to the allocation specified in the Unit Power Sales Agreement among System Energy and the System operating companies as ordered by the FERC in its June 13 Decision, System Energy sells to the System operating companies all of its 90% share of the capacity and energy from Grand Gulf 1 in accordance with specified percentages (the Company, 36%; LP&L, 14%; MP&L, 33%; and NOPSI, 17%). Charges under the Unit Power Sales Agreement are based on System Energy's total cost of service, including System Energy's operating expenses, depreciation, and capital costs attributable to the unit for the month. The

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Company's monthly obligation for payments to System Energy for Grand Gulf 1 capacity and energy is approximately \$22 million.

After various appeals of the June 13 Decision on remand from the United States Court of Appeals for the District of Columbia Circuit Court (D.C. Circuit), on November 30, 1987, the FERC issued an order maintaining the previous allocation of Grand Gulf 1 capacity and energy among the System operating companies as mandated by the June 13 Decision. In issuing the November 30, 1987 order, the FERC found that the allocation in the June 13 Decision was not unduly discriminatory. Requests for rehearing of the FERC's November 30, 1987 order were filed by various parties and by order dated January 29, 1988, the FERC denied such requests. Petitions for review of the November 30, 1987 and January 29, 1988 orders were filed with the D.C. Circuit by various parties, and certain parties attempted to raise again the issue of FERC jurisdiction to allocate capacity and energy and related costs among the System operating companies. In a *per curiam* decision dated May 26, 1989, the D.C. Circuit summarily rejected the jurisdictional arguments and denied the petitions for review of the FERC's November 30, 1987 and the January 29, 1988 orders, holding that the FERC's action was both rational and within the FERC's range of discretion. In July 1989, separate motions for rehearing of the D.C. Circuit's May 26, 1989 order were filed by the City of New Orleans and by the Mississippi Attorney General and the Mississippi Public Service Commission. On August 28, 1989, the D.C. Circuit denied the Mississippi Public Service Commission's and the Mississippi Attorney General's petition for rehearing and rejected the City of New Orleans' petition as not being filed in a timely manner. On December 27, 1989, the Mississippi Public Service Commission and the Mississippi Attorney General filed a petition for writ of certiorari to the D.C. Circuit seeking review by the United States Supreme Court, of the May 26, 1989 decision of the D.C. Circuit. The matter is pending.

It is not possible at this time to predict the ultimate outcome of this matter, including possible reallocation, if any, or the effect thereof upon the Company, the other System operating companies, or System Energy, including possible refunds, if any. Any material modification of the allocation established by the June 13 Decision could give rise to additional litigation, disputes and challenges in the affected jurisdictions. (See Note 4 to the Financial Statements - "Commitments and Contingencies - Availability Agreement and Reallocation Agreement" with respect to certain contractual arrangements among the System operating companies relating to Grand Gulf 1.)

Arkansas - Retail, Settlement Agreement

On September 9, 1985, the APSC approved the terms of a Settlement Agreement which, among other things, resolved all issues (except allocation and rate design, which were dealt with in a subsequent order) relating to recovery by the Company of the portion, attributable to Arkansas retail customers, of its costs associated with its allocated share of capacity and energy from Grand Gulf 1 (Arkansas Costs).

The APSC order approving the Settlement Agreement was contested by pleadings filed in separate dockets with the APSC in November 1985. The Company and the APSC staff have answered and moved to dismiss these complaints. These matters are pending.

Arkansas - Retail, Revised Settlement Agreement

The deferral provisions of the Company's Settlement Agreement relating to recovery by the Company of the Arkansas Costs did not comply with the requirements of SFAS No. 92, an accounting standard issued in August 1987 by the FASB relating to recording of deferred amounts as assets for accounting purposes. Therefore, the parties, pursuant to the terms of the Settlement Agreement, negotiated an amendment thereof which brought such provisions into compliance (Revised Settlement Agreement), which was approved by the APSC on October 6, 1988, and became effective January 1, 1989. The Company believes, and has been advised by its independent auditors, that the Revised Settlement Agreement satisfies the requirements of SFAS No. 92.

Like the Settlement Agreement, the Revised Settlement Agreement provides that the Company permanently retain and not recover (except through other sales as described below) a portion of its Arkansas Costs (Retained Share). The Retained Share (stated as a percentage of System Energy's share of Grand Gulf 1) ranges from 5.67 percent in 1989 to 7.92 percent in 1994 and all succeeding years of commercial operation of the unit.

Under the terms of the Revised Settlement Agreement, the Company is permitted to recover on a current basis a portion of its Arkansas Costs (Current Recovery Share). (See "Arkansas - Rate Riders" discussed below.) The Settlement Agreement had provided that prior to January 1, 1989, a portion of the Current Recovery Share would be phased in, with the Company deferring for future recovery certain costs in the first three years. Under the Revised Settlement Agreement, these previously deferred amounts are now included in the Deferred Balance described below, and there is no further deferral of any part of the Current Recovery Share. The Current Recovery Share (stated as a percentage of System Energy's share of Grand Gulf 1) ranges from 17.86 percent in 1989 to 28.08 percent in 1994 and thereafter.

Under the provisions of the Settlement Agreement through December 31, 1988, the Company had deferred approximately \$578 million of its Arkansas Costs for future recovery, through both the phasing-in of part of the Current Recovery Share (as described above) and the inventorying of an additional portion of Arkansas Costs. The Revised Settlement Agreement provides for an additional 12.47 percent and 6.95 percent of such costs (stated as a percentage of System Energy's share of Grand Gulf 1) to be deferred in 1989 and 1990, respectively, for future collection (Deferral Share). The Deferral Share, plus the \$578 million of previously deferred costs (collectively, Deferred Balance) will be recovered by the Company in increasing percentages from 1991 through 1998, at which time the Deferred Balance will have been fully collected. The Deferred Balance at December 31, 1989 was \$662 million. The Company is permitted to recover on a current basis the incremental cost of financing the unrecovered portion of the Deferred Balance.

The Company's agreement to defer the recovery of Arkansas Costs is contingent upon and conditioned by (a) its ability to finance such deferral on reasonable terms and (b) its ability to record on its books, on a current basis, deferral of any Arkansas Costs under applicable accounting standards. In the event the Company is not able to finance all or any portion of its deferred Grand Gulf 1-related costs on reasonable terms, then, provided the Company gives proper notice and subject to possible proceedings before the APSC contesting the Company's assertion of inability to finance, the Deferral Share will be reduced during the period of such inability to finance, and the Current Recovery Share will be increased to the extent necessary to recover, on a current basis, the costs which would otherwise have been allocated to the Deferral Share. In the event the Company is not able to record on its books, on a current basis, the deferral of any Arkansas Costs, the parties to the Revised Settlement Agreement have agreed to attempt to negotiate a mutually acceptable amendment, failing which the Revised Settlement Agreement will thereafter be terminated. The Revised Settlement Agreement also specifies that in the event accounting standards are changed such that the Company would be permitted to defer Grand Gulf 1-related costs without having to satisfy the criteria established in SFAS No. 92, then any party to the Revised Settlement Agreement may propose a revision to the Company's phase-in plan, and all parties agree to negotiate in good faith with respect to such proposal.

The Company has the right under the Revised Settlement Agreement to sell capacity and energy available from its Retained Share to third parties, which shall not include the Company's wholesale customers. In the event the Company is not able to sell such capacity and energy to such third parties, it has the right to sell the energy available

from such capacity to its retail customers at a price equal to its avoided energy cost. Proceeds from sales of capacity and/or energy from the Company's Retained Share shall accrue to the sole benefit of the Company's stockholders and shall not be used to reduce the determination of the appropriate revenues to be recovered from the Company's customers. However, any such sales of capacity and energy from the Arkansas Costs to third parties during the period between January 1, 1989, and December 31, 1995, will be allocated in the following manner: (1) fifty percent of the capacity and/or energy sold (not to exceed the amount of capacity allocated to the Retained Share) will be considered to be a sale of capacity and/or energy from the Retained Share; (2) the remainder of the capacity and/or energy sold will, unless the APSC determines otherwise, be considered to be a sale proportionately from the Deferral Share and the Current Recovery Share and the proceeds of such sale shall be applied to reduce the Deferred Balance.

The Revised Settlement Agreement provides that, should any other System operating company enter into an agreement to absorb a greater portion of Grand Gulf 1-related costs than the Company, or should System Energy enter into a settlement agreement to reduce its charges to the Company under the June 13 Decision, the Retained Share will be correspondingly increased or decreased, respectively. (See "Unit Power Sales Agreement and Controversies Concerning Grand Gulf 1" above for a discussion of the June 13 Decision.)

Arkansas - Rate Riders

In conjunction with the Revised Settlement Agreement, the Company was permitted to implement its third annual update to the Grand Gulf rate rider (Rider M33), effective January 1, 1989, whereby the Company increased its Arkansas retail rates by approximately 2.7 percent. The 2.7 percent increase reflects a 4.1 percent scheduled phase-in plan increase offset by a 1.4 percent decrease in rates relating to a prior year overcollection. The APSC approved on December 28, 1989 the Company's request for the fourth annual update to the Grand Gulf rate rider under terms of the Revised Settlement Agreement. Increased rates under Rider M33 of approximately 4% became effective January 1, 1990.

Effective in September 1986 the APSC approved a Company proposed tax adjustment rider (Rider M38). Rider M38, as modified, was designed to reduce Arkansas retail rates by approximately \$31 million annually to reflect the reduction in the corporate income tax rate included in the Tax Reform Act of 1986. Rider M38 also included a corresponding refund over a three-year period which concluded in 1989 of approximately \$88.6 million to reflect reductions in certain accumulated deferred income tax accounts.

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In 1985, the Settlement Agreement decided the Company a current return on alleged excess capacity of 969 megawatts, but allowed the Company to earn a full deferred return on the investment in such capacity through June 30, 1988. Deferrals ceased June 30, 1988, and pursuant to Rider M39, which was designed to recover such deferred amounts over a 10-year recovery period, the Company began recovering such deferred amounts July 1, 1988.

On March 9, 1988, the APSC approved a Company-proposed revision to the existing Nuclear Decommissioning Cost Rider M26 and a new Depreciation Rate Reduction Rider M41. The riders were simultaneously implemented March 23, 1988, and were designed to reduce the Company's rates by approximately \$1.7 million annually, composed of a \$7.6 million increase in decommissioning cost and a \$9.3 million decrease in depreciation cost. This order also approved the funding of decommissioning costs with external trusts due to tax incentives provided by the Tax Reform Act of 1984 and provided for an annual update of the Decommissioning Cost Rider. On December 1, 1989, the APSC approved the annual adjustment to Rider M26 which resulted in an annual increase to Arkansas retail ratepayers of approximately 0.4%, effective from January 1, 1990 through December 31, 1990. (See Note 4 to the Financial Statements - "Commitments and Contingencies.")

