Entergy Corporation

1989 Annual Report

Our cover illustration symbolizes innovation — ideas that shed light on old problems or illuminate new horizons. The symbol also signifies electricity — a breakthrough technology that has powered much of the progress of the 20th century.

This report is Entergy Corporation's salute to innovation — a celebration of the power of ideas. Ideas have turned this Company around — helping us to resolve conflicts with our regulators, reduce costs, revitalize our corporate culture, and find new ways to serve our customers. Ideas are also the key to our future success, the fuel that fires our direction and growth.

We plan to generate ideas, as well as electricity, for the benefit of our customers, shareholders, and employees well into the next century. For a more detailed description of our Company (formerly Middle South Utilities, Inc.), read on. And for a more detailed description of the 11,000-square-mile area we serve in Arkansas, Louisiana, Mississippi, and southeastern Missouri, please see the inside back cover.

PERFORMANCE HIGHLIGHTS

Entergy Corporation

	1989	1988	Percent Change
	(Dollars in Millions, except per share amounts)		
Financial:			
Total operating revenues	**$ 3,724**	$ 3,565	4.4
Total operating expenses	**$ 2,724**	$ 2,496	9.1
Fuel, purchased power & purchased gas costs	**$ 1,016**	$ 983	3.4
Rate deferrals	**$ 149**	$ 292	(48.9)
Operating income	**$ 1,000**	$ 1,070	(6.4)
Net income (loss)	**$ (473)**	$ 411	(215.0)
Earnings (loss) per common share	**$ (2.31)**	$ 2.01	(214.9)
Rate of return on average common equity	**–**	8.72%	–
Rate of return on average capitalization	**2.50%**	9.92%	(74.8)
Common equity ratio at year-end	**38.7%**	41.2%	(6.1)
Long-term debt ratio at year-end	**55.0%**	52.1%	5.6
Net utility plant at year-end	**$11,060**	$11,100	(1.0)
Construction expenditures	**$ 371**	$ 350	6.0
Common Stock Data (at year-end):			
Stock price	**$ 23 1/4**	$ 16	45.3
Book value	**$ 20.68**	$ 23.96	(13.7)
Market price to book value ratio	**112.43%**	66.78%	68.4
Price earnings ratio	**–**	8.0	–
Stockholders of record	**78,583**	88,346	(11.1)
Shares outstanding	**203,991,592**	204,581,092	(0.3)
General:			
Retail electric customers at year-end	**1,706,579**	1,693,592	0.8
Retail electric energy sales (million kWh)	**54,007**	52,575	2.7
System peak load (megawatts)	**11,485**	11,442	0.4
Employees at year-end	**13,190**	13,145	0.3

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Edwin Lupberger

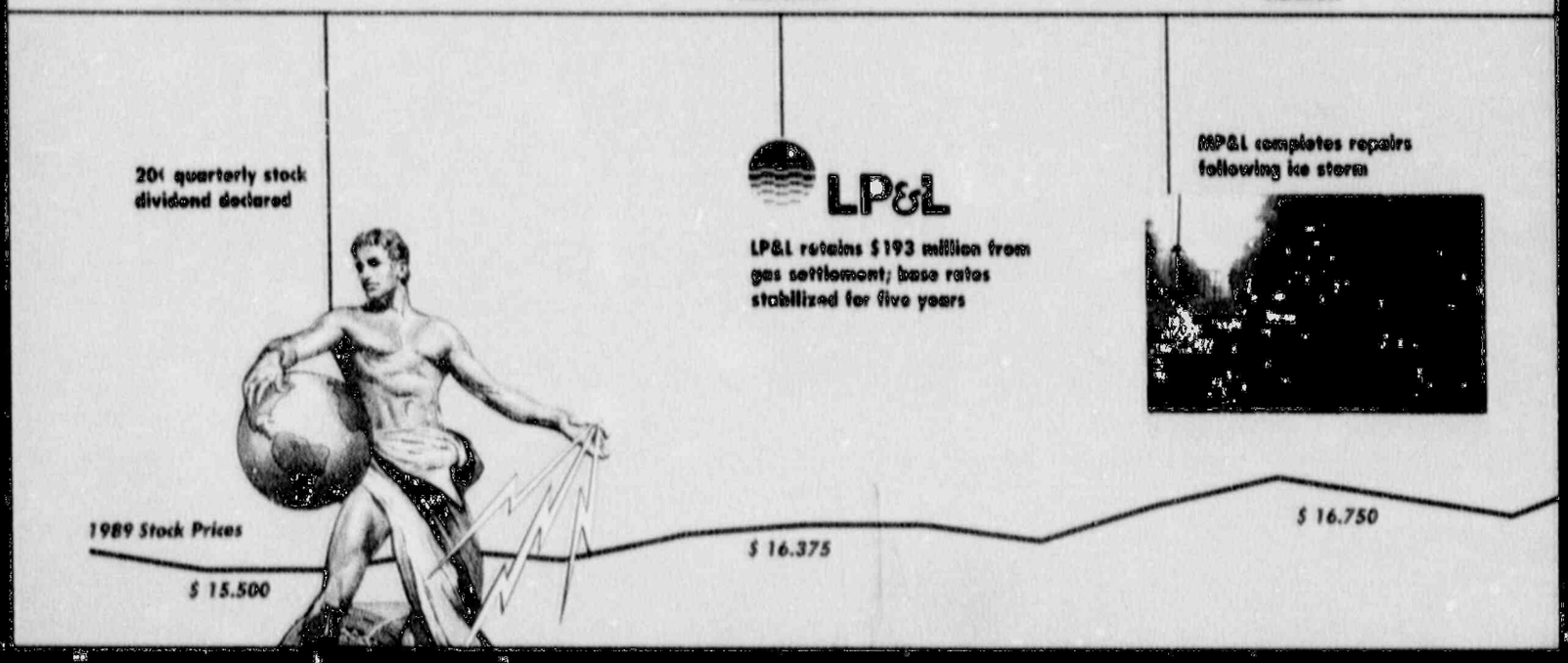
TO OUR STOCKHOLDERS:

What a difference a year makes.

The timeline below plots the progress we made in 1989 — which was a resoundingly successful year despite the earnings loss attributed to it. That loss, resulting from the write-off of the Grand Gulf 2 nuclear unit, is excess baggage falling from a Company now driving with all due speed toward a stronger financial future. It is the weight of former circumstances and longstanding problems now resolved. It is the cast-off remnants of a Company that is becoming transformed.

Evidence of the year's progress is plentiful. Entergy's stock rose above book value (equity divided by number of shares outstanding) by year-end '89, up 45 percent from last year. Cash flow is strong and rising, debt financing is down, and the year's dividends totaled 90 cents per share — compared with 20 cents in 1988, when the dividend was resumed after a three-year suspension.

Symbolic of these developments, and of our growing entrepreneurial spirit, is the proposed creation of two new subsidiaries — Entergy Operations and Entergy Power. Entergy Operations, which would consolidate management of our nuclear facilities into one company, demonstrates our commitment to improved efficiency and reduced costs. Entergy Power, which would create a wholesale generator from the combined strength of two of our Arkansas Power & Light plants, signals our entry into the independent power-producing market. These proposed new subsidiaries are awaiting certain regulatory



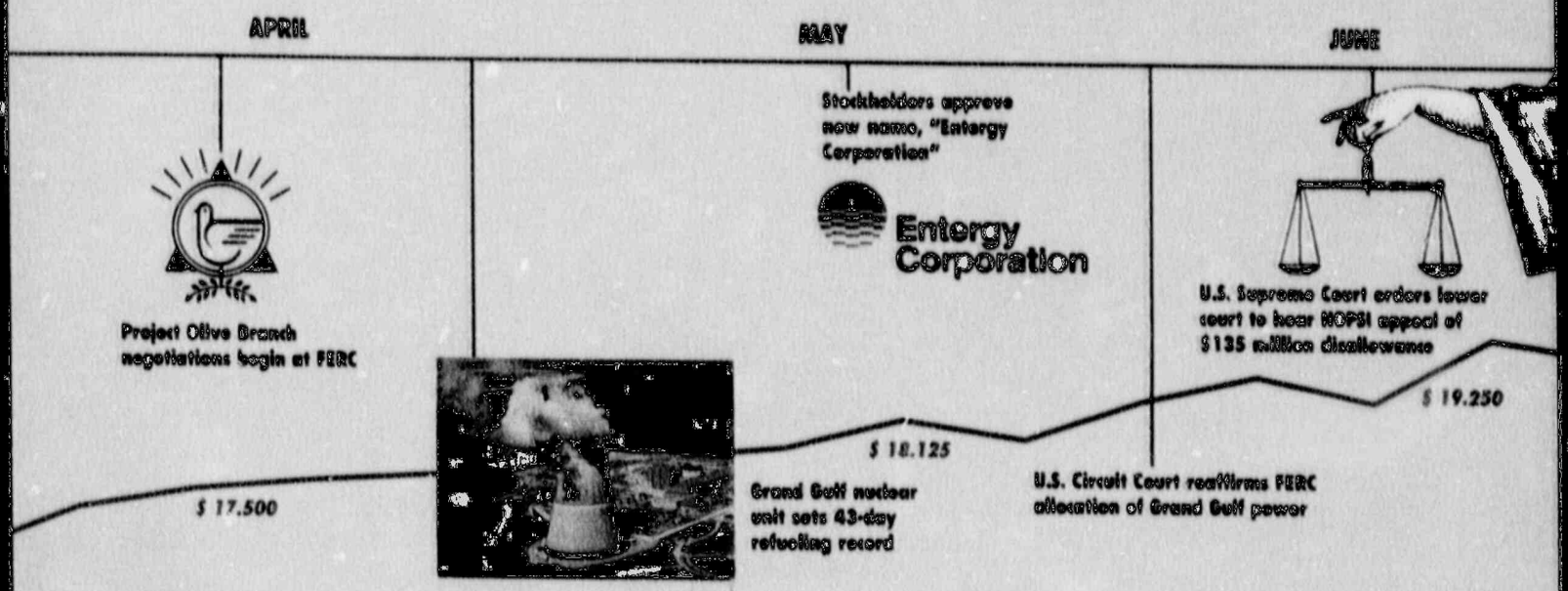
approvals before starting operation. Both testify to the increased financial stability achieved this year.

Much of the uncertainty shrouding our ability to collect rates has been eliminated. We have extricated ourselves from a major portion of our costly litigation and moved our relationships with regulators to higher, more productive ground. Corporate credibility and public goodwill are rising as customers begin to associate new ideas and benefits with our new name and business attitude.

Our new entrepreneurial spirit is key to the progress we are making toward financial success. It is clear to us that the methods and attitudes applicable to the electric utility industry of the '60s and '70s are no longer appropriate today. Two years ago we were on the brink of financial disaster, and at that point, the only progressive step one can take is backward. Management realized we had to try something else, to utilize our resources in new ways, to see ourselves and our constituents differently, in order to move beyond the controversy and discord that threatened to ruin us.

Our name change (from Middle South Utilities, Inc.) embodies our new approach. "Utility" is missing from "Entergy Corporation" because we have resolved to no longer think or act like a tradition-bound, regulated monopoly.

At Entergy Corporation, we're thinking like competitors because that's what our future success entails. Thinking like a competitor means



A performance like this one can hardly be found in electric utilities.
— Bill Tillis, Dean Witter analyst, November 14, 1989, Financial World

keeping our eye on our customers, anticipating their needs, meeting their expectations effectively and at the lowest possible cost, and always looking — ahead and within — for new ways to get the job done. Cost-control, quality, innovation — these are the watchwords of the new spirit being cultivated in the Middle South Electric System today.

The year's most significant accomplishments include the Project Olive Branch agreement, stockholder approval of our new name, the launch of a new marketing initiative, the sale and leaseback of a second nuclear unit, refueling outages that set efficiency records, the installation of a new, more powerful electronic dispatch system, greater electronic integration of all of our subsidiaries, a common stock repurchase program, and the proposal of two new companies. These are impressive strides to have taken in a single year. But by far our most important accomplishment is our change in attitude. Entergy Corporation's entrepreneurial spirit will provide the quality and innovation upon which our future success depends.

"Wrestling alligators" the last few years has made us strong. It has given us the realization that we have what it takes to compete in a sometimes hostile environment. It has also shown us that we can achieve more by staying flexible and pursuing mutual goals than by narrowly insisting on our own way.

JULY **AUGUST** **SEPTEMBER**

Quarterly stock dividend increases to 25¢ per share

$ 21.000

PERC approves Project Olive Branch settlement

New subsidiaries — Entergy Operations and Entergy Power — are proposed

$ 21.625

Company launches advertising campaigns

Lapberger helps "kick off" United Way campaign

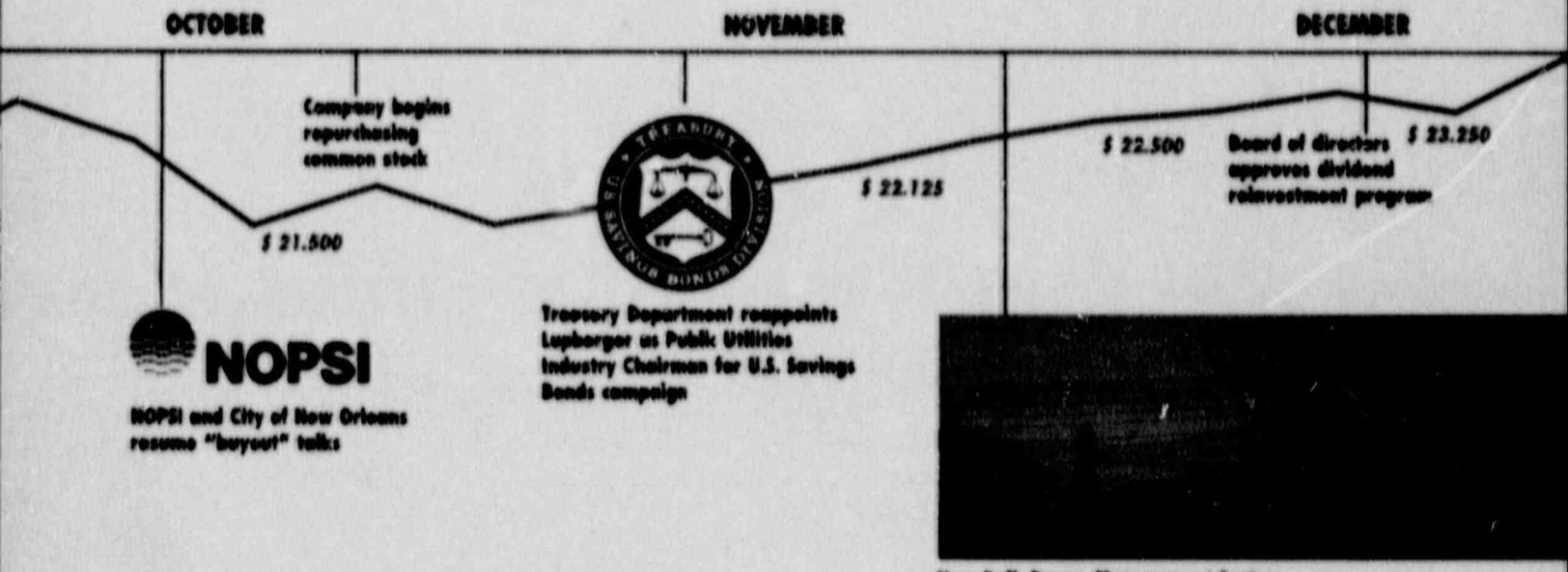
System crews help Hurricane Hugo victims rebuild

In the following pages, we share with you some of the ideas that symbolize this new attitude — ideas that helped us resolve much of our regulatory uncertainty, control costs, and improve our competitive position — as well as our ideas for future excellence. The financial statements and discussions, beginning on page 27, provide more detailed information of the year's events.