Missouri - 1985 Rate Request

On June 7, 1985, the Company filed an application with the PSCM for an annual increase in Missouri retail rates of approximately \$5.0 million and an additional rate rider to provide approximately \$12.2 million for Grand Gulf 1-related costs associated with Missouri retail customers (Missouri Cost). On April 24, 1986, the PSCM entered an order allowing the Company to recover the Missouri Cost of \$9.0 million, offset by a reduction of approximately \$3 million in other costs, phased in over five years. On March 11, 1988, the PSCM issued an order Approving Stipulation and Agreement and Tariff Sheets disposing of all issues in this rate case.

FERC Settlement

In connection with an effort, referred to by the System as "Project Olive Branch", to settle outstanding issues and litigation surrounding System Energy and the Grand Gulf Station and to stabilize retail rates in the System service area, on June 9, 1989, the Company, the other System operating companies, and System Energy filed with the FERC an offer of settlement (FERC Settlement) that would resolve various FERC-related issues in a way that would be beneficial to the System, its investors and its customers. The offer of settlement was subsequently supported by the

FERC staff, state and local regulators and officials, and other interested parties and was approved by the FERC on July 21, 1989.

Implementation of the terms of the FERC Settlement in 1989 resulted in, among other things, the following: (1) System Energy canceled and wrote off in September 1989 approximately \$900 million of its \$926 million investment in Grand Gulf 2 (construction on which had been suspended since September 1985) without seeking rate recovery from its customers, the System operating companies, including the Company; and (2) System Energy also made a one-time credit to the System operating companies' bills in an aggregate amount of \$50 million which was allocated among the System operating companies in accordance with their respective percentage allocations of Grand Gulf 1 capacity and energy. The Company's share of this credit totaled \$18.0 million of which \$14.5 million was refunded to customers in 1989.

While all parties to the FERC Settlement agreed not to pursue any prudence disallowance of Grand Gulf 1 construction costs and operating and maintenance expenses recorded through June 9, 1989, the FERC Settlement will not prejudice any party's right to seek disallowance of such costs recorded after that date or to continue to appeal the FERC's orders with respect to the allocation of Grand Gulf 1 capacity and energy and related costs among the System operating companies or the right of parties to seek future changes to the Unit Power Sales Agreement which are not inconsistent with the FERC Settlement. (See "Unit Power Sales Agreement and Controversies Concerning Grand Gulf 1" above.)

Arkansas - Stipulation and Settlement Agreement

In addition to settlement of FERC-related issues embodied in the FERC Settlement, the Company, the Staff of the APSC and the Arkansas Attorney General have entered into a Stipulation and Settlement Agreement requesting, among other things, that (1) the APSC permit the Company to recover in 1998 certain deferrals, amounting to \$4.8 million, previously accrued by the Company in connection with the APSC's findings in 1985 that certain of the Company's generating capacity was "excess", (2) in order to avoid an immediate application by the Company for increased retail rates in Arkansas, the APSC approve the sale and transfer of the Company's interest in ISES 2 and Ritchie 2 to Entergy Power (see "Entergy Power" below), (3) the APSC approve consolidation within the System of operating responsibility for the System's nuclear generating units, including ANO (the Company had previously filed an application with the APSC with respect to this matter) (see "Nuclear Management Consolidation" below), (4) the APSC permit amortization by the Company of certain investment tax credits, without changing the Company's

retail rates to reflect such amortization and (5) the APSC approve a rate change moratorium whereby the Company would not seek changes in retail rates until December 31, 1991, except under specific circumstances. Effectiveness of this Stipulation and Settlement Agreement is contingent upon APSC approval. Certain industrial retail customers of the Company have intervened in the proceeding. Certain of these intervenors have indicated opposition to some provisions of the Stipulation and Settlement Agreement, and there is no assurance that APSC approval will ultimately be obtained. Hearings on the Stipulation and Settlement Agreement concluded on February 13, 1990. Post-hearing briefs have been filed. These matters are pending.

Nuclear Management Consolidation

In June 1989, plans were announced whereby a nuclear management company to be known as Entergy Operations (a proposed subsidiary of Entergy Corporation) would assume operating responsibility for ANO, LP&L's nuclear Waterford Steam Electric Generating Station Unit No. 3 (Waterford 3) and Grand Gulf 1 subject, respectively to the Company's, LP&L's and System Energy's oversight. Under the proposal, which must be approved by various regulatory bodies, the Company, LP&L, System Energy and the other Grand Gulf 1 and Waterford 3 co-owners would retain ownership of their respective nuclear generating units. Further, the Company, LP&L, and System Energy would retain their associated capacity and energy entitlements and would pay or reimburse Entergy Operations for the costs associated with operating these units in accordance with applicable rules and regulations of the SEC which require that such services be rendered at cost. Applications for approval of, or non-opposition to, the proposed arrangements have been filed with the Louisiana Public Service Commission (LPSC), the APSC, the Council of the City of New Orleans, Louisiana, the SEC and the NRC. The Arkansas Electric Energy Consumers petitioned to intervene at the SEC and requested a hearing to consider, among other things, whether the claimed efficiencies and cost reductions that would result from the new subsidiary may be achieved under Entergy Corporation's existing corporate structure. Others, including the City of New Orleans, have entered appearances in this matter. Approval of the NRC was received on December 15, 1989, but such approval is not effective until all other regulatory approvals have been received and expires 180 days after issuance unless extended. Approval by the LPSC was received in February, 1990, subject to certain conditions that have been accepted by LP&L.

Entergy Power

The Company has filed with the APSC, the PSCM and the SEC applications requesting, among other things,

approval for the sale and transfer of its interest in ISES 2 and Ritchie 2 to Entergy Power. A Power Coordination Interchange and Transmission Service Agreement between the Company and Entergy Power has also been filed for approval with the FERC. There is no assurance as to when consummation of such transaction would occur or that this proposed transaction will in fact be consummated. If consummated, the Company could use all or a portion of the proceeds to redeem all or a portion of certain series of its outstanding FMB at special redemption prices, at or near par, pursuant to and in compliance with applicable provisions of its mortgage and deed of trust. The series of the Company's FMB being considered for redemption in whole or in part, pursuant to these provisions include, but may not be limited to, the balance of the 13 3/8% series due December 1, 2012, and the 14 1/8% series due December 1, 2014.

In connection with its application to the APSC for approval of this transaction, the Company has proposed a 15-year "rate cap," whereby the Company would agree not to recover from Arkansas ratepayers costs of new generating capacity in excess of the costs the customer would have borne if the Company had retained ISES 2 and Ritchie 2.

The Company has entered into a Memorandum of Understanding with certain wholesale customers to provide, in the event of approval of formation of Entergy Power, those customers with transmission access at the earlier of: (1) the expirations of their current contract, or (2) thirty months after approval of Entergy Power by the SEC. These customers have agreed to support the Company's filings before various regulatory authorities for transmission access and approval of Entergy Power.

Missouri Operations

The Company has been approached concerning a possible sale of its retail operations in Missouri. The Company's Missouri property constitutes less than 2% of the Company's total property. Preliminary discussions have been held with interested parties, but the Company has made no decisions with regard to this matter. Any proposed sale would be subject to approval by various regulatory agencies. While there is no assurance that this transaction will in fact be consummated, if consummated the Company could use all or a portion of the proceeds to redeem all or a portion of certain series (including but not limited to the series referenced in the preceding paragraph) of its outstanding FMB at special redemption prices, at or near par, pursuant to and in compliance with applicable provisions of its mortgage and deed of trust.

3

INCOME TAXES

The components of income tax expense (credit) are shown in Table 3-A.

Table 3-A

For the Years Ended December 31

1989 1988 1987

(In Thousands)

	1989	1988	1987
Current:			
Federal	\$ 9,227	\$ 2,222	\$18,881
State	(788)	4,505	167
Total	8,439	6,727	13,498
Deferred - net:			
Liberalized depreciation	28,697	30,960	28,419
Alternative minimum tax	(16,126)	5,850	(19,704)
Coal freight settlement	4,987	(6,406)	—
Net operating loss carryforward	10,025	(31,053)	--
Interest on tax deficiency	4,369	3,237	(812)
Amortization of excess deferred tax	(13,287)	(21,385)	(16,008)
Nuclear maintenance expenses	(1,920)	8,459	(10,813)
Deferred revenue and related interest	(2,116)	(1,817)	(8,810)
Nuclear reserve and related interest	(1,165)	5,683	(5,980)
Provision for estimated losses	864	5,542	3,017
Deferred purchased power costs	32,614	45,492	78,659
Deferred excess capacity costs	(3,114)	1,548	11,842
Unbilled revenue	(9,620)	(798)	124
Other	3,060	(3,052)	(1,074)
Total	37,268	42,260	58,860
Investment tax credit adjustments - net	3,543	(1,972)	4,190
Recorded income tax expense	\$49,250	\$47,015	\$76,548
Charged to operations	\$28,866	\$25,501	\$62,486
Charged to other income	20,384	21,514	14,062
Recorded income tax expense	49,250	47,015	76,548
Income taxes applied against the debt component of AFDC	77	72	182
Total income taxes	\$49,327	\$47,087	\$76,730

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 shown in Table 3-B.

Table 3-B

For the Years Ended December 31	1989		1988		1987	
	Amount (000)	% of Pre-Tax Income	Amount (000)	% of Pre-Tax Income	Amount (000)	% of Pre-Tax Income
Computed at statutory rate	\$61,618	34.0%	\$60,576	34.0%	\$87,083	40.0%
Increases (reductions) in tax resulting from:						
Amortization of excess deferred tax	(13,287)	(7.3)	(21,385)	(12.0)	(16,008)	(7.4)
State income taxes net of federal income tax effect	6,514	3.6	6,831	3.8	8,291	3.8
Other - net	(5,595)	(3.1)	993	0.6	(2,821)	(1.2)
Recorded income tax expense	49,250	27.2	47,015	26.4	76,548	35.2
Income taxes applied against debt component of AFDC	77	—	72	—	182	—
Total income taxes	\$49,327	27.2%	\$47,087	26.4%	\$76,730	35.2%

Unused investment tax credits at December 31, 1989, amounted to \$22.1 million after the 35% reduction required by the Tax Reform Act of 1986. These credits may be applied against federal income tax liabilities in future years. If not used, they will expire in 1993 through 2004.

The alternative minimum tax (AMT) credit at December 31, 1989 is \$30 million. This AMT credit can be carried forward indefinitely and used against regular income tax. A net operating loss carryforward at December 31, 1989, amounted to approximately \$52.6 million and is available to offset taxable income in future years. If not used, it will expire in 2003.

Pursuant to an order of the APSC dated March 1, 1982, the Company ceased providing deferred taxes on certain timing differences which were previously normalized. However, the order requires the Company to continue providing deferred taxes on applicable decommissioning costs of nuclear plant and provides for continued normalization of timing differences which are required by the Internal Revenue Code or state law. In addition, the APSC approved normalization for deferred purchased power costs per the Revised Settlement Agreement.

Cumulative income tax timing differences for which deferred income tax expense has not been provided are \$279.7 million, \$272.2 million and \$251.9 million at December 31, 1989, 1988 and 1987, respectively.

In December 1987, the FASB issued SFAS No. 96, "Accounting for Income Taxes", which was scheduled to be effective for fiscal years beginning after December 15, 1988. The FASB subsequently issued statements numbers 100 and 103, which delayed the effective date of SFAS No. 96 to fiscal years beginning after December 15, 1991. During this extension period, the FASB will be considering various requests for amendments to SFAS No. 96. SFAS No. 96 expands the requirements to record deferred income taxes for all temporary differences that are reported in one year for financial reporting purposes and a different year for tax purposes. This will require the recognition of deferred tax balances for certain items not previously reflected in the financial statements, such as a deferred tax liability relating to AFDC. Under the liability method adopted by SFAS No. 96, deferred tax balances will be based on enacted tax laws at tax rates that are expected to be in effect when the temporary differences reverse. However, based on a preliminary study, the Company expects that the adoption of SFAS No. 96, in its present form, would result in a net increase in accumulated deferred income taxes with a corresponding increase in assets. It is not expected that results of operations for the Company would be significantly impacted by the adoption of SFAS No. 96 in its present form.

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COMMITMENTS AND CONTINGENCIES

Construction

The Company's construction program contemplates expenditures (including AFDC and excluding nuclear fuel) of approximately \$148.4 million in 1990, \$143.8 million in 1991, and \$151.7 in 1992.

Availability Agreement and Reallocation Agreement

The System operating companies are severally obligated, under the Availability Agreement in accordance with stated percentages (the Company, 17.1%; LP&L, 26.9%; MP&L, 31.3%; and NOPSI, 24.7%), to make payments or subordinated advances in amounts that, when added to any amounts received by System Energy under the Unit Power Sales Agreement or otherwise, are adequate to cover all of the operating expenses, including depreciation and interest charges, of System Energy. (See Note 2 to the Financial Statements - "Rate and Regulatory Matters - Unit Power Sales Agreement and Controversies Concerning Grand Gulf 1.") System Energy has, with the consent of the System operating companies, assigned its rights to payments and advances from the System operating companies under the Availability Agreement to certain creditors as security for certain of its indebtedness for borrowed money. Payments or advances under the Availability Agreement are only required to be made to the extent System Energy's receipts from all sources, including the Unit Power Sales Agreement approved by the FERC, are less than the amount required under the Availability Agreement. In June 1989, System Energy and the System operating companies, with the prior consent of such creditors, amended the Availability Agreement so that the Grand Gulf 2 write-off (discussed in Note 2 to the Financial Statements, "Rate and

Regulatory Matters - FERC Settlement") would be amortized for Availability Agreement purposes over 27 years rather than in the month the write-off was recognized on System Energy's books. This amendment was made so that the write-off of Grand Gulf 2 in September, 1989 would not cause a payment by the System operating companies to be required under the Availability Agreement. Since commercial operation of Grand Gulf 1, payments under the Unit Power Sales Agreement (which include a return on equity) have exceeded the amounts payable under the Availability Agreement (which does not cover a return on equity). Accordingly, no payments have ever been required under the Availability Agreement.

In November 1981, the System operating companies entered into a Reallocation Agreement, which would have allocated the capacity and energy available to System Energy from the Grand Gulf Station and the related costs to LP&L, MP&L, and NOPSI. These companies thus agreed to assume all the responsibilities and obligations of the Company with respect to the Grand Gulf Station under the Availability Agreement, with the Company relinquishing its rights to the capacity and energy of the Grand Gulf Station. Each of the System operating companies, including the Company, would have remained primarily liable to System Energy and its assignees for payments or advances under the Availability Agreement and assignments thereof. The Company was obligated to make its share of the payments or advances only if the other System operating companies were unable to meet their contractual obligations. However, the FERC's June 13 Decision allocating a portion of Grand Gulf 1 capacity and energy to the Company supercedes the Reallocation Agreement insofar as it relates to Grand Gulf 1.

Responsibility for Grand Gulf 2 amortization amounts described above has been allocated to LP&L, MP&L, and NOPSI under the terms of the Reallocation Agreement entered into in 1981. The Company is liable for its share of such amounts only if the other System operating companies are unable to meet their contractual obligations. No payments of any amortization amounts will be required as long as amounts paid to System Energy under the Unit Power Sales Agreement, together with other funds available to System Energy, exceed amounts required under the Availability Agreement, which is expected to be the case for the foreseeable future.

Unit Power Purchase Agreement

The Company and MP&L were parties to a Unit Power Purchase Agreement, which terminated in December 1989,

for the sale to MP&L of the Company's 31.5 percent share of capacity and energy from ISES 2. The Company's revenue associated with the sale of such capacity to MP&L, was approximately \$27 million in 1989. Future earnings will be adversely impacted, unless the Company is able to sell this capacity to other parties or to mitigate its impact by other means. (See Note 2 to the Financial Statements - "Rate and Regulatory Matters - Entergy Power" with respect to the Company's proposal to sell its interest in ISES 2 and Ritchie 2 to Entergy Power.)

SFI

The Company has a 35 percent interest in SFI, a jointly owned subsidiary of the System operating companies. SFI operates on a non-profit basis for the purpose of implementing programs for the procurement, delivery and storage of fuel supplies for the System operating companies. Its costs are primarily recovered through charges for fuel delivered.

As of December 31, 1989 the Company had \$11 million of loans outstanding to SFI which mature December 31, 2008.

SFI's parent companies, including the Company, have covenanted and agreed, severally in accordance with their respective shares of ownership of SFI's common stock, that they will take any and all action necessary to keep SFI in a sound financial condition and to place SFI in a position to discharge, and to cause SFI to discharge, its obligations in connection with long-term leases of oil storage and handling facilities and coal cars having, at December 31, 1989, an aggregate discounted value of approximately \$67.0 million.

Fuel exploration and development activities of SFI have declined over recent years and some fuel programs are being phased out or transferred to other parties. In this connection, certain charges and credits relating to SFI's investment in the fuel programs may be allocated to the System operating companies, including the Company. Any such charges or credits allocated to the Company are not expected to significantly affect future results of operations.

On October 3, 1989, SFI entered into a revolving credit agreement with banks that provides for up to \$45 million of borrowings to finance SFI's nuclear materials and services

inventory. In connection with these arrangements, the Company, LP&L, and System Energy, as purchasers from SFI of the nuclear materials and services, agreed to purchase from SFI the nuclear materials and services financed under the agreement if SFI should default in its obligations thereunder. The purchases under these circumstances would be of percentages agreed upon between the parties but, in the absence of such agreement, the Company, LP&L, and System Energy would each be obligated to purchase one-third of SFI's nuclear materials and services inventory.

Coal

SFI contracted with a joint venture for a supply of coal from a mine in Wyoming which, based on estimated reserves, is presently expected to provide the projected requirements of ISES through at least 2014. This contract was assigned to the Company with SFI having no further obligations or involvement under the contract effective December 31, 1987. Under the contract with the joint venture, 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 and, hence, the amount to be paid to it as a component of the price of coal, the contract provided that SFI invest all funds for plant and equipment in excess of a specified amount. The Company, MP&L, Arkansas Electric Cooperative Corporation (AECC) and the City of Jonesboro, as co-owners, in part, of ISES (owning 96.5% collectively), previously agreed to make, or cause to be made, the investments rather than SFI and, accordingly, reimburse SFI for SFI's previous investments. At December 31, 1989, the Company had a net investment of \$15.6 million in mine facilities and related capitalized assets. The Company has made the required investments on behalf of the other co-owners of ISES (owning 3.5% collectively) and is billing them monthly for the depreciation and carrying cost of these investments.

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Arkansas Power & Light Company

The Company has agreed to purchase, over an approximate 20-year period, which began in 1980, 100 million tons of coal for use at the White Bluff Steam Electric Generating Station.

Nuclear Fuel

The Company has agreements with Babcock & Wilcox Company and the Combustion Engineering Company for the fabrication of fuel assemblies used at the ANO Station.

On December 22, 1988, the Company entered into a new nuclear fuel lease which permits the lease of up to \$195 million of nuclear fuel. The lessor finances its acquisition and ownership of nuclear fuel under a credit agreement and through the issuance of intermediate term notes. The credit agreement has a term of five years and the intermediate term notes have varying maturities of up to 10 years. It is contemplated that the credit arrangement will be extended or alternative financing will be secured by the lessor upon the maturity of the current arrangements based on the Company's nuclear fuel requirements. If the lessor cannot arrange for alternative financing upon the regularly scheduled maturity of its borrowings, the Company must purchase nuclear fuel in an amount equal to the amount required by the lessor to retire such borrowings. (See Note 5 to the Financial Statements - "Leases.")

Spent Nuclear Fuel and Decommissioning Cost

Under the Nuclear Waste Policy Act of 1982 (Act), the DOE is required to construct storage facilities for and dispose of all spent nuclear fuel and other high level radioactive waste generated by domestic nuclear power reactors, for a specified fee. The NRC, pursuant to this Act, also requires operators of nuclear power reactors to enter into spent fuel disposal contracts with the DOE. Under the terms of the Company's nuclear fuel lease, the Company is responsible for the disposal of spent nuclear fuel. The Company has entered into contracts with the 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 net generation after April 7, 1983, plus

one-time fees for generation prior to that date. The Company has selected an option made available by the DOE to pay the one-time fee, plus interest accrued, no earlier than 1998. The fees payable to the DOE may be adjusted in the future to assure full cost recovery. The Company has recorded a liability of approximately \$82.4 million including accrued interest at December 31, 1989, for payment to the DOE for the disposal of all spent nuclear fuel on hand at April 6, 1983. The Company considers all costs incurred or to be incurred in connection with disposal of nuclear fuel to be proper components of nuclear fuel expense and provisions to recover such costs have been or will be made in applications to regulatory authorities.

Under the Act, the DOE was to begin accepting spent fuel in 1998 and continue until the disposal of all fuel from reactor sites is accomplished. However, the DOE's repository program has been delayed. Based on the DOE's current schedule for acceptance of spent nuclear fuel, the Company's initial shipment of spent fuel to the DOE storage facilities will occur in 2011. In the meantime, the Company will be responsible for storage of spent fuel. The Company estimates that on-site spent fuel storage capacity at ANO 1 and ANO 2 will be sufficient to store fuel from normal operation until the mid 1990's. It is expected that any additional storage capacity required due to, among other things, delay of the DOE repository program will be provided by the Company.