We are excited about the changes under way at Entergy Corporation — about the accomplishments of the past year, and more importantly, about the power of thought that's being generated here. We recognize that the most successful companies are those that have capitalized on the power of their ideas. We look to the power of our own ideas to carry us successfully into the next century.

Sincerely,

Edwin Lupberger
Chairman and President
March 12, 1990



Our own innovations include a new, second-generation Bulk Power Management System for high-speed electricity dispatch.

INNOVATION — IDEAS THAT SHAPE TOMORROW

There is nothing more powerful than an idea. Ideas, believed in and acted upon, have shaped our world since the first humans discovered fire, created tools, and painted on caves.

Ideas are the lifeblood of industry. From the idea that man could fly to the idea that an electric current trapped in a glass bulb could dispel the dark, ideas have been the foundation upon which our economy is built — and are the fuel that keeps it running.

Every successful business owes its dominance to ideas. Whether about building a better mousetrap, improving customer service, or anticipating future needs, ideas are, truly, a company's competitive edge. And innovations — new ideas — are its source of future excellence.

In this annual report, Entergy Corporation salutes the spirit of innovation and the ideas and individuals who have transformed our world. From Thomas Edison to Thomas Watson (the founder of IBM), from the Model T to the silicon chip, innovators and ideas have carved new channels for history and redefined our roles in it.

In this report, we also share with you our ideas and innovations for the Middle South Electric System. We at Entergy Corporation recognize that, though our product is electricity, our business is ideas: ideas about lowering costs, improving efficiency, building better relationships with our regulators, and finding new markets. These ideas have transformed our Company in the last three years.

Our ideas also address the future: what future energy needs are, where future supplies will come from, what tasks our product will perform, and how customers will want our product delivered. These are the ideas we're working on now, knowing that our future will be created by the ideas we hold today.

We dedicate our 1989 report to great thinkers, past and present, in whom the spirit of innovation lives!

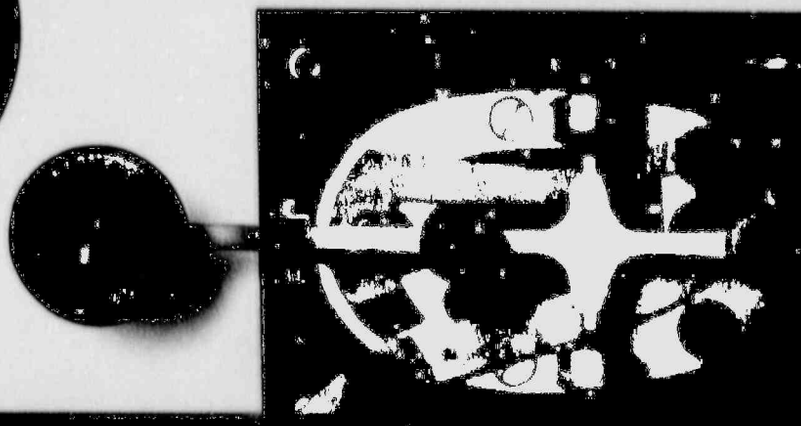
"Everything that man does starts with an idea."
— *Robert P. Crawford*

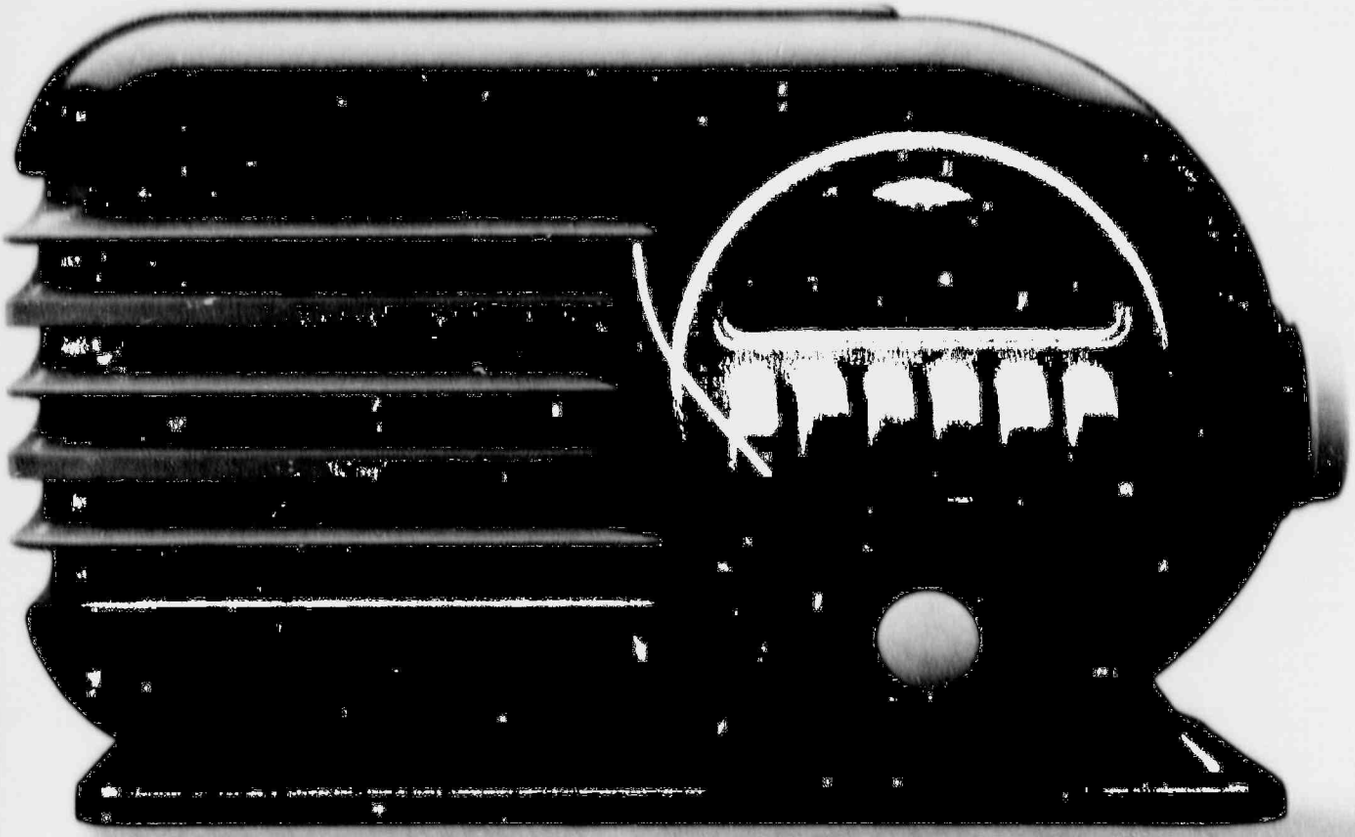
Benjamin Franklin, one of the country's first and foremost innovators, demonstrated that lightning was a form of electricity. From this he invented the lightning conductor — one of his many contributions to American life.

Thomas Edison found a way to coax electricity into the first practical incandescent lamp — developed in Edison's New Jersey laboratory in 1879.

In 1884 Frank Julian Sprague founded the U.S.' first electric railway in Richmond, Virginia. He built 100 more throughout the U.S. and Europe in the next two years, revolutionizing public transit.

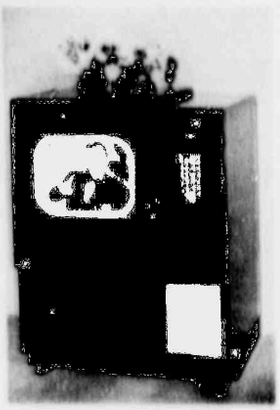
On the electric telegraph he invented, Samuel Morse tapped his famous message, "What hath God wrought!" in 1844.





The first radio voice transmission was achieved in 1900, but it took the invention of Lee DeForest's triode electron tube in 1906 to enable radio's development. Commercial radio broadcasting began in the U.S. in 1920.

U.S. inventor Philo T. Farnsworth, left, demonstrated a television system in 1927. TV broadcasting began in 1941, changing American life forever. Color television followed in 1954. Then cable, bigger screens, VCRs, high-definition TV, and who knows what's next.



The first telephones, invented by Alexander Graham Bell in 1876, were for people to talk to other people. Then people used phones to talk to machines. And now phones are used for machines to talk to each other. Such is progress.

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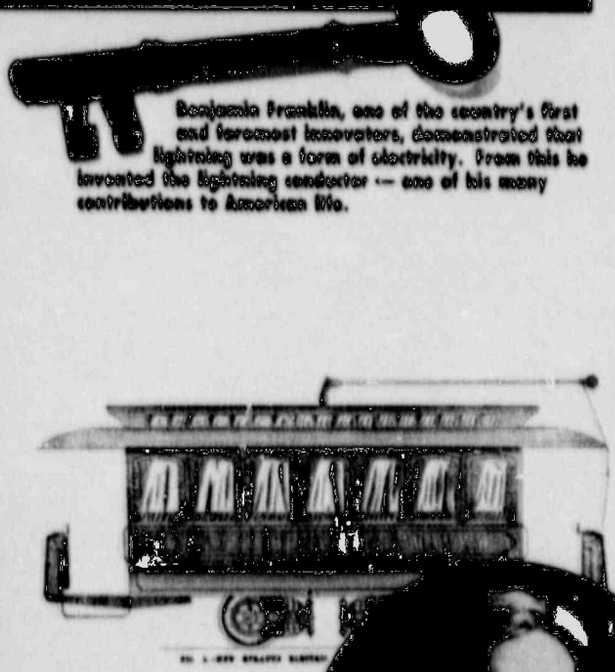

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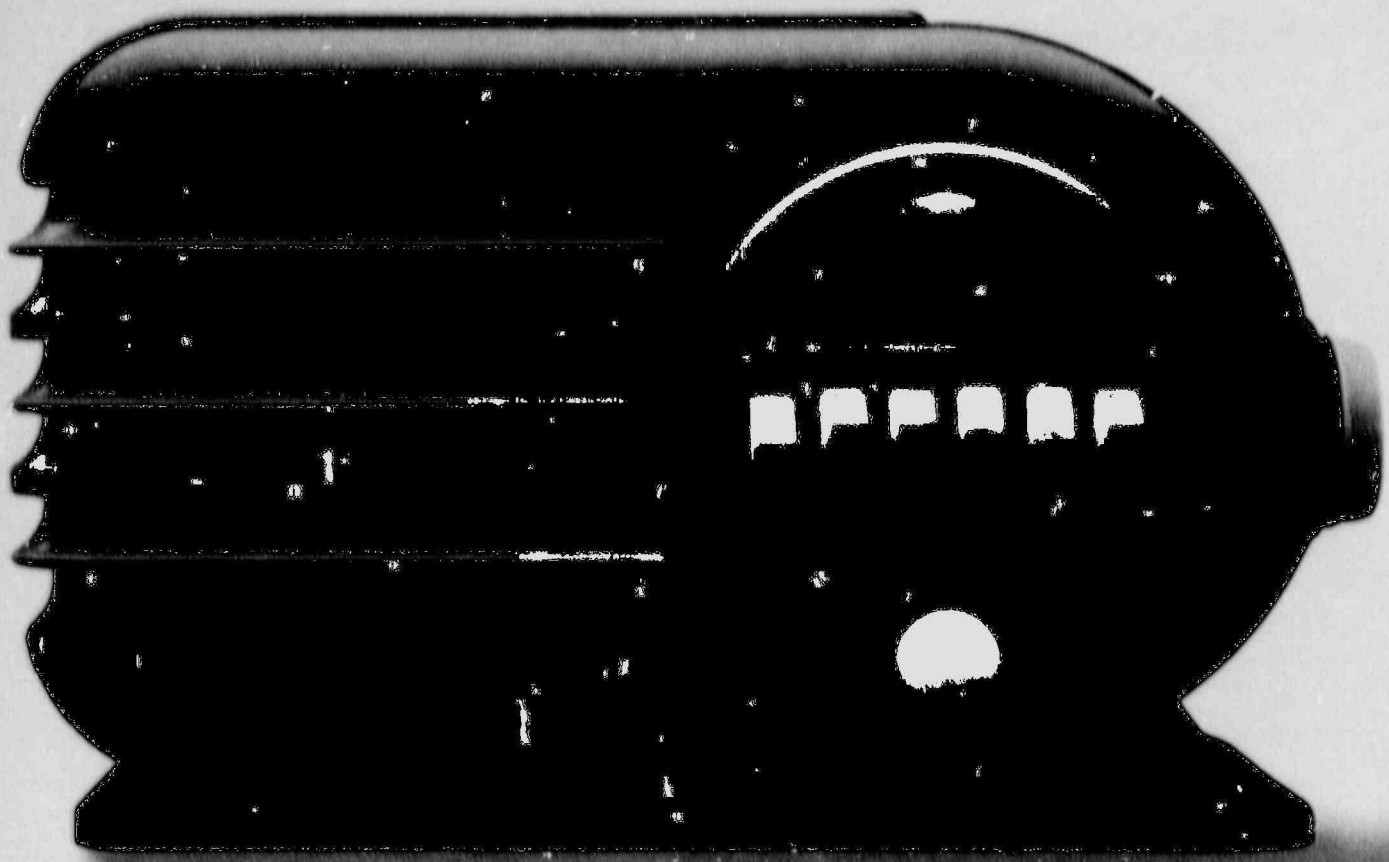