In addition to the recovery of costs associated with the disposal of spent nuclear fuel, the Company is also recovering decommissioning costs for its two nuclear units. These amounts are deposited in external trust funds that can only be used for future decommissioning costs. The Company regularly reviews and updates estimated decommissioning costs to reflect inflation and changes in regulatory requirements and technology. Decommissioning costs for ANO are estimated to be approximately \$399.4 million (in 1986 dollars). The Company has been authorized to recover through rates, amounts which, when added to estimated trust investment income during the collection period, are expected to be sufficient to meet estimated decommissioning costs. These rates are reviewed and adjusted annually and are subject to regulatory approval. (See Arkansas - Rate Riders section of Note 2 to the Financial Statements - "Rate and Regulatory Matters.")

Nuclear Insurance

The Price-Anderson Act provides for a limit of public liability for a single nuclear incident. As of December 31, 1989 the limit of public liability for such type of incident is \$7.741 billion. The Company is protected against this liability by a combination of private insurance (presently \$200 million) and an industry assessment program. Under the assessment program, the maximum amount the Company would be required to pay, with respect to each nuclear incident at a licensed nuclear facility would be approximately \$66 million per reactor (such amount to be indexed every five years for inflation and includes a 5 percent surcharge in the event total public liability claims and legal costs approach or exceed the limit of protection otherwise established), payable at a rate of \$10 million per licensed reactor per incident per year. At December 31, 1989, the Company had two licensed reactors.

The Company is a member of certain insurance programs that provide coverage for property damage, including decontamination expense, to members' nuclear generating plants. At December 31, 1989, the Company was insured against such losses up to \$1.675 billion. In addition, the Company is a member of an insurance program that provides insurance coverage for certain costs of replacement power incurred due to certain prolonged outages of nuclear units. Under the property damage and replacement power insurance programs, the Company could be subject to assessments if losses exceed the accumulated funds available to the insurer. At December 31, 1989, the maximum amount of such assessments for the Company was \$12.92 million.

The amount of property insurance presently carried by the Company exceeds the NRC's minimum requirement for nuclear power plant licensees of \$1.06 billion per site. The NRC regulations further provide that the proceeds of this insurance must be used, first, to place and maintain the reactor in a safe and stable condition and, second, segregated in a trust administered by an independent trustee and used to complete required decontamination operations. Only after proceeds are used or dedicated for such use and appropriate regulatory approval obtained would the balance of these proceeds, if any, be available to plant owners or their creditors. On October 27, 1989, the NRC proposed an amendment to its property insurance regulations to eliminate the independent trustee requirement. It is anticipated that the proposed rule will be finalized in early April 1990. The Company is unable to predict what effect the NRC's regulations would have at the time when insurance proceeds would be made available.

NRC Actions

During 1989, several civil penalties were assessed by the NRC against the Company that resulted in fines paid by the Company aggregating \$200,000. In addition, on April 24, 1989, the NRC staff proposed to fine the Company \$75,000 for having inadequate documentation in 1986 to ensure that certain electrical components at ANO would perform as designed when subjected to harsh conditions predicted to occur during a "worst case" accident. However, the NRC concluded that the equipment would have performed as required in such conditions and at no point was plant safety compromised. On June 22, 1989, the Company contested the violation. The matter is pending.

As a result of incidents such as those that led to the assessment of these civil penalties by the NRC, the Company initiated a review of its management controls and policies at ANO. This review resulted in significant organizational, procedural and management changes at ANO in 1989.

In August and September, 1989, the NRC conducted a special Diagnostic Evaluation ("DE") of ANO to more fully evaluate ANO's overall performance and the effects of corrective actions previously implemented by the Company. The DE, which is a broad-based evaluation of overall plant operations designed to be used to improve plant performance and more precisely focus the NRC inspection program, reported that, while recent management changes and initiatives were having a positive effect, ANO had several substantial management, organizational and technical problems that needed increased management attention. These problems, the report concluded, were caused by a number of longstanding deficiencies at ANO.

Also, the NRC, as part of its continuing review and assessment program, performed a Systematic Assessment of Licensee Performance ("SALP") evaluation of ANO covering the period July 1, 1988 through September 30, 1989. In the SALP report, the NRC determined that lower ratings for the latest SALP performance period relative to the prior period were warranted in four of seven functional areas. ANO received ratings of "3" in two functional areas, indicating performance not significantly exceeding that needed to meet minimal regulatory requirements. The findings of the DE reviewers were considered in the SALP report ratings.

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In addition, on January 22, 1990, the NRC notified the Company of a violation and a proposed \$75,000 fine for wiring discrepancies at ANO brought to the Company's attention by the DE team. On February 22, 1990, the Company responded to the violation by paying the \$75,000 fine.

On March 15, 1990, the Company submitted to the NRC a joint response to the DE and SALP reports. In the response, the Company addressed each of the specific problem areas raised by the NRC and set forth a comprehensive action plan that should significantly improve the operations and safety of ANO over the next few years. The Company believes that the management, procedural and organizational changes effected in 1989, and further changes to be made in response to the NRC reports, should produce significant improvement in the problem areas cited by the NRC. However, the Company cannot predict what additional action, if any, the NRC may take regarding ANO. The Company is committed to taking the actions necessary to achieve high standards of operation and safety at ANO.

In May 1989, the NRC issued a license amendment, based upon the Company's identification of a previously unanalyzed small break in the High Pressure Injection ("HPI") System piping, limiting ANO 1's maximum power level to 80%. The Company made modifications to the HPI System to address this problem in December 1989. However, these modifications introduced unacceptable vibrations in the HPI System and were removed. ANO 1 was

in service in December 1989 at a maximum power level of 80% to which level it is permitted to remain until the system problem is corrected. The Company is committed to correct this problem during ANO 1's next refueling outage, scheduled for late 1990.

Shareholder Litigation

Entergy Corporation and certain other Middle South Electric System companies and individuals are defendants in a consolidated purported class action suit. The initial complaint was filed on August 19, 1985, by an Entergy Corporation shareholder (purporting to represent a class that purchased Entergy Corporation common stock). Four similar complaints were filed on August 20, 1985, August 23, 1985, September 6, 1985 and September 19, 1985, respectively, by shareholders of Entergy Corporation (purporting to represent classes that purchased Entergy Corporation common stock). The five actions were consolidated in the United States District Court for the Eastern District of Louisiana (District Court). The consolidated, amended and supplemental complaint alleges violations of the disclosure requirements of the Securities Exchange Act of 1934 and the Securities Act of 1933, common law fraud and common law negligent misrepresentation in connection with the financial condition of Entergy Corporation and prays for compensatory and punitive damages, legal costs and fees and other proper relief against Entergy Corporation, System Energy, LP&L, MP&L, the Company and NOPSI; certain current members and former members of Entergy Corporation's Board of Directors; certain officers and former officers of Entergy Corporation, System Energy, LP&L, MP&L, the Company and NOPSI; the independent auditor of Entergy Corporation; and certain underwriters of Entergy Corporation common stock. On March 14, 1986, the plaintiffs in the consolidated action filed a Motion for Class Action Determination. On April 18, 1986, Entergy Corporation and certain other System companies, including the Company and individual defendants (System defendants), filed a Motion to Dismiss or, in the alternative, a Motion for Summary Judgment. On January 12, 1987, the District Court entered a judgment granting defendants' Motions for Summary Judgment and dismissed the suit. On February 6, 1987, the plaintiffs in the consolidated action filed a Notice of Appeal with the United States Court of Appeals for the Fifth Circuit (Fifth Circuit). On June 7, 1988, the Fifth Circuit rendered a decision vacating

the judgment of the District Court, based, in part, on the conclusion that the District Court had not adequately explained the bases for its decision. In remanding the case to the District Court for further proceedings, the Fifth Circuit suggested that the District Court could again consider the merits of the System defendants' Motions for Summary Judgment and determine, with the benefit of certain guidelines as to the interpretation of governing law articulated by the Fifth Circuit, whether the defendants are entitled to summary judgment as a matter of law. The District Court was directed, if it makes such a determination, to provide a detailed analysis supporting its conclusions that would facilitate judicial review. Alternatively, the Fifth Circuit noted, the District Court could decline to rule on the defendants' Motions for Summary Judgment until further development of the case has taken place and the issues have been narrowed through the available pre-trial techniques. Based upon the Fifth Circuit's decision, the District Court allowed the parties to rebrief the Motion for Summary Judgment and, on January 17, 1989, the System defendants filed a Renewed Motion for Summary Judgment and a verified answer to the consolidated, amended and supplemental complaint. On July 20, 1989, the plaintiffs filed a memorandum in opposition to the Renewed Motion for Summary Judgment. On September 29, 1989 the System defendants filed reply papers to plaintiffs' opposition. The District Court has scheduled the trial to commence on March 4, 1991. The outcome of this matter and its impact on the Company's financial condition cannot be predicted. The matter is pending.

LEASES

At December 31, 1989, the Company had obligations under capitalized leases of approximately \$265.4 million. Included in this amount is approximately \$168.0 million associated with its nuclear fuel lease. (See Note 4 to the Financial Statements - "Commitments and Contingencies - Nuclear Fuel.")

Rental expense for capital and operating leases (excluding the nuclear fuel lease expense) amounted to approximately \$24.3 million, \$23.6 million and \$18.3 million in 1989, 1988 and 1987, respectively. Nuclear fuel expense, exclusive of negative salvage, of \$60.2 million in 1989, \$61.1 million in 1988 and \$74.1 million in 1987 was charged to operations.

At December 31, 1989, there were noncancellable leases with minimum rental commitments as shown in Table 5-A. Table 5-A excludes nuclear fuel obligations relating to the unrecovered cost base of the Company's lease, which at December 31, 1989, was \$168.0 million. Reduction of this obligation for nuclear fuel is based upon nuclear fuel usage.

Table 5-A: Minimum Rental Commitments

Years	Capital Leases	Operating Leases
	<i>(In Thousands)</i>	
1990	\$ 19,271	\$ 7,395
1991	19,289	6,986
1992	19,289	6,218
1993	16,432	6,122
1994	13,376	5,992
For years thereafter	98,240	12,243
Total	\$185,897	\$44,956
Less: Amount Representing		
Interest	(88,524)	
Present Value of Net Minimum Lease Payments	\$ 97,373	

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POSTRETIREMENT BENEFITS

In conjunction with the sale of ANG (see Note 1 to the Financial Statements - "Summary of Significant Accounting Policies"), in 1988 the assets and benefit obligations of the Company's pension plans were merged, effective January 1, 1987, through an amendment and restatement of the Company's primary pension plan. The provisions of the plans were substantially the same but covered employees in different divisions of the Company and ANG. On June 1, 1988, under the terms of the sale agreement between the Company, ANG and Arkansas Western Gas Company (Arkansas Western), Arkansas Western assumed the assets and benefit obligations, effective January 1, 1987, which were related to active ANG participants at June 1, 1988. The Company's plan, as amended, retained the net assets and benefit obligations associated with all ANG retirees as of June 1, 1988.

The Company's pension plan, as amended, covers substantially all employees of the Company. Benefits are based on years of service and the employee's compensation during the last ten years of employment. The Company's funding policy is to fund pension costs in accordance with contribution guidelines established by the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code of 1986, as amended.

The plan is administered by a trustee who is responsible for pension payments to retired employees. Various investment managers have responsibility for management of the plan's assets. In addition, an independent actuary performs the necessary actuarial valuations for the Company's plan. The components of the Company's 1989, 1988 and 1987 pension cost, as determined by the actuary, are shown in Table 6-A.

Total pension expense of the Company for 1989, 1988 and 1987 was approximately \$2.3 million, \$0.4 million and \$6.3 million, respectively. The Company adopted SFAS No. 87 "Employers' Accounting for Pensions" effective January 1, 1987.

The assets of the plan consist primarily of common and preferred stocks, fixed income securities and insurance contracts.

The funded status of the plan at December 31, 1989 and 1988 is presented in Table 6-B. The weighted average discount rate and rate of increase in future compensation used in determining the actuarial present values of the

projected benefit obligation were 9.0 percent and 5.6 percent, respectively for both 1989 and 1988. The expected long-term rate of return on plan assets was 8.5 percent in 1989 and 1988. Transition assets are being amortized over 15 years.

The Company also provides certain healthcare 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 similar 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 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 years are shown in Table 6-C.

Table 6-A: Pension Cost Components

December 31	1989	1988	1987
	<i>(In Thousands)</i>		
Service cost - benefits earned during the period	\$ 5,968	\$ 5,649	\$ 6,875
Interest cost on projected benefit obligation	15,196	14,212	14,004
Actual return on plan assets	(42,495)	(23,737)	(6,332)
Net amortization and deferral	23,672	4,286	(11,887)
Net pension cost	\$ 2,341	\$ 410	\$ 2,660

Table 6-B: Funded Status of Plan

December 31	1989	1988
	<i>(In Thousands)</i>	
Actuarial present value of accumulated pension plan benefits:		
Vested	\$ 147,005	\$ 126,299
Nonvested	8,298	10,665
Accumulated benefit obligation	\$ 155,303	\$ 136,964
Projected benefit obligation	\$(197,371)	\$(173,179)
Plan assets at fair value	229,759	198,335
Plan assets in excess of projected benefit obligation	32,388	25,156
Unrecognized prior service costs	296	—
Unrecognized transition assets	(28,029)	(30,365)
Unrecognized net (gain) loss	(27,976)	(15,771)
Accrued pension asset (liability)	\$ (23,321)	\$ (20,980)

Table 6-C

December 31	1989	1988	1987
Total cost of health care and life insurance (In Thousands)	\$12,874	\$8,370	\$6,524
Average number of active employees	4,711	4,658	4,922
Average number of retired employees	1,319	1,213	1,214

LINES OF CREDIT AND SHORT-TERM BORROWINGS

Under the Public Utility Holding Company Act of 1935, the Company has authorization from the SEC to have outstanding short-term borrowings aggregating \$125.0 million at any one time through 1990. See Table 7-A for short-term borrowings and the applicable interest rates (determined by dividing applicable interest expense by the average amount borrowed) for the Company.

The Company had \$62.5 million and \$42.8 million in lines of credit with Arkansas banks at December 31, 1989 and 1988, respectively. The Company had no outstanding borrowings under these lines of credit at year-end 1989 or 1988. In addition, the Company had approximately \$667,000 in other short-term borrowings at December 31, 1989 and 1988, respectively.

The Company participates with certain other companies of the Middle South Electric System in a money pool (Money Pool) arrangement whereby those System companies with available funds make short-term loans to other System companies (other than Entergy Corporation) having short-term borrowing requirements. The Company may borrow from these sources subject only to its maximum authorized level of short-term borrowings. At December 31, 1989, the Company had \$27 million in outstanding borrowings from the Money Pool.

Table 7-A

Years Ended December 31	1989	1988	1987
<i>(In Thousands)</i>			
Maximum month-end borrowing	\$30,968	\$51,172	\$667
Year-end borrowing	\$27,667	\$667	\$667
Average borrowing:			
Bank loans	\$6,023	\$21,001	\$361
Associated companies ..	\$1,881	—	—
Other	\$667	\$667	\$667
Average interest rate:			
During the period -			
Bank loans	11.05%	9.15%	8.28%
Associated companies	8.62%	—	—
Other	11.00%	9.35%	8.30%
At end of period -			
Bank loans	—	—	—
Associated companies	7.97%	—	—
Other	10.50%	10.50%	8.75%

RETAINED EARNINGS

The indentures relating to the Company's long-term debt and provisions of the amended and restated articles of incorporation relating to the Company's preferred stock provide for restrictions on the payment of cash dividends on common stock and acquisition of outstanding shares of the Company's common stock. As of December 31, 1989, \$123.2 million of retained earnings were free from such restrictions. However, as discussed in Note 9 to the Financial Statements - "Preferred and Common Stock", the Company acquired \$100 million of its outstanding common stock on January 22, 1990, thereby reducing retained earnings free from such restrictions by \$100 million.

The Company did not declare any common stock dividends from the second quarter of 1985 until July, 1987. Since 1987, the Company has paid quarterly common stock dividends to Entergy Corporation aggregating \$97.7 million, \$48.2 million and \$22.6 million in 1989, 1988 and 1987, respectively.

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PREFERRED AND COMMON STOCK

A special meeting of the Company's common and preferred stockholders was held on October 19, 1988, and adjourned to November 9, 1988. The stockholders adopted a proposal to create a new class of 15,000,000 shares of preferred stock with a par value of \$0.01. As of December 31, 1989, none of this stock had been issued.

To issue additional preferred stock, the Company must meet a minimum earnings coverage requirement of 1.5 times annual interest requirements and preferred stock dividend requirements. The Company's charter provides

that the Company may issue preferred stock to refund outstanding preferred stock without meeting an earnings coverage test. The earnings coverages for preferred stock were 1.71 and 1.74 at December 31, 1989 and 1988, respectively. Based upon the most restrictive test and on an assumed dividend rate of 10 percent, the issuable amount of additional preferred stock was \$204 million at December 31, 1989.

In December, 1987, the Company reduced the par value of all common stock from \$12.50 per share to \$0.01 per share. This resulted in an increase in paid-in capital of approximately \$686.7 million and a corresponding decrease in par value of common stock.

The Company received SEC approval to purchase from its parent, Entergy Corporation, up to \$100 million of the Company's common stock. On January 22, 1990, the Company repurchased from Entergy Corporation, 8 million shares of the Company's common stock, \$0.01 par value, at a purchase price of \$12.50 per share for an aggregate purchase price of \$100 million.

Table 9-A: Changes in Shares Outstanding

During the Year	1989	1988	1987
Common stock shares sold	—	—	—
Preferred stock shares sold (retired):			
\$100 par value	(48,000)	(53,337)	(38,555)
\$25 par value	(199,086)	(337,218)	(391,325)

Table 9-B: Preferred Stock Outstanding

At December 31	1989	1988
	<i>(In Thousands)</i>	
Without sinking fund:		
Stated at \$100 a share	\$101,350	\$101,350
Stated at \$25 a share	25,000	25,000
Premium and expense, net	540	540
Total preferred stock without sinking fund	\$126,890	\$126,890
With sinking fund:		
Stated at \$100 a share	\$ 73,030	\$ 77,800
Stated at \$25 a share	55,688	60,665
Premium and expense, net	(1,134)	(1,086)
Total preferred stock with sinking fund	\$127,554	\$137,379

Table 9-C: Preferred Shares Outstanding

At December 31	Shares Authorized	Shares Outstanding		Current Call Price Share
		1989	1988	
Cumulative, \$100 Par Value:				
Without sinking fund:				
4.32% series	70,000	70,000	70,000	\$ 103.647
4.72% series	93,500	93,500	93,500	107.000
4.56% series	75,000	75,000	75,000	102.830
4.56% 1965 series	75,000	75,000	75,000	102.500
6.08% series	100,000	100,000	100,000	102.830
7.32% series	100,000	100,000	100,000	103.170
7.80% series	150,000	150,000	150,000	103.250
7.40% series	200,000	200,000	200,000	102.800
7.88% series	150,000	150,000	150,000	103.000
Total	1,013,500	1,013,500	1,013,500	
With sinking fund*:				
10.60% series	90,000	90,000	98,000	106.740
11.04% series	140,000	140,000	180,000	107.020
8.52% series	500,000	500,000	500,000	108.520
Total	730,000	730,000	778,000	
Unissued	1,986,500	—	—	
Total, \$100 Par Value	3,730,000	1,743,500	1,791,500	
Cumulative, \$25 Par Value:				
Without sinking fund:				
8.84% series	400,000	400,000	400,000	27.110
10.40% series	600,000	600,000	600,000	27.300
Total	1,000,000	1,000,000	1,000,000	
With sinking fund*:				
9.92% series	1,027,518	1,027,518	1,109,478	26.940
13.28% series	1,200,000	1,200,000	1,317,126	28.220
Total	2,227,518	2,227,518	2,426,604	
Unissued	5,772,482	—	—	
Total, \$25 Par Value	9,000,000	3,227,518	3,426,604	
Cumulative, \$0.01 Par Value:				
Unissued	15,000,000	—	—	
Total, \$0.01 Par Value	15,000,000			

* 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. Beginning November 1, 1991, the 8.52% series is to be redeemed at the rate of 25,000 shares each year. In addition, the Company has the non-cumulative option to redeem an additional like amount of said shares each year.