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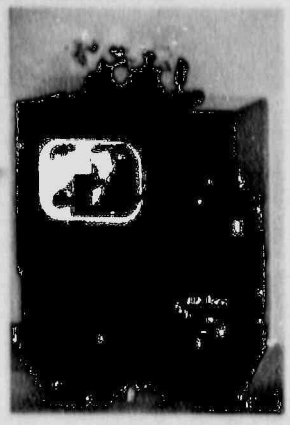

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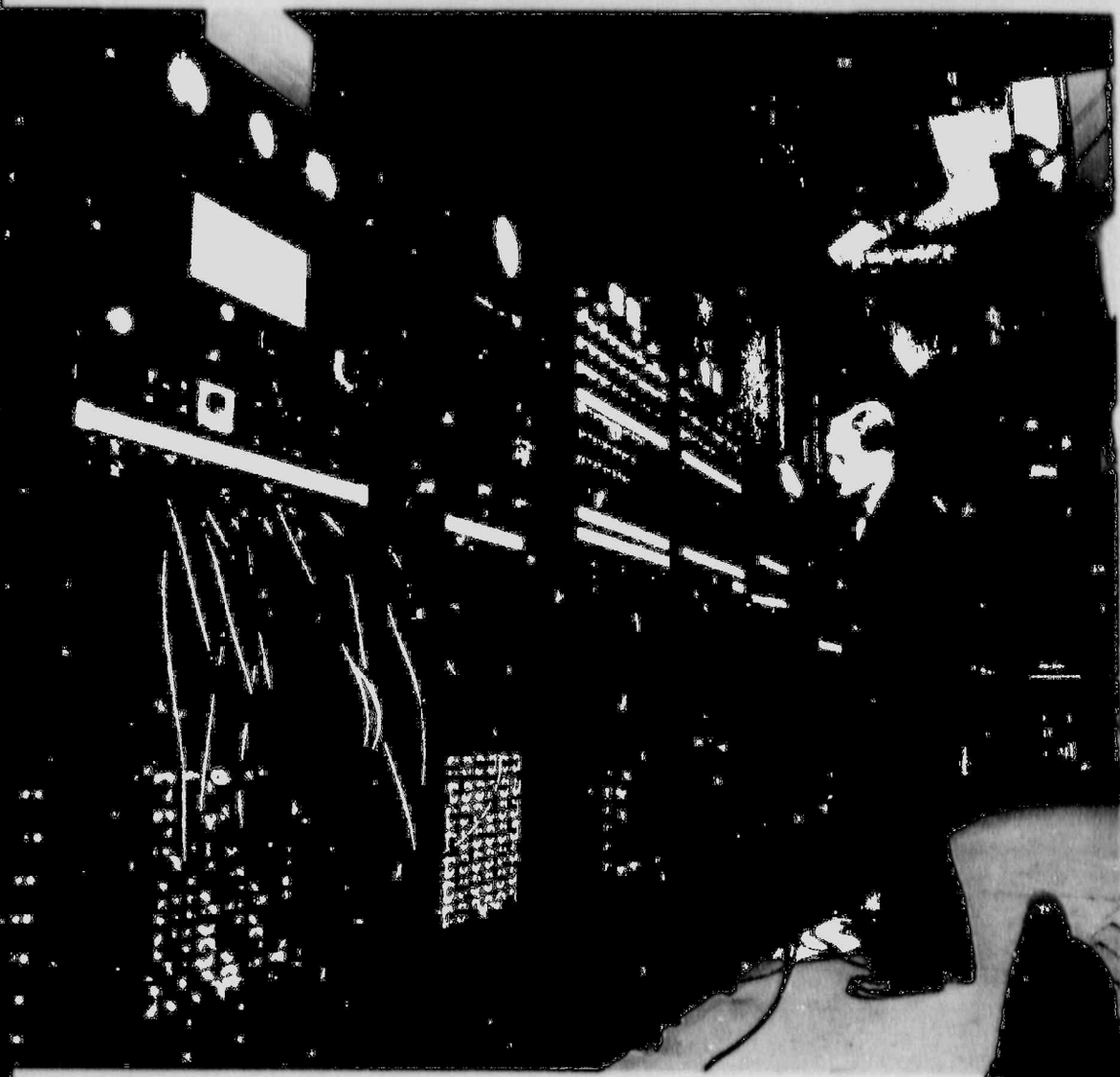
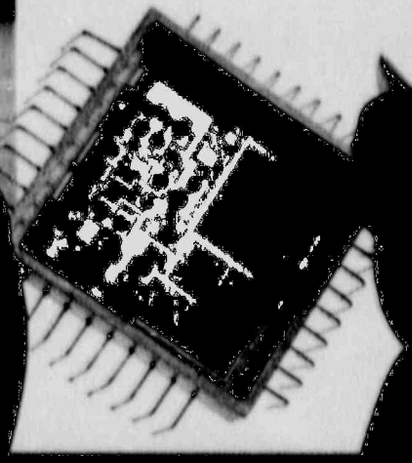
Thomas Edison's Kinetoscope, invented in 1894, was the precursor of the motion picture and his Vitascope (1896) was the first projector. The first commercially successful movie was Edwin Porter's, "The Great Train Robbery," in 1903. By 1913 the American film industry was established.

Now, if they could only invent a machine to fold it and put it away. Electric appliances have eliminated much of the burden of "wash day," and made countless other household tasks easier to accomplish.



Enter, the first computer, was a technological breakthrough — but took up lots of room. Microelectronics has made it possible to put thousands of information bits on a single silicon chip. And thousands of chips on a circuit board.



Thomas Edison's Kinetoscope, invented in 1894, was not a precursor of the motion picture and his Vitascope (1896) was the first projector. The first commercially successful movie was Edwin Porter's, "The Great Train Robbery," in 1903. By 1913 the American film industry was established.

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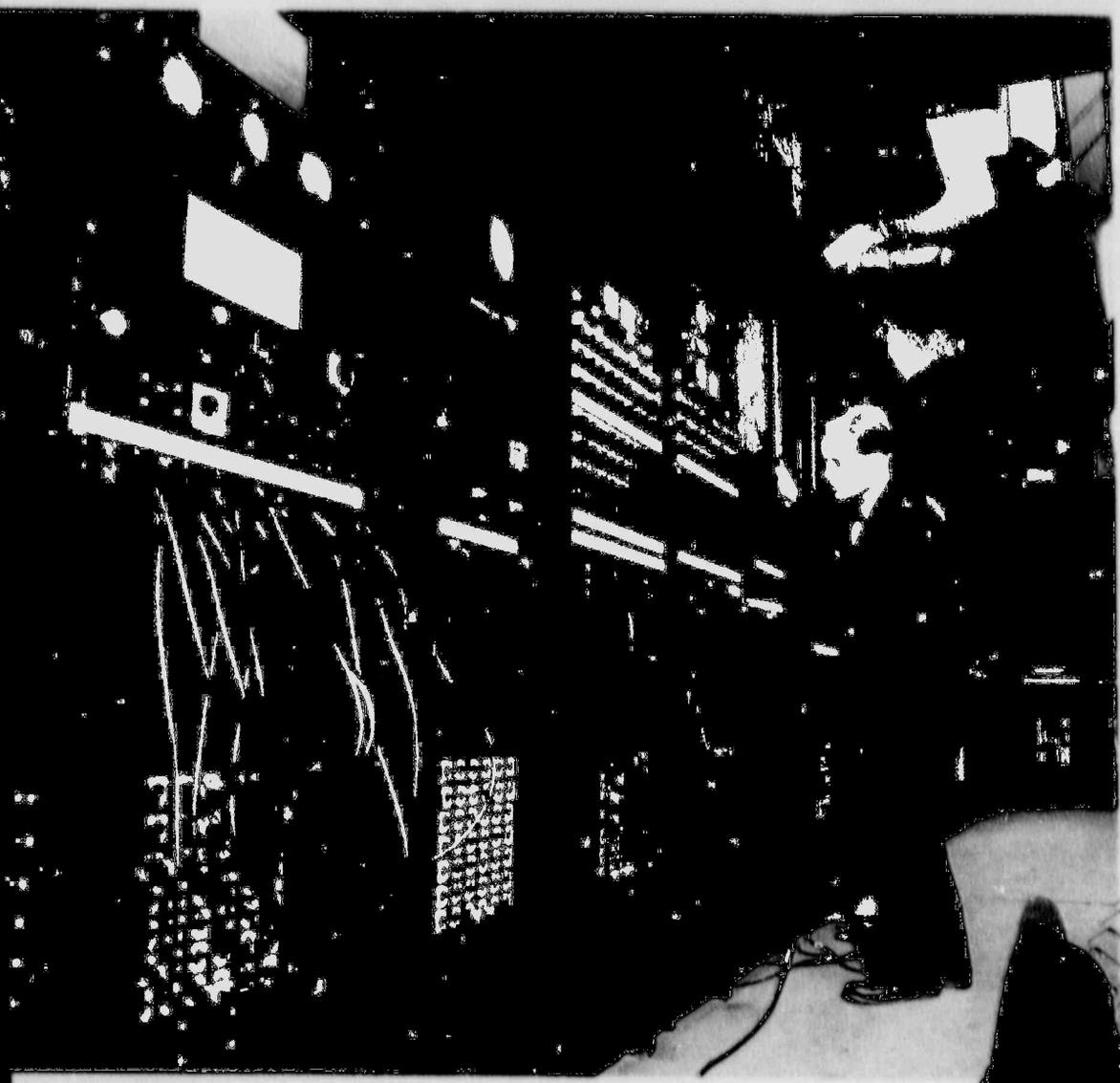

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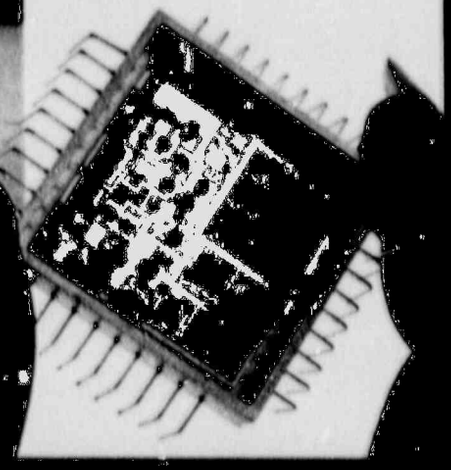


Project Olive Branch is revitalizing our relations with employees, customers, stockholders, and regulators.

PEACE: THE YEAR'S BIGGEST INNOVATION

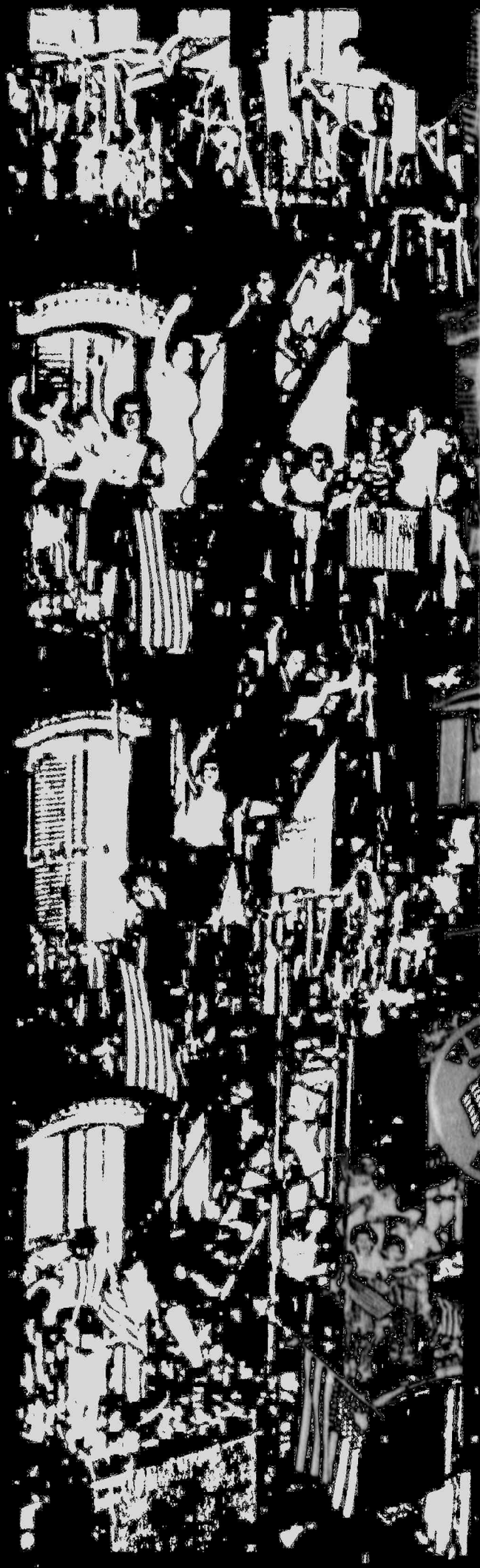
Unquestionably, our most successful innovation in 1989 was "Project Olive Branch" — our multifaceted approach to regulatory peace. In this historic settlement, Entergy Corporation absorbed one of the biggest losses ever incurred by a utility — $900 million invested in Grand Gulf 2 — in exchange for an end to a significant portion of the lawsuits and controversy surrounding our collection of Federal Energy Regulatory Commission-approved rates for Grand Gulf 1.

Although seeking peace is not a new idea, achieving it is a rarer accomplishment. And the goal of Project Olive Branch was not "peace at any price," which we might have achieved in the courtroom, but peace that would also satisfy our customers and regulators.