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LONG-TERM DEBT

Table 10-A: Long-Term Debt

At December 31

1989 1988

(In Thousands)

	1989	1988
First Mortgage Bonds:		
5 5/8% series due 1990	\$ 500	\$ 600
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
6 1/4% series due 1996	1,760	1,960
5 7/8% series due 1997	30,000	30,000
8 3/4% series due 1998	6,200	6,600
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	2,800	3,000
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	50,000	75,000
13 1/4% series due 2013	—	25,000
14 1/8% series due 2014	100,000	100,000
10 1/4% series due 2016	50,000	50,000
9 3/4% series due 2019	75,000	—
Total First Mortgage Bonds	938,260	914,160
Installment Purchase Contracts:		
Pope County, Arkansas; due 1989 to 2015 at rates ranging from 7-1/4% to 11% *	140,505	140,580
Jefferson County, Arkansas; due 1989 to 2008 at rates ranging from 6-1/8% to 10%	67,525	68,375
Independence County, Arkansas; due 2013 at rate of 11-1/8%	45,000	45,000
Total Installment Purchase Contracts	253,030	253,955
Long-Term Obligation - Department of Energy (Note 4)	82,393	75,733
Unamortized Premium and Discount on Debt - Net	(6,554)	(5,828)
Total Long-Term Debt	1,267,129	1,238,020
Less: Currently Maturing Portion	3,080	2,580
Long-Term Debt Excluding Amount Due Within One Year	\$1,264,049	\$1,235,440

* \$120 million, 11% Pope County, Arkansas Pollution Control Revenue Bonds due December 2015, issued December 1985, are secured by \$128.8 million, 0.0% First Mortgage Bonds.

At December 31, 1989, the sinking fund requirements and maturities for long-term debt for the years 1990 through 1994 are illustrated in Table 10-B.

Table 10-B: Sinking Fund Requirements and Long-Term Debt Maturities

Year	Cash Sinking Fund	Sinking Fund *	Maturities**
	<i>(In Thousands)</i>		
1990	\$900	\$6,388	\$ 1,425
1991	800	6,268	13,135
1992	800	6,268	1,225
1993	800	6,898	16,350
1994	800	7,118	1,470

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

** These maturities do not reflect \$755,000 pollution control revenue bonds which are subject to redemption at the option of the holders of such bonds at a redemption price of 100%.

The Company received regulatory approval allowing the sale of up to \$270 million additional FMB through February 28, 1991. Pursuant to this authorization, the Company issued \$75 million 9 3/4% FMB in July, 1989, and \$150 million 10% FMB February 1, 1990.

To issue additional FMB the Company must meet a minimum earnings coverage requirement of 2.0 times the annual mortgage interest requirements. The amount of additional FMB the Company may issue is limited to the lesser of such additional amounts based on mortgage coverage ratios or unfunded bondable property. In addition, the Company has the ability, subject to meeting certain conditions, to issue bonds against the retirement of bonds without meeting an earnings test. Earnings coverage amounts at December 31, 1989, and 1988, for the Company's FMB were 2.86 and 2.76, respectively. Based upon the most restrictive test and on an assumed interest rate of 10 percent, issuable amounts at December 31, 1989 were \$384 million.

In conjunction with the July, 1989 issuance of \$75 million 9 3/4% FMB discussed above, on July 11, 1989, \$25 million FMB, 13 1/4% Series due February 1, 2013 and \$25 million of the outstanding \$75 million FMB, 13 3/8% Series due December 1, 2012 were redeemed by the Company.

In addition, the Company has also received regulatory approval to proceed with arrangements for the possible redemption, purchase or other acquisition of all or a portion of certain outstanding series of the Company's high interest rate FMB up to an aggregate principal amount of \$200 million. The remaining series of the Company's FMB being considered for redemption or acquisition include, but may not be limited to, the balance of the 13 3/8% series due December 1, 2012, and the 14 1/8% series due December 1, 2014. Reference is made to the Entergy Power and Missouri Operations sections of Note 2 to the Financial Statements - "Rate and Regulatory Matters" for information regarding the possible redemption of all or a portion of certain series of the Company's outstanding FMB at special redemption prices, at or near par, pursuant to and in compliance with applicable provisions of its mortgage and deed of trust.

TRANSACTIONS WITH ASSOCIATED COMPANIES

The Company buys from and sells electricity to the operating companies of the Middle South Electric System, under rate schedules filed with the FERC. The Company also purchases capacity and energy from a System Energy's Grand Gulf 1. In addition, the Company purchases fuel from SFI and receives technical and advisory services from Entergy Services, Inc.

Operating revenues include revenues from sales to associated companies amounting to \$218.1 million in 1989, \$223.2 million in 1988 and \$252.0 million in 1987. Operating expenses include charges from affiliates for fuel cost, purchased power, and technical and advisory services totaling \$322.1 million in 1989, \$387.8 million in 1988 and \$383.7 million in 1987.

The Company and MP&L were parties to a Unit Power Purchase Agreement which terminated in December, 1989 for the sale to MP&L of the Company's 31.5 percent share of capacity and energy from ISES 2. The Company's before-tax income associated with the sale of such capacity to MP&L was approximately \$27 million in 1989.

NOTES TO FINANCIAL STATEMENTS

Arkansas Power & Light Company

12

CASH AND CASH EQUIVALENTS

For purposes of the Statements of Cash Flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The supplemental disclosures required by SFAS No. 95 "Statement of Cash Flows" are shown in Table 12-A.

Table 12-A: Supplemental Disclosures

For the Years Ended: December 31	1989	1988	1987
		<i>(In Thousands)</i>	
Cash Paid (Received) During the Year:			
Interest	\$113,476	\$115,835	\$120,444
Interest on capital leases	11,772	11,659	11,489
Daily lease charges - nuclear fuel	13,099	14,683	11,332
Income taxes	(3,667)	4,030	(30,243)
Noncash Investing and Financing:			
Capital lease obligations recorded (Note 5)	\$56,902	\$70,778	\$61,479
First mortgage bonds assumed by purchaser in the sale of ANG	—	(3,780)	—

13

QUARTERLY RESULTS (UNAUDITED)

Operating results for the four quarters of 1989 and 1988 are shown in Table 13-A.

Table 13-A: Quarterly Operating Results

Quarter Ended	March	June	September	December
	<i>(In Thousands)</i>			
1989:				
Operating Revenue	\$317,943	\$319,735	\$427,153	\$317,040
Operating Income	47,665	38,110	80,262	37,345
Net Income	28,872	20,817	63,514	18,776
1988:				
Operating Revenue	\$300,832	\$311,351	\$424,867	\$319,739
Operating Income	40,419	37,985	88,012	23,546
Net Income	27,641	28,635	67,240	7,633

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.

INDEPENDENT AUDITORS' REPORT

Arkansas Power & Light Company

**Deloitte &
Touche**



111 Center Street, Suite 1800
Little Rock, Arkansas 72201-4420

To the Stockholders and Directors of Arkansas Power & Light Company:

We have audited the accompanying balance sheets of Arkansas Power & Light Company as of December 31, 1989 and 1988, and the related statements of income, retained earnings, and cash flows for each of the three years in the period ended December 31, 1989. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes

assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company at December 31, 1989 and 1988, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1989, in conformity with generally accepted accounting principles.

Deloitte & Touche

February 14, 1990

ELEVEN YEARS OF PROGRESS—FINANCIAL¹

Arkansas Power & Light Company

	1989	1988
<i>(In Thousands)</i>		
Selected Financial Data:		
Operating revenues	\$1,381,871	\$1,356,789
Net income	131,979	131,149
Total assets ²	4,052,607	3,928,082
Long-term debt	1,264,049	1,235,440
Preferred stock, with sinking fund	127,554	137,379
Capitalization (end of period):		
Preferred stock and premium/expense, net	\$ 254,444	\$ 264,269
Common stock and paid-in capital	695,851	695,804
Retained earnings	314,602	303,105
Total	1,264,897	1,263,178
Long-term debt:		
First mortgage bonds ³	934,842	912,079
Installment purchase contracts ³	246,814	247,628
Long-term obligations - DOE	82,393	75,733
Total	1,264,049	1,235,440
Total capitalization	\$2,528,946	\$2,498,618

Annual Payment Requirements:

Interest on:		
First mortgage bonds	\$ 89,251	\$ 88,667
Installment purchase contracts	24,400	24,486
Dividends on preferred stock	22,336	23,454

Utility Plant (end of period):

Plant completed ²	\$4,006,899	\$3,895,517
Construction work in progress	90,125	75,387
Nuclear fuel ⁴	168,115	162,942
Total utility plant	4,265,139	4,133,846
Less - accumulated depreciation	1,218,703	1,115,595
Net utility plant	\$3,046,436	\$3,018,251

Income Statement:

Operating revenues	\$1,381,871	\$1,356,789
Operating expenses:		
Fuel and fuel related	297,795	282,051
Purchased power	379,095	435,811
Deferred purchased power	(81,122)	(128,897)
Taxes - deferred purchased power	30,769	48,891
Gas purchased for resale	—	—
Payroll - operation and maintenance	120,100	119,241
Other operation and maintenance	275,404	276,690
Depreciation	123,493	120,030
Taxes	32,955	13,010
Total	1,178,489	1,166,827
Operating income	203,382	189,962
Other income and deductions - net (excluding AFDC)	39,890	51,112
Interest and other charges:		
Interest on long-term debt	120,164	117,873
Other interest - net of debt premium	(3,910)	3,114
Total (excluding AFDC)	116,254	120,987
Income from revenues	127,018	120,087
Income from AFDC ⁵	4,961	11,062
Net income	\$ 131,979	\$ 131,149

NOTES

1. On January 1, 1981, AP&L acquired Arkansas-Missouri Power Company including its wholly-owned subsidiary ANG. On June 1, 1988, AP&L, as required by the SEC, disposed of its interest in its wholly-owned subsidiary ANG. The financial data in this report for the years 1981 thru 1987 are consolidated and have not been restated since neither the effect of acquisition nor disposition is material.

2. In January 1987, AP&L capitalized its leases and restated 1986; therefore, years after 1985 include utility plant under capital leases.

3. Excludes currently maturing portion.

4. In January 1987, AP&L capitalized nuclear fuel leases. However, only 1986 has been restated for such leases. Prior to 1987 nuclear fuel reported on the balance sheet was only the amount of nuclear fuel in excess of fuel leases.

5. Note 1 to the Financial Statements - "Summary of Significant Accounting Policies" discusses the components of AFDC and its impact on the Financial Statements.