Project Olive Branch offered a "win" to all parties: the promise of lower rates for customers and regulators, and a reduction in audits, legal proceedings, and uncertainty for the Company. In the simultaneous sweep of half a dozen regulatory pens, the 1989 settlement largely resolved a decade of public controversy and regulatory conflict, and recast our public image as innovators rather than perpetrators. Project Olive Branch also helped get us out of the courtroom and into the financial pages — under headlines about stocks to watch and upgraded securities ratings.

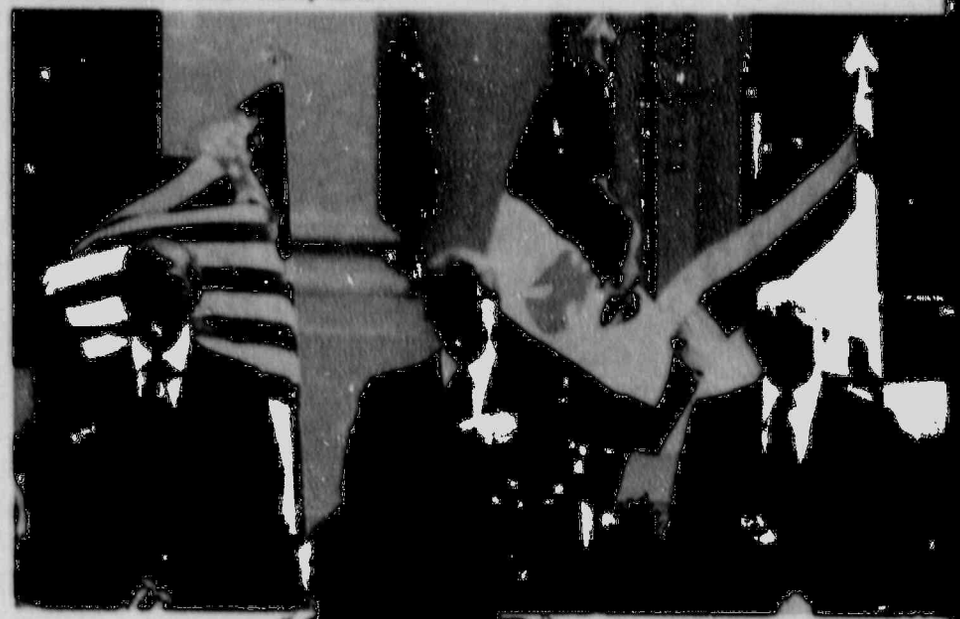
We are already reaping some of the rewards of our peacemaking overtures. Entergy Corporation stock rose $7 per share in 1989, in large part reflecting the reduced uncertainty that followed announcement of the settlement. Subsidiary company securities ratings were upgraded. Sale and leaseback activities and retirement of high-coupon securities saved the System some $50 million in interest and preferred dividend costs over 1988. Our improved financial position enabled us to buy back 589,500 shares of stock during 1989, increasing the value of the remaining shares for stockholders. Financial stability also enabled our board of directors to approve a dividend reinvestment program, implemented in early 1990.

Just as important — although more difficult to quantify — is the improved public image Project Olive Branch has given us. Our 1989 regulatory settlement has done much to transform our reputation among customers. We will continue to demonstrate our openness to

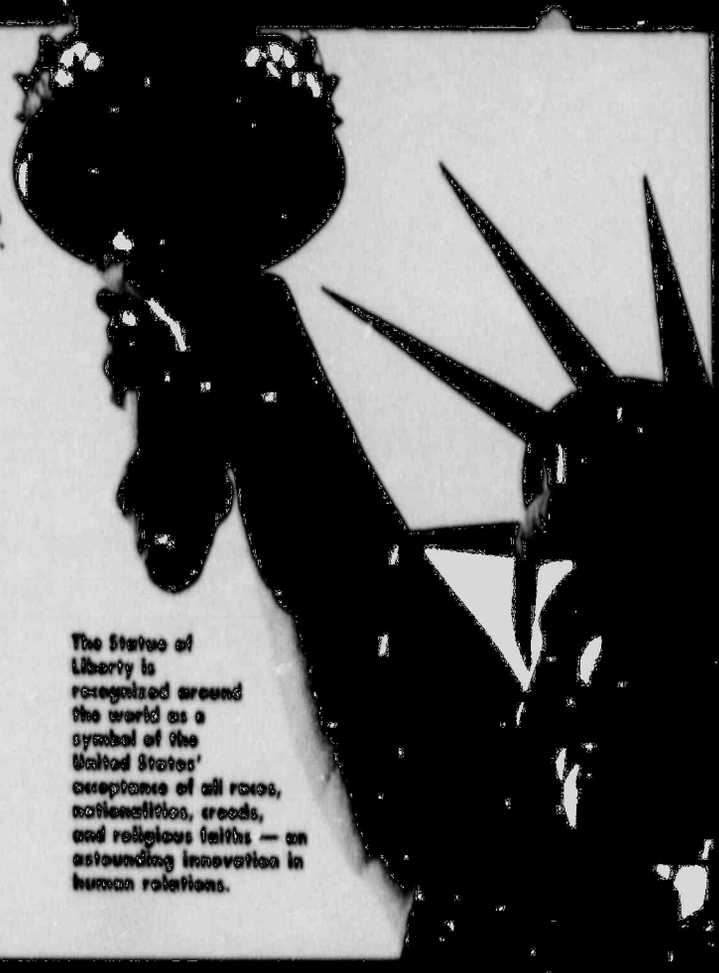


"All our problems today resolve themselves into the problem of learning to live together."
— Canon Peter Green

Compromise was key to the historic Camp David Agreement forged in 1979 by Egyptian President Anwar Sadat and Israeli Prime Minister Menachem Begin, with assistance from President Jimmy Carter.



The prospect of peace prompted jubilation when Victory in Europe was declared on May 8, 1945.



The Statue of Liberty is recognized around the world as a symbol of the United States' acceptance of all races, nationalities, creeds, and religious faiths — an astounding innovation in human relations.

Lech Walesa, Polish labor leader and head of Solidarity, was awarded the 1983 Nobel Peace Prize for his work to establish Polish workers' right to organize. In 1989 he was part of Poland's new coalition government.

Probably no symbol of reconciliation between East and West is more dramatic than 1989's breaching of the Berlin Wall.

Cupid, a world symbol of love and peace.

The Magna Carta, forced on England's King John I, paved the way for constitutional monarchy by establishing that a king must operate within laws enforceable by his subjects.

suggestion and compromise and our intention to use our strength to benefit our service area.

Our new corporate identity campaign has helped in this transformation, distancing the Company from the controversies of the past and creating a clean canvas on which to paint a new image.

Stockholder approval of "Entergy Corporation" at the annual meeting last May enabled us to gradually introduce to the public our new name — and our new corporate outlook. Our goal is to make Entergy Corporation synonymous with social responsibility. We want to extend the cooperation we've achieved with regulators to all segments of the communities we serve.

That is gradually occurring. Our support of clean air legislation and industry deregulation is earning us a reputation for flexibility and forward thinking with policy-makers in Washington. Our economic development advertising has elicited more than 4,000 responses from business decision-makers exploring investment opportunities in the Middle South.

We are planting the seeds of goodwill in many other ways: raising nearly $2 million for the United Way; dedicating lands to public parks and eagle nesting grounds in Arkansas; helping entrepreneurs get their products to market through "Operation Bootstrap," Louisiana Power & Light's award-winning economic development program; and helping rural Mississippians to read through a computerized mobile learning laboratory, one of several we plan to fund in our region. In January of this year, President Bush honored our ongoing literacy efforts as a "Point of Light" — an outstanding example of private sector initiative to address social ills.

At Entergy Corporation, we consider the goodwill of the people we serve as important as money in the bank. In the style of Project Olive Branch, we have adopted a problem-solving — rather than a confrontational — approach to the challenges of the future. In a democratic society, and in a competitive market, that is our most promising course.

Our adult literacy program earned President Bush's recognition as a "Point of Light."

Efforts are under way to consolidate operations and reduce costs at all the System plants, including AP&L's clean coal-burning Independence Steam Electric Station.

COST CONTROL INNOVATIONS

For the past several years, costs for Entergy Corporation's subsidiaries have been on the high side of the median for southeastern utilities. This was due to a regional economic downturn that slowed electric demand; higher financing costs associated with regulatory uncertainty; and the investments we've made in generating capacity and environmental quality, which some of our competitors have yet to make.

All of these situations are changing. Our 1988 U.S. Supreme Court victory and the success of Project Olive Branch substantially resolved our regulatory uncertainty. Growth in electricity consumption will require our competitors to buy or build new generating sources, while the passage of more stringent clean air legislation will require those sources to be clean. Finally, a growing economy, steadily rising electric demand, and our own marketing efforts will, in the next few years, narrow the gap between System capacity and sales.

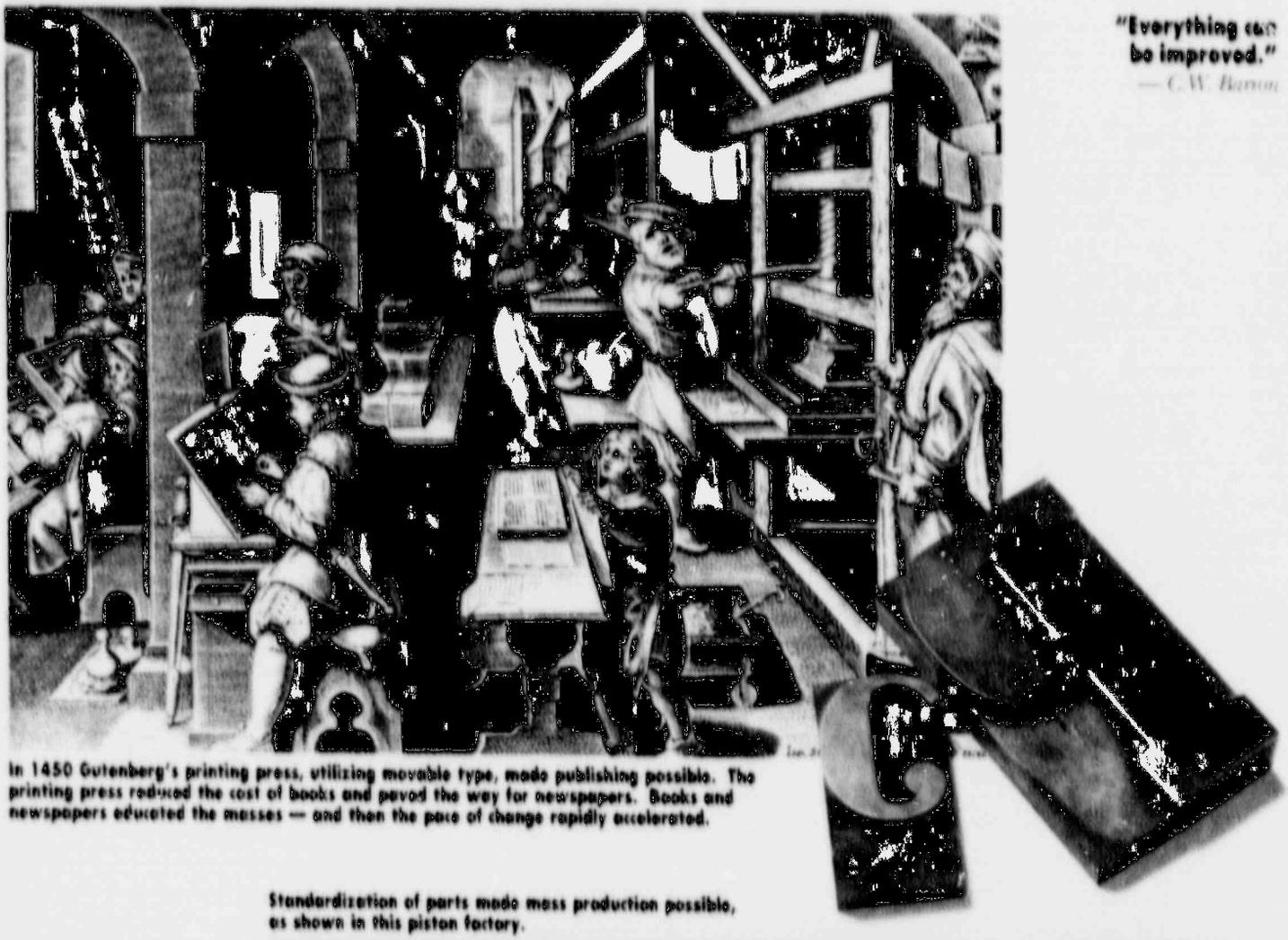
In addition to these positive trends, the Company is taking aggressive measures to sharpen our competitive edge. The year's most significant productivity-boosting initiative is the proposed consolidation of the System's nuclear operations.

Three System subsidiaries presently own and operate nuclear plants. Because nuclear generation requires its own specially trained personnel, operates in its own regulatory framework, and involves technology and safeguards substantially beyond non-nuclear generation, we believe it makes sense to consolidate nuclear operations management into one organization specializing in this area. In fact, we believe it will save $22.7 million annually.

The System is working hard to gain final regulatory approval to consolidate nuclear operations into a new subsidiary — Entergy Operations, Inc. With this approval we can move to achieve the operational efficiencies and dollar savings nuclear consolidation will make possible.