1987	1986	1985	1984	1983	1982	1981	1980	1979
<i>(In Thousands)</i>								
\$1,404,856	\$1,389,494	\$1,364,786	\$1,307,683	\$1,206,145	\$1,046,143	\$1,015,561	\$ 750,497	\$ 582,610
141,160	124,821	110,068	143,367	126,896	107,372	96,140	65,230	82,404
3,889,453	3,737,693	2,307,882	3,060,817	2,859,517	2,669,417	2,474,249	2,147,983	1,940,643
1,236,223	1,313,604	1,334,994	1,286,507	1,195,738	1,127,540	993,163	848,667	819,716
151,255	165,009	120,812	124,170	133,931	141,138	144,120	147,065	100,518
\$ 278,145	\$ 291,899	\$ 247,702	\$ 251,060	\$ 260,821	\$ 268,028	\$ 271,010	\$ 273,955	\$ 227,408
695,108	694,848	694,764	694,305	693,297	627,709	547,185	458,569	427,960
244,025	151,063	49,417	26,101	28,158	33,365	43,134	54,700	86,333
1,217,278	1,137,810	991,883	971,466	982,276	929,102	861,329	787,224	741,701
916,778	997,887	1,019,342	1,093,065	1,014,797	1,000,255	849,585	765,430	763,549
248,339	248,988	252,971	135,534	131,541	127,285	143,578	83,237	56,167
71,106	66,729	62,681	57,908	49,400	—	—	—	—
1,236,223	1,313,604	1,334,994	1,286,507	1,195,738	1,127,540	993,163	848,667	819,716
\$2,453,501	\$2,451,414	\$2,326,877	\$2,257,973	\$2,178,014	\$2,056,642	\$1,854,492	\$1,635,891	\$1,561,417
\$ 88,756	\$ 102,031	\$ 121,772	\$ 122,494	\$ 108,727	\$ 105,568	\$ 82,986	\$ 73,551	\$ 62,436
24,565	24,640	24,704	11,595	11,688	10,386	14,016	6,593	4,980
25,039	26,665	22,864	23,222	24,366	25,131	25,456	25,778	19,548
\$3,803,454	\$3,659,128	\$3,478,274	\$3,307,908	\$2,910,470	\$2,623,319	\$2,546,036	\$2,133,704	\$1,231,832
103,416	127,337	92,563	105,762	306,398	364,252	255,468	282,376	980,054
169,974	162,404	35,683	27,321	24,979	16,869	10,214	7,151	—
4,076,844	3,948,869	3,606,520	3,440,991	3,241,847	3,004,440	2,811,728	2,423,231	2,211,886
1,068,407	961,615	860,226	766,537	679,232	605,404	532,261	417,435	364,447
\$3,008,437	\$2,987,254	\$2,746,294	\$2,674,454	\$2,562,615	\$2,399,036	\$2,279,467	\$2,005,796	\$1,847,439
\$1,404,856	\$1,389,494	\$1,364,786	\$1,307,683	\$1,206,145	\$1,046,143	\$1,015,561	\$ 750,497	\$ 582,610
350,059	324,920	314,096	361,109	339,371	244,595	310,673	253,418	159,907
431,716	454,558	317,821	133,964	166,126	178,841	141,316	154,126	171,425
(167,956)	(210,334)	(76,016)	—	—	—	—	—	—
73,170	103,527	37,415	—	—	—	—	—	—
26,000	31,592	35,816	44,894	44,150	40,986	30,637	—	—
115,765	110,955	102,832	97,659	87,210	77,566	67,897	49,774	40,607
219,331	222,597	210,204	169,145	133,746	127,509	129,402	84,628	65,754
119,104	114,742	109,686	97,451	92,621	84,194	77,923	59,574	39,708
28,782	19,059	96,143	161,275	131,644	101,146	90,530	54,033	34,948
1,195,971	1,171,616	1,147,997	1,065,497	994,868	854,837	848,378	655,553	512,349
208,885	217,878	216,789	242,186	211,277	191,506	167,183	94,944	70,261
55,202	48,214	28,871	11,204	14,457	12,687	17,497	17,468	23,627
119,287	140,566	138,752	126,974	119,466	108,557	90,755	67,036	67,091
13,410	10,853	7,310	7,376	7,152	11,272	21,038	17,649	10,296
132,697	151,419	146,062	134,350	126,618	119,329	111,793	84,685	77,387
131,590	114,673	99,598	119,040	99,116	84,164	72,887	27,727	16,501
9,770	10,148	10,470	24,327	27,780	23,208	23,253	37,503	65,903
\$ 141,160	\$ 124,821	\$ 110,068	\$ 143,367	\$ 126,896	\$ 107,372	\$ 96,140	\$ 65,230	\$ 82,404

ELEVEN YEARS OF PROGRESS—OPERATING¹

Arkansas Power & Light Company

	1989	1988
Electric Operating Revenues (thousands of dollars):		
Residential	\$ 425,568	\$ 416,646
Commercial	254,636	239,740
Industrial - aluminum processing ²	—	—
Industrial	307,853	287,558
Government and municipal	20,990	19,563
Total from retail customers	1,009,047	963,507
Public utilities ³	345,377	365,560
Miscellaneous revenues	27,447	27,722
Total electric operating revenues	\$1,381,871	\$1,356,789

Electric Sales (millions of kilowatt-hours):		
Residential	5,098	5,149
Commercial	3,644	3,566
Industrial - aluminum processing ²	—	—
Industrial	5,513	5,325
Government and municipal	320	305
Total to retail customers	14,575	14,345
Public utilities ³	12,128	13,144
Total energy sold	26,703	27,489

Number of Customers (end of year):		
Residential	512,826	508,151
Commercial	63,849	62,918
Industrial - aluminum processing ²	—	—
Industrial	18,165	17,550
Government and municipal	853	1,287
Total retail customers	595,693	589,906
Public utilities ³	15	15
Total customers	595,708	589,921

Electric Energy (millions of kilowatt-hours):		
Source and disposition		
Generated - net station output:		
Coal	9,404	10,298
Gas	2,723	2,064
Oil	94	107
Nuclear	8,844	8,895
Hydro	199	178
Total generated	21,264	21,542
Purchased	6,773	7,322
Net interchange	96	73
Total	28,133	28,937
Less: Company uses, losses and unaccounted for	1,430	1,448
Total energy sold	26,703	27,489

Peak demand (megawatts) ⁴	3,691	3,893
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NOTES

1. *Eleven Years of Progress—Operating* relates to the Company's electric operations and does not include data related to ANG for the period 1981 through 1988. See Note 1 to the Financial Statements - "Summary of Significant Accounting Policies" for information on the disposition of ANG.

2. Reynolds Metals Company began phasing out its aluminum smelting operations in Arkansas in 1985. Once its contract expired (December 31, 1986), its account reverted to a standard industrial rate and was reclassified as an industrial customer.

3. Includes sales to associated companies.

4. The year 1981 includes 538 megawatts to supply Arkansas Electric Cooperative Corporation (AECC) load which is now being supplied by their own capability. Years prior to 1981 also include varying amounts of load supplied to AECC.

1987	1986	1985	1984	1983	1982	1981	1980	1979
\$ 406,130	\$ 391,044	\$ 356,492	\$ 334,693	\$ 315,960	\$282,204	\$257,801	\$212,833	\$160,992
230,842	223,597	202,856	187,595	169,367	153,393	148,938	128,477	100,741
—	25,226	56,930	94,067	56,629	50,175	69,527	69,171	65,861
270,575	250,401	242,247	224,392	200,296	183,975	179,331	140,422	112,515
17,904	17,403	19,213	23,288	20,989	19,081	14,787	12,824	11,447
925,451	907,671	877,738	864,035	763,241	688,828	670,384	563,727	451,556
409,347	405,882	405,767	364,581	379,598	299,724	298,781	181,650	125,980
30,282	31,862	33,292	18,981	6,052	5,572	5,569	5,120	5,074
\$1,365,080	\$1,345,415	\$1,316,797	\$1,247,597	\$1,148,891	\$994,124	\$974,734	\$750,497	\$582,610
5,091	4,903	4,742	4,664	4,512	4,514	4,418	4,480	3,884
3,560	3,363	3,269	3,079	2,927	2,870	2,819	2,682	2,444
—	101	1,676	3,060	2,571	2,081	3,064	3,411	3,349
5,017	4,560	4,548	4,511	4,251	4,246	4,311	3,675	3,681
284	281	328	405	394	410	312	292	326
13,892	13,208	14,563	15,719	14,755	14,121	14,924	14,540	13,684
15,509	14,398	11,999	8,918	8,965	7,388	8,358	5,445	4,204
29,401	27,606	26,562	24,637	23,720	21,509	23,282	19,985	17,888
497,878	493,569	487,275	480,133	471,508	462,753	458,941	405,717	400,290
61,125	60,224	59,546	58,080	57,141	56,709	57,133	49,444	49,009
—	1	1	1	1	1	1	1	1
16,945	16,623	16,465	14,811	14,161	13,528	13,529	12,284	12,151
1,212	1,142	1,137	2,652	2,481	2,372	2,332	1,548	1,617
577,160	571,559	564,424	555,677	545,292	535,363	531,936	468,994	463,068
15	17	17	17	17	18	23	19	19
577,175	571,576	564,441	555,694	545,309	535,381	531,959	469,013	463,087
10,299	11,515	10,853	7,191	7,237	5,224	4,293	601	—
3,132	2,752	927	2,111	2,978	2,660	4,727	4,741	2,468
—	10	6	3	35	72	389	1,653	4,050
11,369	8,879	9,889	10,770	7,583	7,463	9,173	7,831	4,101
116	150	207	235	201	176	140	103	251
24,916	23,306	21,882	20,310	18,034	15,595	18,722	14,929	10,870
5,986	5,974	6,247	5,440	7,402	7,241	5,980	6,459	7,740
(47)	(4)	94	165	100	82	12	(209)	296
30,855	29,276	28,223	25,915	25,536	22,918	24,714	21,179	18,906
1,454	1,670	1,661	1,278	1,816	1,409	1,432	1,194	1,018
29,401	27,606	26,562	24,637	23,720	21,509	23,282	19,985	17,888
3,860	3,804	3,681	3,650	3,748	3,541	4,369	4,179	3,521

BOARD OF DIRECTORS

Arkansas Power & Light Company

W

William Cavanaugh III, Jackson, Miss., is executive vice president and chief nuclear officer of AP&L and LP&L. He is president and chief executive officer of System Energy Resources, Inc., (System Energy) and senior vice president and system executive-nuclear of Entergy Corporation and Entergy Services, Inc. He is a director of LP&L and System Energy, also. He is director of the Institute of Nuclear Power Operations, the American Nuclear Energy Council and the Nuclear Management and Resources Council.

Cathy Cunningham, Helena, Ark., is a real estate and industrial developer, planner and historic preservationist. Chairman of the Delta Cultural Center Policy Advisory Board, she is a board member of First National Bank of Phillips County and a political and civic leader.

John J. Flake, Little Rock, Ark., is chairman of the board of Flake & Co., a commercial real estate development firm. He has served as chairman of the Greater Little Rock Chamber of Commerce and president of the Downtown Partnership. He is a member of the Little Rock Municipal Airport Commission and provides board service to a variety of health care institutions.