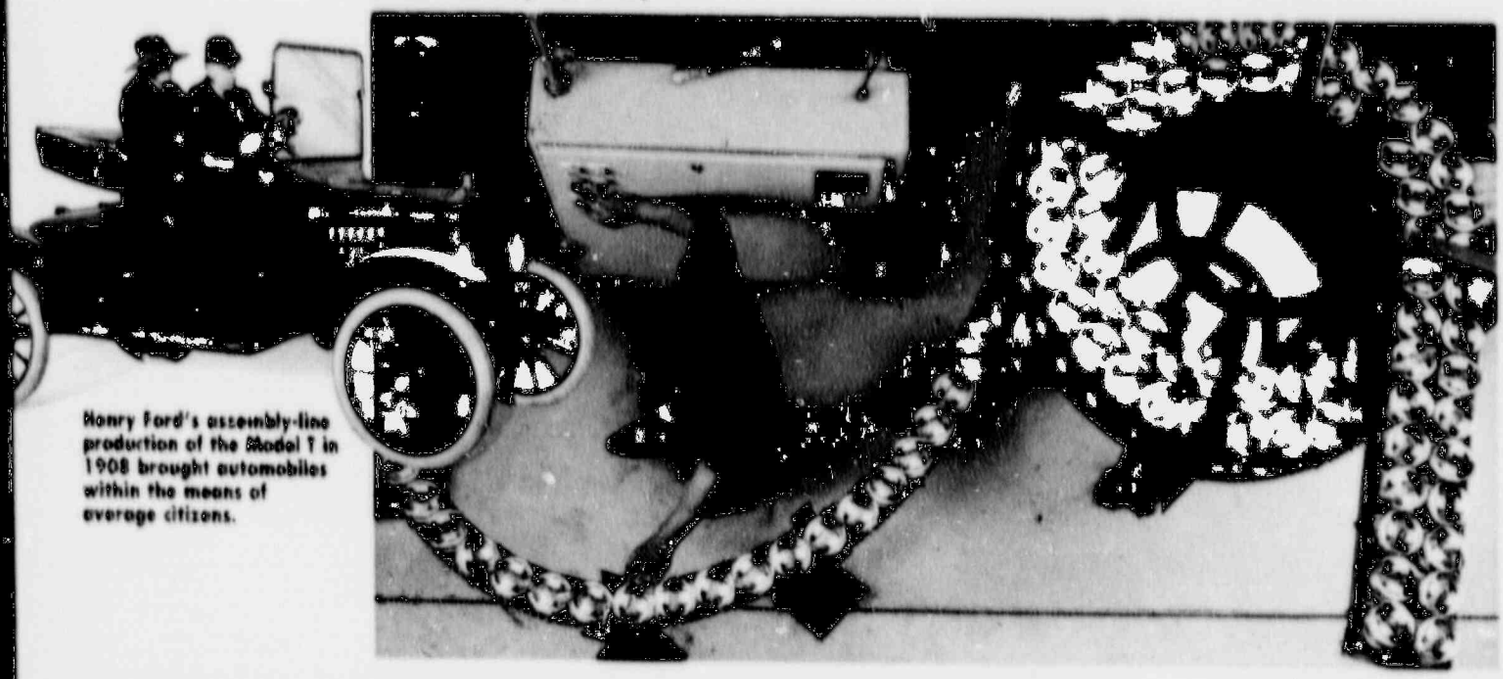
We are also exploring consolidation of our non-nuclear operations. In 1989, a Company task force found that greater consolidation of System operations could save at least $10 million a year. Those savings that can be achieved without organizational reshuffling are in the process of being implemented.

"Everything can be improved."
— C.W. Barron



In 1450 Gutenberg's printing press, utilizing movable type, made publishing possible. The printing press reduced the cost of books and paved the way for newspapers. Books and newspapers educated the masses — and then the pace of change rapidly accelerated.

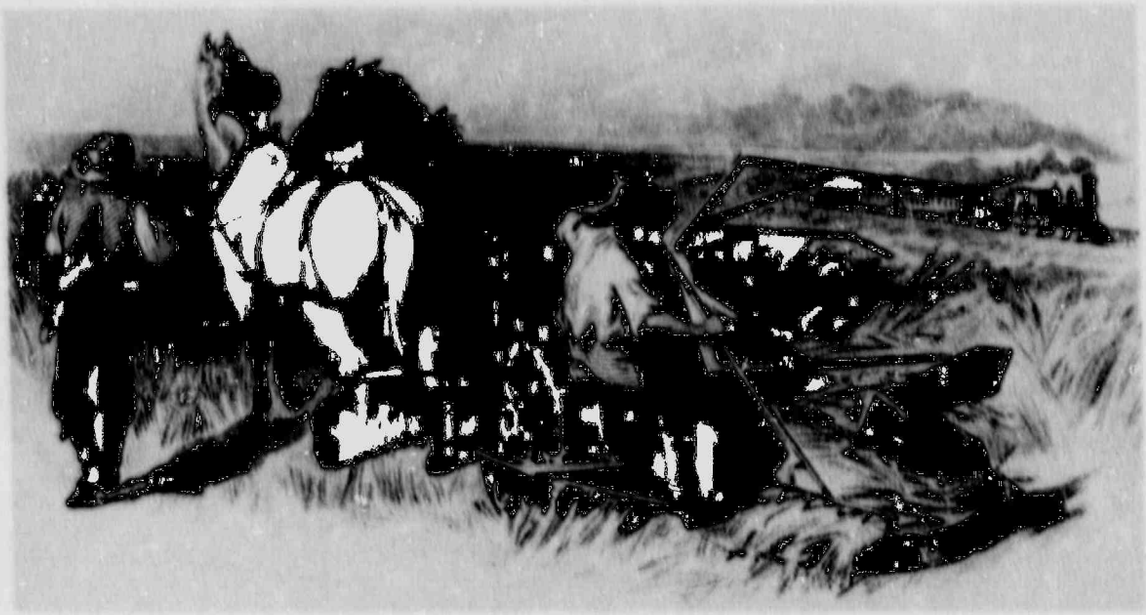
Standardization of parts made mass production possible, as shown in this piston factory.



Henry Ford's assembly-line production of the Model T in 1908 brought automobiles within the means of average citizens.

The quartz movement watch is a thousand times more accurate than the mechanical watch. Interestingly, it was the Swiss who developed the quartz timepiece, but were blinded to its impact by their dominance of traditional watchmaking. Bulova and Texas Instruments seized the concept, however, and within a matter of years displaced the Swiss in watchmaking.

Although store-bought clothing was a luxury at first, mass production of clothing reduced costs.



Cyrus McCormick's reaper, introduced in 1841, improved the efficiency of farm production.

Gasoline shortages and high prices brought cost control and fuel consciousness to the U.S. auto industry, spelling the end for huge, heavy American cars.

In 1989, our ideas carried the System toward other major cost-cutting, efficiency-boosting achievements. At Grand Gulf, our Mississippi nuclear power plant, employees set an American record for the fastest refueling of a boiling water reactor since 1981, refueling in 43 days. Their efficiency saved the System — and ratepayers — an estimated $7.3 million.

Grand Gulf Nuclear Station's record-breaking refueling outage saved the System $7.3 million in 1989.

The confidence that we could achieve this kind of outage performance came from an international nuclear exchange program we began in 1987. Recognizing that European refueling outages are regularly accomplished in 30 to 40 days, whereas U.S. refueling outages average 90 days, our outage planners began an exchange program with their West German and Swedish counterparts.

We learned that optimized plant design gives the Europeans advantages not applicable to our plants, but that we could compensate in other areas. The result was a 25 percent improvement in Grand Gulf's best refueling time — achieved without sacrificing safety or quality. In fact, Grand Gulf and Waterford 3 — our Louisiana nuclear power plant — earned the Institute of Nuclear Power Operations' (INPO) highest rating last year, in all areas of plant operations. Both plants also received excellent "SALP" ratings — from the Nuclear Regulatory Commission's "Systematic Assessment of Licensee Performance" program.

The System's outstanding nuclear performance was hindered to some degree by a decline in operational performance at Arkansas Nuclear One. The System is responding by implementing positive action plans to reestablish excellence at this generating station.

Our successful nuclear performance has boosted more than the bottom line: it has boosted the ambition of all our operations employees — in nuclear and fossil fuels, as well. We have proven to ourselves that we can achieve goals of which others may be skeptical. Like the Wright brothers' first flight, our 43-day refueling outage broke the mental barrier between what can and can't be done. The ripple effect grows with each performance barrier broken. With these barriers down, there's no limit to what we can accomplish.

We are renewing our commitment to customers, seeking new ways to serve them better.

INNOVATING TO MEET CUSTOMER NEEDS

The world is changing for electric utilities, and serving the needs of consumers is the creed of that new world. When electricity was cheap and technology less sophisticated, "meeting customer needs" was no more mysterious than flipping a switch. If the electricity was flowing, all was right with the world.

Higher prices and modern technology have changed all that. The times have made electricity more expensive, while technology has made it all the more essential. Now customers demand two things: competitive rates and a greater emphasis on service.

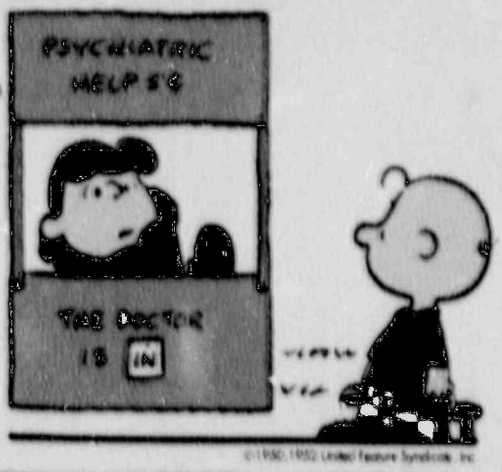
To a large extent, Entergy Corporation welcomes the brave new competitive world. Competition has been good for other industries; we think it will be good for ours. Not that it makes sense to have duplicate distribution poles lining city streets, but the notion of being judged against the performance of one's competitors is a healthy one: it makes us a better Company.

Anticipating greater competition, Entergy Corporation, in 1989, enlarged the scope of its quality efforts to encompass both the technological aspects of our operations and the more personalized components — the company-customer interface.

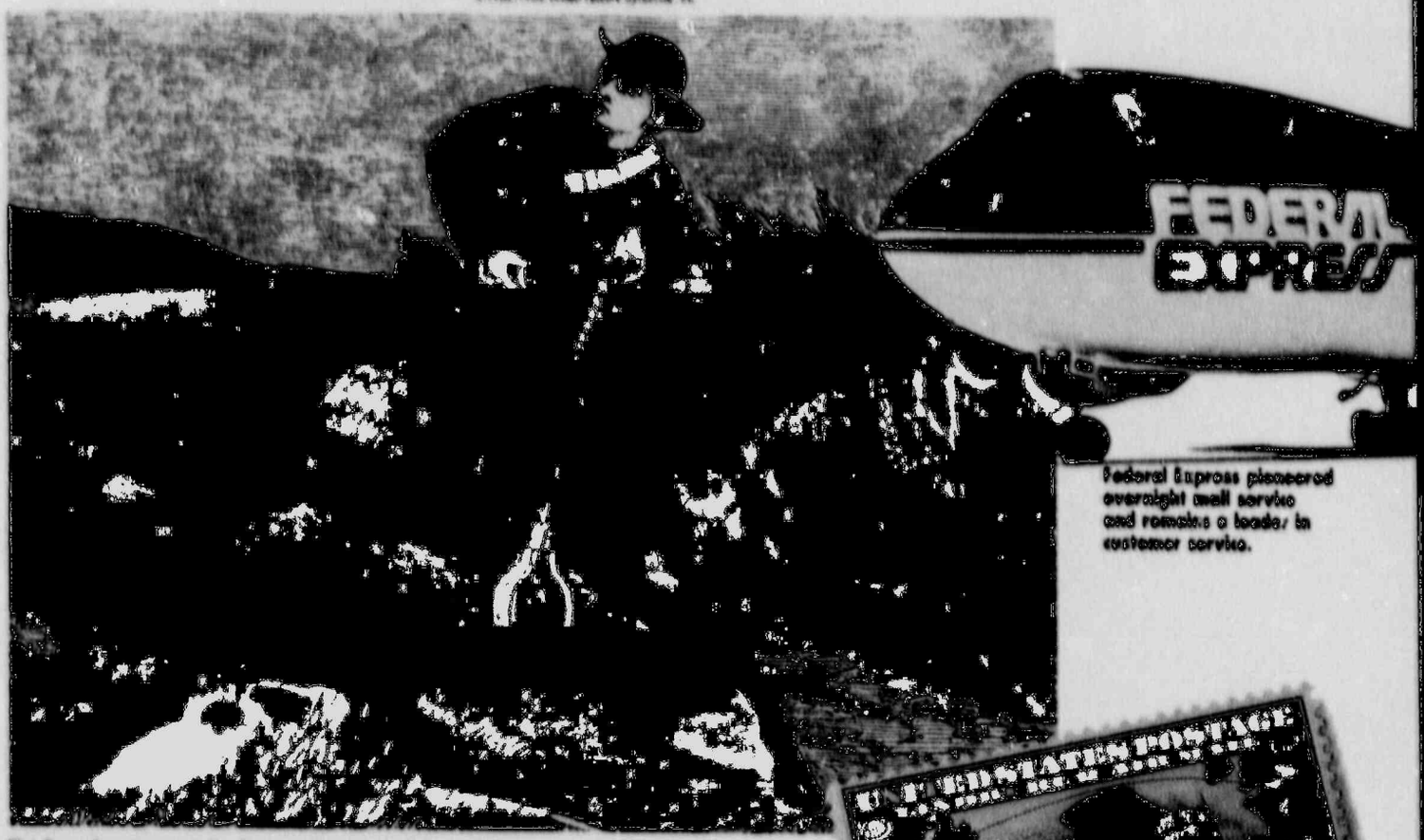
For example, we have launched a new, customer-focused marketing program, aptly titled "Wants and Needs." Based upon research into our own customer preferences, "Wants and Needs" calls for the development of specialized products and services to satisfy System customers. Those services include leasing and financing options for customers purchasing electric equipment, incentive rates for industrial customers trying to expand operations, and service quality programs for customers with sensitive loads. We are expanding our service to the customers' side of the meter, offering our expertise toward the solution of their electrical problems and power supply needs.

These programs are in addition to our longstanding tradition of partnership in area development. Customers know they can call on us for assistance ranging from heating and air conditioning advice to site feasibility studies, from incentive rates to an industrial materials library. Within Entergy Corporation, there is an acute awareness that our customers' financial well-being is the lifeline upon which we depend.

"Lucy" was perhaps the first "Doc-in-a-Box," a customer-service innovation developed by hospitals as an alternative to emergency room care.



"It's more important to generate customers than profits. Generate happy customers and profits will follow."
— *Tom Oliver*



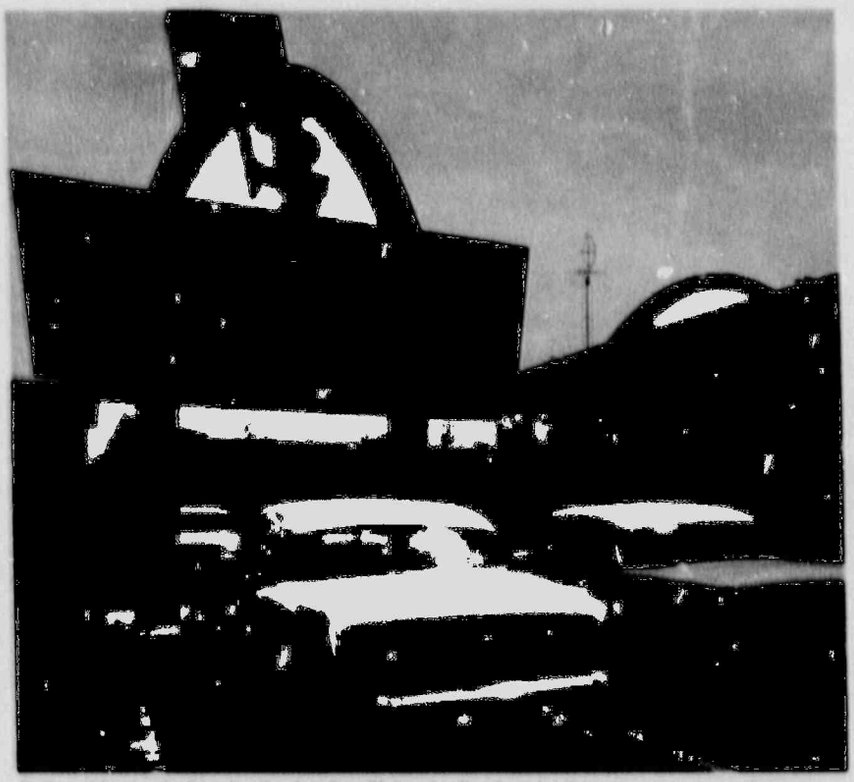
Federal Express pioneered overnight mail service and remains a leader in customer service.

The Pony Express was the fastest way to get it there in 1860. The goal of 10-day transcontinental delivery was often met and only one delivery was ever lost, but the transcontinental telegraph superseded the Pony Express a year later.

Commercial aviation developed rapidly after 1919, and airmail service accompanied that development.

Direct from the cow to you. Home delivery of milk was a customer-service innovation that spawned home delivery of everything from pizza to pet grooming.

Credit cards are a convenience, offering an alternative to cash.



McDonald's made fast food a family affair. Earlier fast-food restaurants were haunts primarily for teens and truck drivers.

Santa still makes housecalls, and he probably wrote the book on customer satisfaction.

Direct from the cow to you. Home delivery of milk was a customer-service innovation that spawned home delivery of everything from pizza to pet grooming.

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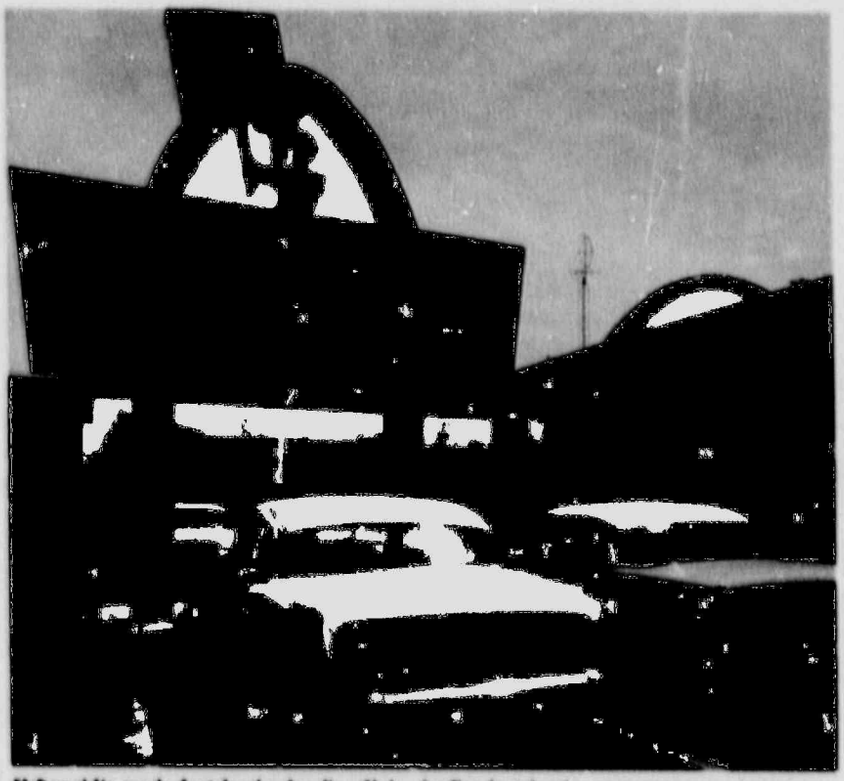


McDonald's made fast food a family affair. Earlier fast-food restaurants were haunts primarily for teens and truck drivers.

Santa still makes housecalls, and he probably wrote the book on customer satisfaction.

The source of Entergy Corporation's winning ideas is its 13,000-plus employees. To create an environment where new ideas flourish, the Company is nurturing a new corporate culture based on teamwork, innovation, and quality.

In 1989, the Company instituted "pay for performance" and other incentive compensation programs. System Energy Resources, Inc.'s 1989 contract with IBEW employees is one of the few in the nation to include an incentive compensation clause linked to plant availability. When Grand Gulf meets its "available for service" goal for the year, employees will receive a 1 percent pay raise. Similarly, when Grand Gulf employees completed last year's refueling outage ahead of schedule, they were awarded an extra holiday.

Our "Invest in the Middle South" institute introduced Korean business executives to investment possibilities in our region.

In 1990, incentive pay programs are being spread Systemwide. "TeamSharing" is an incentive compensation program that rewards employees for achieving System and subsidiary company goals. The goals are based on the System's business and strategic plans. Achieving the goals will require teamwork, as well as speedy attainment of bottom-line initiatives.

We are also challenging our employees in other important ways. In 1990, we are beginning a Systemwide "consciousness-raising" on quality. Our goal is an environment where continual striving for improvement is the natural order of business. This is the culture of a successful competitor. It is the enthusiastic attitude held by members of winning teams.

A year ago, our energies were primarily on survival, rather than excellence. We had but recently been granted a victory by the U.S. Supreme Court, and we were still tied up in negotiations with half a dozen regulatory agencies. Project Olive Branch has brought us a measure of regulatory peace, which has given us the time to pursue prosperity. Our competitive focus on costs and customers will bring us — the Company and its stockholders — the prosperity we seek.

We are exploring strategic investments in electricity transmission, including our proposed "Eagle Express."

IDEAS TO POWER US INTO THE FUTURE

The Company's vision of the future is one in which both customers and electric utilities will have much greater freedom — for customers, to choose; for utilities, to compete.

Like their customers, electric utilities will have a far greater number of supply options available to them: cogeneration, "no generation," conservation and demand-side strategies, and new generating technologies, to name a few. They will also have greater flexibility to take advantage of these options. Utilities will not necessarily offer all three components of traditional service: generation, transmission, and distribution. Instead, some may specialize in power generation; others in transmission of bulk power; and still others in local distribution service.

The freedom to compete entails the obligation to compete, and utilities that are not successful competitors will be displaced by power providers that are. Entergy Corporation is positioning itself to compete successfully — with ideas for lowering costs, improving service, and capturing new markets.

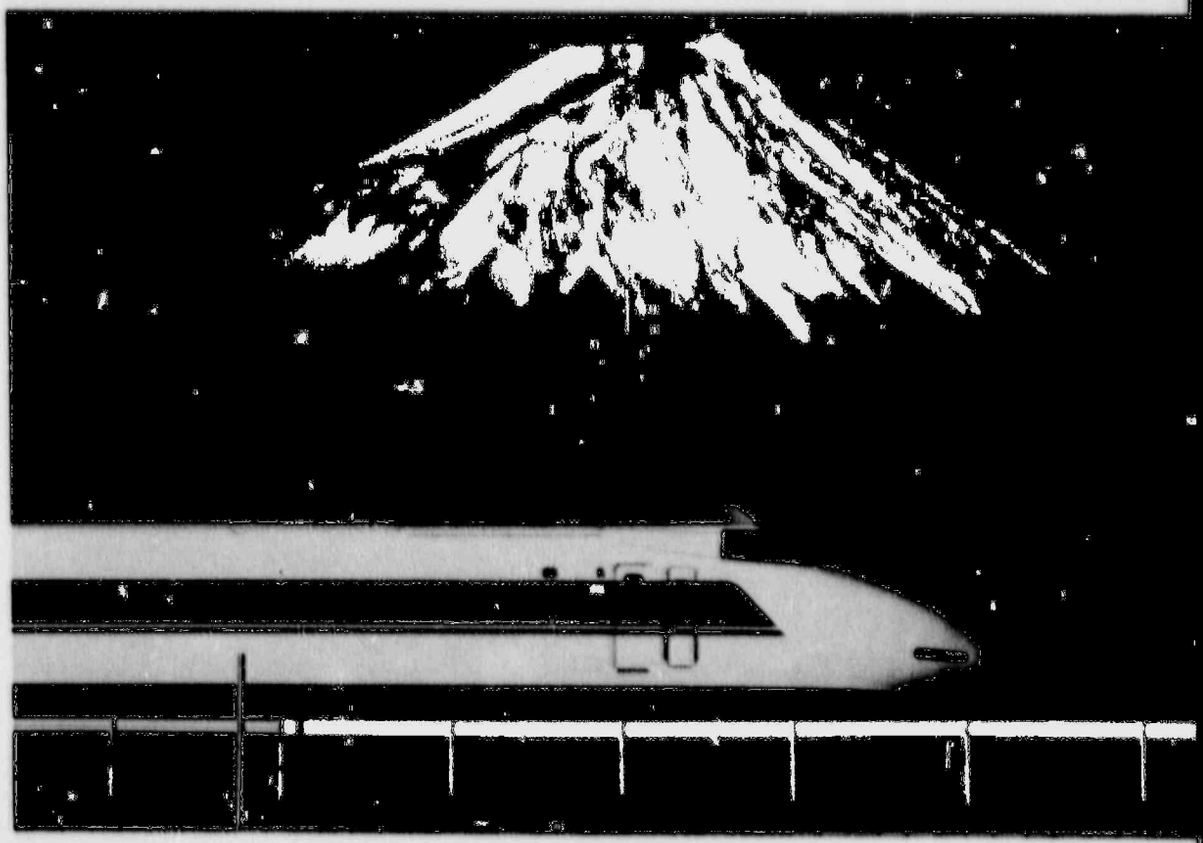
One of the most positive innovations introduced in 1989 is the System's "short-stopping coal" program. By shipping the System's low-sulfur coal to a Midwest utility, instead of to Arkansas, the System saves nearly half of the coal's transportation costs — and transportation accounts for two-thirds of the cost of delivered coal. The Midwest utility sends the electricity generated to us. Everyone benefits: the Midwest utility burns clean coal, our emissions are lowered, and the System saves on transportation costs.

Entergy Corporation is also proposing an "electricity highway" — the "Eagle Express" — for high-speed, long-distance transmission of power. Eagle Express would connect the two main U.S. power grids — the Eastern Interconnection and the Western Systems Coordinating Council — for rapid, bulk power transfers. Such a transmission system would not only give utilities access to a national power supply and national markets, it would enable demand-side management on a national scale. Winter-peaking eastern utilities could buy power from summer-peaking western ones, and vice versa. Supply-squeezed East Coast companies could have access to surplus power from the rest of the country. Because of the three-hour time difference between the East

Concern for the environment will change the way we spend our money, dispose of our wastes, and conduct our businesses.

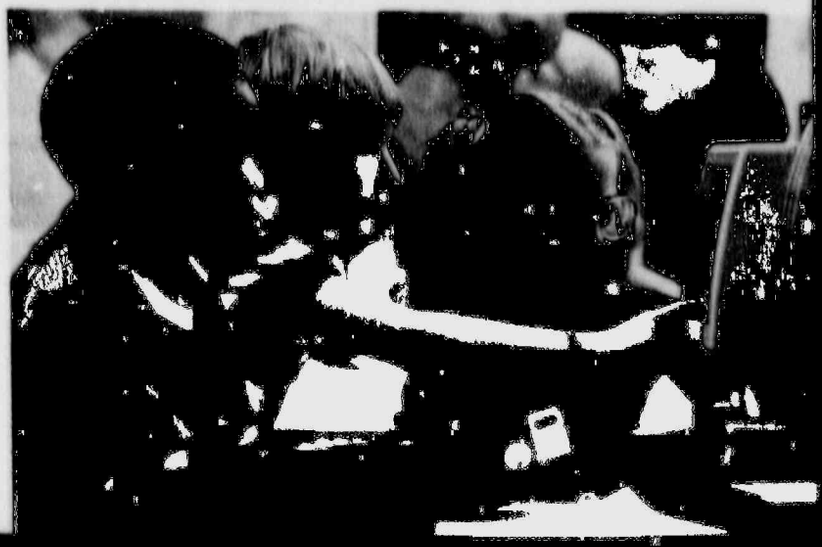
"You all have powers you never dreamed of. You can do things you never thought you could do. There are no limitations...except the limitations in your own mind."
— Darwin P. Kingsley

Innovations in high-speed, non-polluting mass transit may one day wean even Americans from their reliance on the automobile.



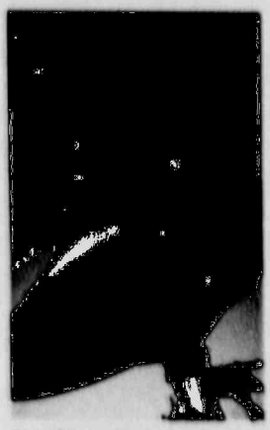
Dick Tracy's two-way wrist TV doesn't seem so far-fetched today.

Tomorrow's adults will have grown up with computers. Kids' toys today will become their tools for tomorrow.



The future will bring us more knowledge about space and, perhaps, greater appreciation for the universe we inhabit.

Advances in robotics have already taken over many repetitious, menial tasks — but not the personal services envisioned for "Elektro" at Westinghouse's 1939 World's Fair exhibit.