Richard P. Herget, Jr., Little Rock, Ark., is a managing director of Marsh & McLennan, Inc., the world's largest insurance brokerage firm. He is a director of Union National Bank of Little Rock. He is active in politics and higher education, including former chairman of the Arkansas State University Board of Trustees.

Tommy H. Hillman, Carlisle, Ark., is president of Winrock Farms, Inc., and vice chairman of Riceland Foods, Inc., producers of purebred and commercial cattle, rice, soybeans and wheat. He is active in banking, agribusiness and his community.

Kaneaster Hodges, Jr., Newport, Ark., is an attorney, former U.S. Senator (1977-79) and Methodist lay minister. He is a leader in the state's wildlife conservation movement and a member and former chairman of the University of Arkansas (U of A) Board of Trustees. He became an Entergy Corporation director in 1984.

Hal E. Hunter, Jr., New Madrid, Mo., is an attorney and senior partner of Hunter & Hunter, as well as New Madrid city attorney and prosecuting attorney for New Madrid County. He is a civic and political leader.

R. Drake Keith, Little Rock, Ark., is president and chief operating officer of AP&L. He has 25 years' experience in the electric utility industry at Oklahoma



Walker, Pugh, Maulden, Hodges

Gas & Electric, Entergy Corporation, LP&L/NOPSI and AP&L. He is active in service to youth and cultural affairs.

Edwin Lupberger, New Orleans, La., is chairman, president and chief executive officer of Entergy Corporation. He has 26 years' experience in the electric utility industry with emphasis on finance. He has provided national leadership in education and economic development, serving on the board of directors of the Electric Power Research Institute, Edison Electric Institute, Tulane University at New Orleans, the NCAA Foundation and the National Alliance of Business, Washington, D.C. He became an Entergy Corporation director in 1985.

Jerry L. Maulden, Little Rock, Ark., is chairman of the board and chief executive officer of AP&L and MP&L and senior vice president and system executive for the Arkansas/Mississippi/Missouri Division of Entergy Corporation. He became an MP&L director in 1988. He holds national leadership positions on NAACP and Boys Clubs of America boards of directors.

Raymond P. Miller, Sr., M.D., Little Rock, Ark., is a partner in the Little Rock Internal Medicine Clinic and an assistant clinical professor at U of A School of Medicine. He is a member of the U of A Foundation and a former member of the U of A Board of Trustees.

Roy L. Murphy, Hot Springs, Ark., is chairman and president of Mid-South Engineering Co., a consulting engineering and constructor group specializing in services for industry. He is active in economic development, higher education and youth and social services.



Keith, Murphy, Cunningham, Nolan

William C. Nolan, Jr., El Dorado, Ark., is an attorney and partner in Nolan & Alderson. Additionally, he is a radio communications, timber and oil industry executive and is an active political and civic leader.

Robert D. Pugh, Portland, Ark., is chairman of Portland Gin Co., a diversified farming operation specializing in cotton, soybean and rice production, as well as a banker and agribusiness leader. He is a former chairman of the U of A Board of Trustees. He became an Entergy Corporation director in 1977.

Woodson D. Walker, Little Rock, Ark., is an attorney and partner in Walker, Roaf, Campbell, Ivory and Dunklin, P.A. He is a leader in trial practice and higher education. He was a member of the state Board of Correction from 1979 to 1987, serving as chairman from 1983 to 1987.

Gus B. Walton, Jr., Little Rock, Ark., is a partner in Poe Travel, a leading business and leisure travel firm, as well as an attorney and leader in the state and national tourism industry.

Michael E. Wilson of Wilson, Ark., is chairman and chief executive officer of Lee Wilson & Co., a diversified agribusiness operation. He is a trustee of the national Joint Council on Economic Education and a leader in agribusiness and education.

ADVISORY DIRECTORS

(Past directors of AP&L)

Richard C. Butler, Little Rock, Ark., is past chairman of the board, Commercial National Bank and Peoples Savings & Loan.



Walton, Cavanaugh, Hillman, Miller (seated), Wilson



Herget, Flake, Hunter and Luepberger

L. C. Carter, Stuttgart, Ark., is the retired past president of Riceland Foods, Inc.

George K. Reeves, Memphis, Tenn., is a retired partner in Ward & Reeves at Caruthersville, Mo.

Reeves E. Ritchie, Little Rock, Ark., is the retired past president and chairman of the board of AP&L.

OFFICERS, STOCKHOLDER INFORMATION

Arkansas Power & Light Company

O

FFICERS

Jerry L. Maulden

Chairman of the Board and Chief Executive Officer

R. Drake Keith

President and Chief Operating Officer

William Cavanaugh III

Executive Vice President and Chief Nuclear Officer
Effective January 1, 1990

Kenneth R. Breeden

Senior Vice President- Customer Services & Marketing

Donald C. Hintz

Senior Vice President- Nuclear
Effective January 1, 1990

Lee W. Randall

Senior Vice President- Finance & Administration, Chief
Financial Officer, Secretary and Assistant Treasurer

Cecil L. Alexander

Vice President- Public Affairs

T. Gene Campbell

Vice President- Nuclear
Resigned effective February 28, 1990

N. S. (Buzz) Carns

Vice President- Nuclear
Effective March 1, 1990

John J. Harton

Vice President- Financial Services, Treasurer and
Assistant Secretary

Charles L. Kelly

Vice President- Corporate Communications

John R. Marshall

Vice President- Customer Services

Marshall L. Pendergrass

Vice President- Fossil Production & Transmission

M. W. (Pete) Rice

Vice President- System Planning

Henry L. Warren

Vice President- Planning & Control

Cary J. Dudenhefer

Assistant Secretary

Shirley A. Hunter

Assistant Secretary

S

TOCKHOLDER INFORMATION

Transfer Agents for Preferred Stock

Union National Bank of Little Rock
1 Union National Plaza
Little Rock, Arkansas 72201

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 & Touche
111 Center Street
Little Rock, Arkansas 72201

Executive Offices

Arkansas Power & Light Company
425 W. Capitol
Little Rock, Arkansas 72201
(501) 377-4000

Annual Meeting

Third Wednesday of May

Form 10-K

The 1989 annual report to the SEC on Form 10-K is available to any stockholder upon request, without charge by writing:

Shirley A. Hunter, Assistant Secretary
Arkansas Power & Light Company
Post Office Box 551
Little Rock, Arkansas 72203

Entergy Corporation Annual Report

To request a copy of the 1989 Entergy Corporation Annual Report, call or write to:
Entergy Corporation
System Investor Relations
P.O. Box 61005
New Orleans, LA 70161
(800) 292-9960



Arkansas Power & Light Company (AP&L) owns electric facilities in 65 of Arkansas' 75 counties and in 13 of Missouri's 114 counties. At December 31, 1989, the Company furnished retail electric service in 328 Arkansas and Missouri incorporated municipalities. The Company also provides power at wholesale to seven Arkansas and two Missouri municipalities and in Arkansas to two rural electric cooperatives and one association of rural electric cooperatives.

AP&L is a wholly owned subsidiary of Entergy Corporation, the electric utility holding company for the Middle South Electric System. For 41 years, the Middle South Electric System has been the leading electric energy supplier to a 91,000-square-mile region along the lower reaches of the Mississippi River.

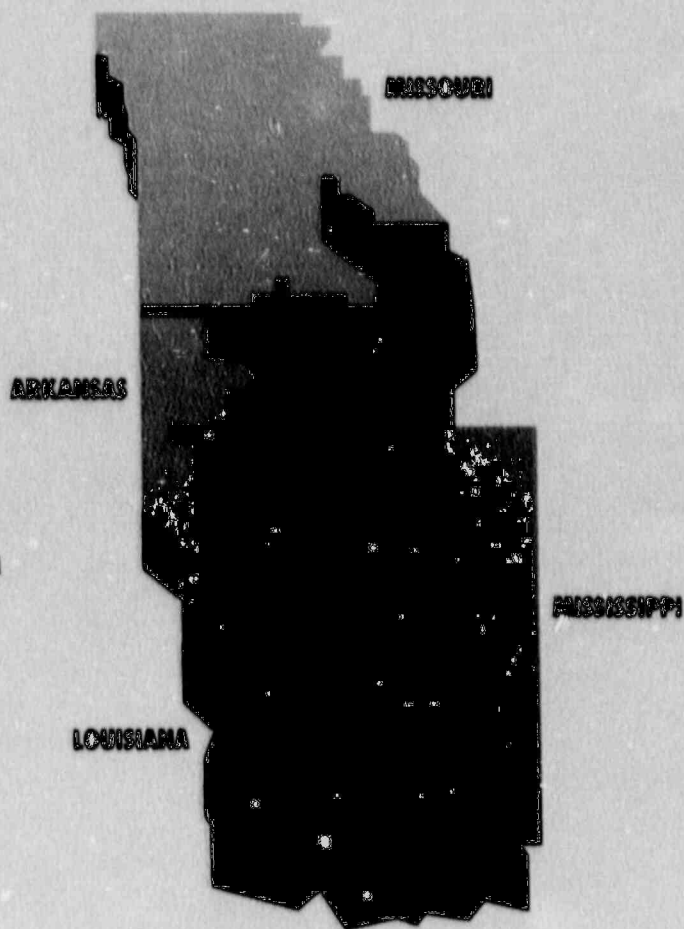
The System's vast network of interconnected transmission and distribution lines and diversified grid of fossil fuel and nuclear generating plants provides electricity to more than 1.7 million retail customers in Arkansas, Louisiana, Mississippi, and Missouri.

Headquartered in New Orleans, Louisiana, Entergy Corporation includes four retail operating companies: AP&L, Louisiana Power & Light, Mississippi Power & Light, and New Orleans Public Service Inc. System

Energy Resources, Inc. is a nuclear generating subsidiary responsible for management and operation of the Grand Gulf Nuclear Station. Another subsidiary, Entergy Services, Inc., provides various technical, administrative, and corporate services to Entergy Corporation and the System companies.

The System is currently seeking regulatory approval to consolidate operating responsibility for the System's four nuclear units into a proposed new subsidiary, Entergy Operations, Inc.

Also pending regulatory approval, a new subsidiary, Entergy Power, Inc., is planned as a wholesale generator that would purchase AP&L's interest in the Independence 2 and Ritchie 2 generating units, and then sell the capacity and energy from these units outside the Middle South Electric System.



MIDDLE SOUTH ELECTRIC SYSTEM

■ Retail Service Area

Arkansas Power & Light Company provides electric service within the portions of Arkansas and Missouri shown in red.

Arkansas Power & Light Company
P.O. Box 551
Little Rock, AR 72203

BULK RATE
U.S. POSTAGE
PAID
Permit No. 1302
Little Rock, AR

Arizona Power & Light Company
P.O. Box 551
Little Rock, AR 72203

BLUE MAIL
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Postage & Fees
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