Satellite communications of radio, voice, and video have made the world smaller. They may one day make the universe smaller.

and West Coasts, the two interconnected systems could even cover each other's peak loads on a daily basis.

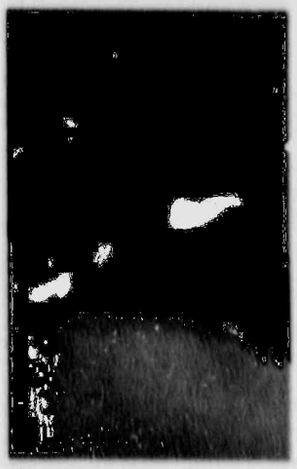
The technology and economics for Eagle Express are proven and currently available. The System is strategically located to accomplish the interconnection. The primary hurdle is regulatory: encouraging local utility regulators to cooperate for the approval of a multistate transmission highway. We are optimistic that the success of programs such as Project Olive Branch will establish a foundation for this type of regulatory cooperation.

In 1989, Entergy Corporation also unveiled a new, high-technology electricity dispatching system called Bulk Power Management System II. An advanced, second generation of our former dispatching system, BPMS II is the brain and nervous system that governs the 81 generating units and 10,000 miles of transmission lines comprising the Middle South Electric System. BPMS II will also facilitate off-System sales — a market we are aggressively cultivating.

Entergy Corporation is also one of the first interstate electric utilities to be completely interconnected via fiber optics. In 1990, we will complete installation of our own fiber optic system, linking all our companies, offices, and plants in four states. Because fiber optics can carry audio and video signals, electronic data, fax transmissions, as well as voice, the system will greatly expand our integration in many communications media, while reducing our long-distance telephone charges.

The System has other ideas that will carry us forward into the year 2000. We are examining the feasibility of participating in a uranium enrichment project, located in northern Louisiana, which could reduce our fuel costs. We are developing conservation and "demand-side" management programs to meet customer needs without additional generating capacity.

Knowing that our future success is created by the ideas we pursue today, we are generating ideas with as much dedication as we generate electricity. We owe our stockholders and our customers nothing less.



We face the future free of many of the constraints that have recently bound us — including our old ideas of what was possible. Bronze eagles, which Entergy Chairman Lupberger gives to honor excellence, symbolize our performance aspirations.

Picture/Art Sources

Page 5: Benjamin Franklin = Philadelphia Museum of Art; light bulb = Robert Arnold; streetcar/Frank J. Sprague = Smithsonian Institution and the IEEE Center for the History of Electrical Engineering; Thomas Edison = Bettmann Archive.

Pages 8/9: radio = photo by Robert Patterson from *Radio: The Golden Age*, Chronicle Books, 1987; Philo T. Farnsworth/television set/woman with appliance/Enias = Bettmann Archive; Great Train Robbery = Frederick Lewis, Inc.; computer chip = AfterImage.

Page 11: VE Day/Statue of Liberty = Bettmann Archive; button = Le Petit Soldier Shop; Camp David = David Rubinger/*Time* magazine.

Page 12: Nobel prize/Lech Walesa/Magna Carta/Cupid = Bettmann Archive; Berlin Wall = Saba Press Photos, Inc.

Page 15: Gutenberg/Model T = Bettmann Archive; wood type = Collier Collection; production line = AfterImage.

Page 16: gas pump = AfterImage; reaper = Bettmann Archive; fashion model = Laurent Memorabilia; pocket watch = Philip Crosiall.

Page 19: pony express/air mail plane = Bettmann Archive; Federal Express plane = Federal Express; postage stamp = Raymond H. Weill, Co.

Page 20: milkman = Bettmann Archive; McDonald's = McDonald's Corporation; milk bottle = Collier Collection; bottle cap/Santa = Laurent Memorabilia.

Page 23: seedling/kids with computer = AfterImage; bullet train = Sipa Press/Orion.

Page 24: Saturn/assembly line/satellite dish = AfterImage; Elektro = Westinghouse Historical Collection.

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FINANCIAL REVIEW

THE MIDDLE SOUTH ELECTRIC SYSTEM COMPANIES INCLUDE:
Arkansas Power & Light Company (AP&L)
Electec, Inc. (EI)
Entergy Services, Inc. (Entergy Services)
Louisiana Power & Light Company (LP&L)
Mississippi Power & Light Company (MP&L)
New Orleans Public Service Inc. (NOPSI)
System Energy Resources, Inc. (System Energy)
System Fuels, Inc. (SFI)

OVERVIEW

Regulatory settlements achieved in 1989 resolved much of the uncertainty and litigation surrounding rate issues, thereby strengthening the Middle South Electric System's financial outlook (see Note 10). Certain write-offs stemming from these settlements were responsible for the substantial net loss reported below. Despite the loss, the System's strong cash position was not materially affected. Most of 1989's cash requirements were met with internally generated funds, and future requirements are projected to be similarly satisfied. Further, Entergy Corporation's quarterly common stock dividend, resumed in 1988 after a three-year suspension, continued to be paid and was increased during 1989.

While financial stability has been achieved, several Grand Gulf Nuclear Station-related issues remain unresolved and may adversely affect the System's future financial condition. These relate to continuing litigation concerning Grand Gulf 1, in the form of NOPSI's $135 million prudence disallowance and a challenge to the FERC-ordered allocation of capacity and energy. In addition, although Entergy Corporation and the New Orleans City Council are discussing a negotiated buyout of NOPSI by the City of New Orleans, in the event this buyout does not take place, the System's financial position could be affected by the outcome of the council's consideration of the involuntary municipalization of NOPSI's electric and gas utility properties (see Note 8).

Despite the net loss in 1989, ongoing operations saw progress in a number of areas. Revenues continued to increase, as did energy sales to retail customers, primarily in the industrial group. Further, the System's cost reduction program resulted in lower financing costs. A discussion of these and other selected factors are presented herein.

Net Income (Loss)

In 1989, a consolidated net loss of $472.6 million was reported, producing a loss per share of $2.31, due primarily to the FERC Settlement and various related state and local settlements (Project Olive Branch Settlements). These settlements included, among other things, (1) the write-off of System Energy's investment in Grand Gulf 2, resulting in a pre-tax loss of approximately $900 million, (2) the $60 million write-off of a portion of MP&L's previously deferred Grand Gulf 1-related costs, (3) a $50 million one-time credit by System Energy to the System operating companies (which was substantially refunded to ratepayers), (4) the $43 million write-off by System Energy of Grand Gulf 1 AFUDC equity, and (5) the nonrecurring effect of local settlements recorded by LP&L and NOPSI, which reduced operating revenues by $18.4 million and increased operating expenses by $26 million. Excluding the effects of the Project Olive Branch Settlements, net income and earnings per share for 1989 would have been approximately $389.9 million and $1.91 per share, respectively.

The System's 1988 net income and earnings per share increased over 1987, due primarily to NOPSI's $135 million write-off in 1987 ($72.9 million net of tax) of previously deferred Grand Gulf 1 costs. A reduction in System Energy's rate of return on common equity from 16% to 14%, effective July 1, 1987, applied to a lower net unit investment partially offset this factor.

RESULTS OF OPERATIONS

				1989 vs 1988		1988 vs 1987	
	1989	1988	1987	Increase/ (Decrease)	%	Increase/ (Decrease)	%
			(Dollars in Millions)				
Net income (loss)	$ (472.6)	$ 411.0	$ 356.6	$ (883.6)	(215)	$ 54.4	15
Electric operating revenues	$ 3,633.6	$ 3,473.6	$ 3,327.1	$ 160.0	5	$ 146.5	4
Retail energy sales (million kWh)	54,007	52,575	51,411	1,432	3	1,164	2
Purchased power	$ 186.8	$ 142.0	$ 96.6	$ 44.8	32	$ 45.4	47
Rate deferrals	$ (149.3)	$ (292.1)	$ (468.5)	$ (142.8)	(49)	$(176.4)	(38)
Maintenance	$ 278.8	$ 235.7	$ 256.2	$ 43.1	18	$ (20.5)	(8)
Income taxes	$ 5.6	$ 240.9	$ 274.6	$ (235.3)	(98)	$ (33.7)	(12)
Project Olive Branch Settlements	$ (1,105.2)	–	–	$ 1,105.2	–	–	–
Miscellaneous income and deductions – net	$ 102.8	$ 113.8	$ 85.8	$ (11.0)	(10)	$ 28.0	33
Interest expense	$ 660.2	$ 699.3	$ 681.2	$ (39.1)	(6)	$ 18.1	3

Electric Operating Revenues and Retail Energy Sales

Electric operating revenues increased in both 1989 and 1988 primarily as a result of increased rates and increased retail energy sales. The increase in rates largely reflects the step-up provisions of AP&L, MP&L, and NOPSI's phase-in plans, which provide for greater current recovery of Grand Gulf 1-related costs. Retail energy sales increased in 1989 due primarily to volume growth in the industrial sector resulting from various marketing incentive plans. The 1988 increase in energy sales was attributable to increased commercial and industrial sales.

Purchased Power

Purchased power expenses increased in both comparative periods. In 1989, scheduled and unscheduled outages at certain System generating units resulted in the purchase of greater amounts of power off-System. The 1988 increase resulted primarily from off-System power purchases under long-term purchase contracts.

Rate Deferrals

Rate deferrals decreased in each comparable period as certain System operating companies recovered a larger portion of their current Grand Gulf 1-related costs through increased rates.

Maintenance

Maintenance expense increased in 1989 compared with 1988 due primarily to scheduled refueling and maintenance outages at two of the System's nuclear units and a reduction in 1988 maintenance expense resulting from the capitalization of certain materials and supplies inventory that had been previously expensed.

Income Taxes

Income taxes decreased significantly in 1989 due primarily to tax benefits of approximately $242.7 million recorded in connection with certain write-offs associated with the Project Olive Branch Settlements. The decrease in income taxes for 1988 is primarily attributable to a decline in pre-tax book income and a reduction in the federal corporate income tax rate from the 1987 blended rate of 40% to the 1988 rate of 34%, which was effective January 1, 1988.

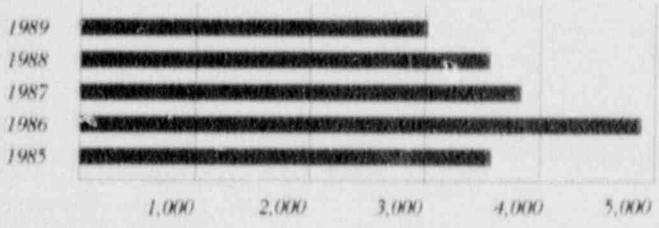
Miscellaneous Income and Deductions — Net

Miscellaneous income and deductions– net decreased in 1989 due primarily to AP&L's discontinuance in July 1988 of deferring a return on investment in alleged excess capacity and because of an $8.2 million gain from the sale of Associated Natural Gas Company (ANG) in June 1988. The increase in 1988 compared with 1987 was primarily attributable to increased interest income earned on temporary cash investments and to the $8.2 million gain.

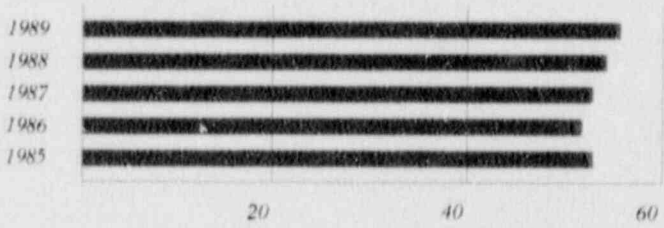
Interest Expense

Interest expense decreased in 1989 reflecting the System's cost reduction program whereby certain high-cost debt was retired or refinanced with lower cost debt. Additionally, the 1989 decrease was affected by a 1988 settlement between LP&L, the Internal Revenue Service, and the State of Louisiana that resulted in additional interest expense of $10.7 million in 1988. Further, this 1988 settlement also contributed to the 1988 increase in interest expense over 1987.

Wholesale Electricity Sales to Adjoining Utility Systems *(Millions of Kilowatt-hours)*



System Retail Customer Electricity Usage *(Billions of Kilowatt-hours)*



FINANCIAL CONDITION

Liquidity

The System was generally successful in generating adequate cash to meet its requirements in 1989. Cash requirements stem primarily from operating expenses, construction, costs associated with rate phase-in plans, meeting debt maturities, and satisfying sinking fund requirements. The majority of these needs were met with internally generated funds and with cash on hand at the beginning of 1989. Net cash provided by operations totaled approximately $700.7 million. Increases in the amount of current Grand Gulf 1-related costs being recovered, resulting in a reduction in rate deferrals recorded, contributed to the System's strengthening liquidity. (See the Statements of Consolidated Cash Flows.)

Investing activities for the year resulted in a net cash outflow due primarily to construction expenditures of approximately $371 million.

Financing activities resulted in a net cash outflow of approximately $783.6 million. Among these activities were the retirements of certain high-cost debt or its refinancing with lower cost debt. In this connection, the System retired approximately $1.02 billion of high-cost first mortgage bonds with proceeds received primarily from sale and leaseback transactions involving Grand Gulf 1 and Waterford 3 and from issuances of lower cost bonds. (Proceeds of approximately $500 million from the Grand Gulf 1 sale and leaseback were included in cash and cash equivalents at the beginning of the period as such transaction occurred in December 1988). In addition, approximately $117 million of high-cost preferred stock was redeemed in 1989. This capital cost reduction program resulted in reduced interest expense and preferred dividend requirements in 1989.

Capital and Refinancing Requirements

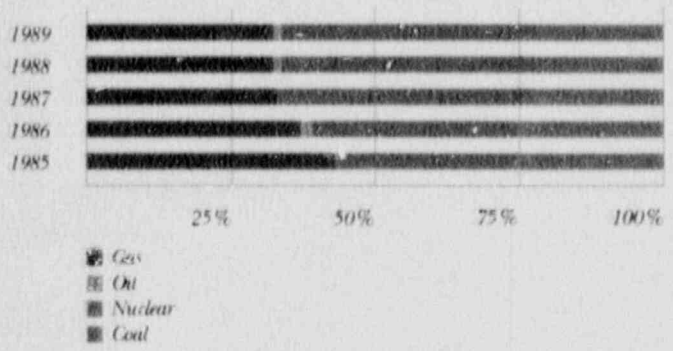
Construction expenditures for the System are estimated to be $398.3 million, $399.2 million, and $430.5 million for the years 1990, 1991, and 1992, respectively. In addition to construction expenditures, the System will have capital requirements in 1990 of $57 million in connection with the phasing of a portion of Grand Gulf 1 and Waterford 3 costs into retail rates. Pursuant to the phase-in plans, in 1991 and 1992, the System will be collecting Grand Gulf 1 and Waterford 3 costs incurred but not collected in previous years. These collections constitute cash available to satisfy construction expenditure requirements.

In addition to the above capital requirements, the System will require $699.3 million of capital funds during the period 1990-92 to meet long-term debt maturities and to satisfy sinking fund requirements.

It is expected that a substantial portion of the above capital and refinancing requirements during the period 1990-92 will be satisfied from internally generated funds and cash on hand.

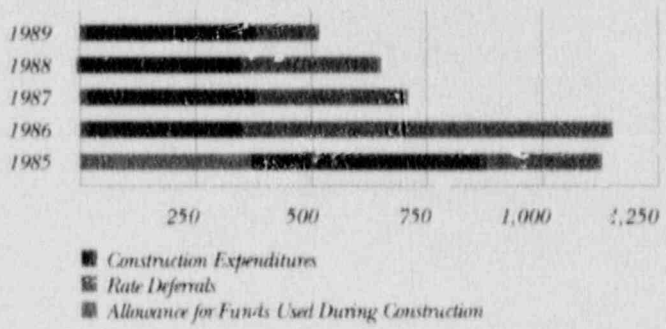
Certain System companies are proceeding with arrangements for the possible redemption, purchase, or other acquisition of all or a portion of certain outstanding series of high-cost debt and preferred stock. Further, certain System companies could possibly enter into arrangements for the sale or sale and leaseback of property in which the proceeds from such transactions could be used to retire certain debt issues at par. However, only AP&L currently has plans to do so.

Electricity Generation by Fuel Type *(Megawatt-hours)*



NOTE: Percentages are for energy actually generated and not System capacity. Negligible amounts of hydroelectric generation are not plotted.

Capital Requirements Related to Construction Expenditures and Rate Deferrals *(Millions of Dollars)*



In this connection, AP&L has filed applications with the APSC and the SEC requesting, among other things, approval to sell and transfer its interest in Independence 2 and Ritchie 2 to Entergy Power, Inc. (a proposed subsidiary of Entergy Corporation that would market the related capacity and energy to other parties, principally non-affiliates, for resale). Other necessary regulatory approvals have been requested. There is no assurance as to when or whether consummation of such transaction would occur. In addition, AP&L has been approached considering a possible sale of its retail operations in Missouri. Preliminary discussions have been held with interested parties, but AP&L has made no decisions with regard to this matter. If either or both of these transactions were consummated, AP&L could use all or a portion of the proceeds to redeem all or a portion of certain series of its outstanding first mortgage bonds at special redemption prices at or near to par pursuant to and in compliance with applicable provisions of its mortgage and deed of trust.

Capital Resources

Additional mortgage bonds and preferred stock that can be issued by the System operating companies and System Energy are limited to the lesser of amounts based on earnings coverage tests, available bondable property, and for MP&L and NOPSI, the cumulative Grand Gulf 1 rate deferrals recorded as assets available to support the issuance of additional G&R Bonds. Based upon the more restrictive test at December 31, 1989, the System operating companies and System Energy could have issued mortgage bonds or preferred stock in the following approximate amounts, at an assumed annual interest or dividend rate of 10%.

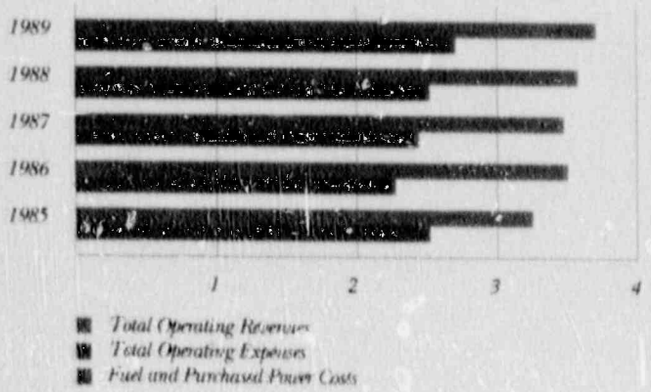
	Bonds	Preferred Stock
	(In Millions)	
AP&L	$384	$204
LP&L	502	–
MP&L(1)	–	–
NOPSI(2)	17	–
System Energy	267	–

(1) MP&L's bond and preferred stock earnings coverages at December 31, 1989, were below levels necessary to permit the issuance of additional bonds (except for refunding purposes) or preferred stock, due to the write-off in September 1989 of $60 million of previously deferred Grand Gulf 1-related costs. These coverages will continue to be affected by the write-off through August 1990.

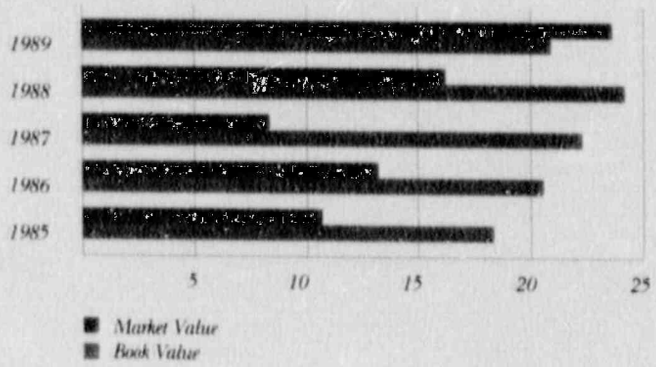
(2) Although NOPSI's bond earnings coverages at December 31, 1989, would have permitted the issuance of G&R Bonds, NOPSI's issuance of bonds would require certain regulatory approvals, including SEC approval. The SEC has historically required that the issuer of senior securities have a pro forma ratio of common stock equity to total capitalization (including short-term debt) of at least approximately 30%. In light of NOPSI's low common equity ratio, it is unlikely that NOPSI could obtain the requisite regulatory approvals for such financing at this time (see Note 4).

In addition, AP&L, LP&L, MP&L, and System Energy had the ability at December 31, 1989, subject to meeting certain conditions, to issue bonds against the retirement of bonds without meeting an earnings coverage test. Also, AP&L may issue preferred stock to refund outstanding preferred stock without meeting an earnings coverage test. System Energy's charter does not presently provide for issuance of preferred stock.

Operating Revenues and Expenses *(Billions of Dollars)*



Market Value to Book Value *(Dollars per Share)*



Short-term lines of credit are generally maintained to provide flexibility in meeting short-term capital requirements. The available bank lines of credit and amounts outstanding at December 31, 1989, are shown below. (For a discussion of certain limitations with respect to short-term borrowings, see Note 4.)

	Available Bank Lines	Outstanding Banks	Outstanding Money Pool
	(In Thousands)		
AP&L	$62,465	–	$27,000
LP&L	73,950	–	–
MP&L	30,000	–	–
NOPSI	–	–	–
System Energy	–	–	–

Entergy Corporation does not have any present plans to issue additional shares of its common stock or to obtain funds from external sources through issuances of securities or other financings. Entergy Corporation's capital requirements derive principally from the need to invest periodically in the common stock of its subsidiaries. Entergy Corporation has no present plans to make significant additional investments in common stock of the System operating companies or System Energy. Entergy Corporation receives funds through dividend payments on outstanding shares of its subsidiaries' common stock, all of which are owned by Entergy Corporation. During 1989, these dividends totaled $272.9 million.

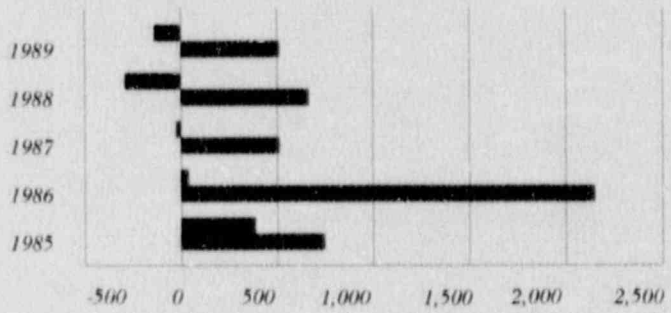
Entergy Corporation has received SEC authorization to repurchase, from time to time, up to 20,458,109 shares of its outstanding common stock through December 31, 1991. Approximately 589,500 shares of common stock were repurchased and retired in 1989 at an aggregate cost of approximately $13.2 million. Purchases are made depending upon favorable market conditions and authorization of the board of directors. There is no assurance as to the actual amount of purchases that will occur.

Accounting Issues

In December 1987, FASB issued SFAS No. 96, "Accounting for Income Taxes," which was scheduled to be effective for fiscal years beginning after December 15, 1988. FASB subsequently issued statement numbers 100 and 103, which delay the effective date of SFAS No. 96 to fiscal years beginning after December 15, 1991. During this extension period, 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 Entergy Corporation, the System operating companies, and System Energy would be significantly impacted by the adoption of SFAS No. 96 in its present form.

External Financing Activity *(Millions of Dollars)*



■ *Net Funds Provided (Issuances Less Retirements/Redemptions)*
■ *Gross Funds Provided (Issuances)*

NOTE: Net financings for 1988 include $487.7 million of first mortgage bonds retired by System Energy in January 1989 with proceeds from its Grand Gulf 1 sale and leaseback in December 1988.

AUDIT COMMITTEE CHAIRMAN'S LETTER

The Entergy Corporation Board of Directors' Audit Committee is comprised of five directors, who are not officers of the Company: William C. Battle (chairman), James B. Campbell, John A. Cooper Jr., Brooke H. Duncan, and Robert D. Pugh. The committee held four meetings during 1989.

The Audit Committee oversees the Company's financial reporting process on behalf of the Entergy Corporation Board of Directors. In fulfilling its responsibility, the committee recommended to the board, subject to stockholder approval, the selection of the Company's independent public accountant (Deloitte & Touche). Also, the committee oversees and coordinates the activities and policies of the subsidiary companies' audit committees.

The Audit Committee discussed with the internal auditor and the independent public accountant the overall scope and specific plans for their respective audits, as well as the Company's consolidated financial statements and the adequacy of the Company's internal controls. The committee met separately with the Company's internal auditor and independent public accountant, without management present, to discuss the results of its examinations, its evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting. The meetings were designed to facilitate and encourage any private communication between the committee and the internal auditor or independent public accountant.

Wm C Battle

William C. Battle, Chairman
Audit Committee

REPORT OF MANAGEMENT

The management of Entergy Corporation 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. 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 that is designed to provide reasonable assurance, on a cost-effective basis, as to the integrity, objectivity, and reliability of the financial records and as to the protection of assets. This system includes communication through written policies and procedures, an employee Code of Conduct, and an organizational structure that provides for appropriate division of responsibility and the training of personnel. This system is also tested by a comprehensive internal audit program.

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

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

Edwin Lupberger
Chairman and President

John L. Cowan
System Executive — Finance

INDEPENDENT AUDITORS' REPORT

To the Stockholders and the Board of Directors
of Entergy Corporation:

We have audited the consolidated balance sheets of Entergy Corporation and its subsidiaries as of December 31, 1989 and 1988, and the related statements of consolidated income (loss), retained earnings and paid-in capital, 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries at December 31, 1989 and 1988, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1989 in conformity with generally accepted accounting principles.

Deloitte + Touche

Deloitte & Touche
New Orleans, Louisiana

February 14, 1990

CONSOLIDATED BALANCE SHEETS

Entergy Corporation and Subsidiaries

December 31,	**1989**	1988
Assets	*(In Thousands)*	
Utility Plant (Notes 1 and 9):		
Electric	**$12,760,886**	$12,787,780
Electric plant under lease	**655,212**	434,993
Property under capital lease – electric	**115,875**	120,766
Natural gas	**97,875**	94,942
Property under capital lease – gas	**900**	1,001
Construction work in progress	**240,808**	170,265
Nuclear fuel	**5,061**	95,456
Nuclear fuel under capital lease	**420,125**	396,052
Total	**14,296,742**	14,101,255
Less – Accumulated depreciation and amortization	**3,298,370**	2,989,863
Utility plant – net	**10,998,372**	11,111,392
Other Property and Investments	**92,395**	86,207
Current Assets:		
Cash	**5,809**	15,389
Temporary investments – at cost, which approximates market (Note 2)	**932,384**	1,366,555
Total cash and cash equivalents (Note 1)	**938,193**	1,381,944
Special deposits	**14,647**	13,510
Notes receivable	**9,968**	2,916
Accounts receivable:		
Customer [less allowance for doubtful accounts of (in thousands) $8,412 in 1989 and $7,596 in 1988]	**216,867**	147,509
Other	**33,619**	34,483
Accrued unbilled revenues (Note 1)	**54,009**	54,726
State income taxes receivable	**–**	2,859
Accumulated deferred income taxes (Note 3)	**–**	38,598
Fuel inventory – at average cost (Note 4)	**68,744**	64,739
Materials and supplies – at average cost	**226,548**	179,534
Rate deferrals (Note 1)	**82,812**	91,229
Prepayments and other	**79,444**	64,538
Total	**1,724,851**	2,076,585
Deferred Debits:		
Rate deferrals (Note 1)	**1,646,405**	1,559,724
Suspended construction project (Note 10)	**–**	904,984
Other	**253,218**	202,924
Total	**1,899,623**	2,667,632
Total	**$14,715,231**	$15,941,816

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

Entergy Corporation and Subsidiaries

December 31,	**1989**	1988
	(In Thousands)	
Capitalization and Liabilities		
Capitalization:		
Common stock, $5 par value, authorized 500,000,000 shares; issued and outstanding 203,991,592 shares in 1989 and 204,581,092 shares in 1988 (Note 5)	**$ 1,019,958**	$ 1,022,905
Paid-in capital	**1,563,313**	1,567,781
Retained earnings (Note 7)	**1,636,254**	2,310,242
Total common stockholders' equity	**4,219,525**	4,900,928
Subsidiaries' preferred stock (Note 5):		
Without sinking fund	**330,967**	330,967
With sinking fund	**350,363**	462,965
Long-term debt (Notes 6 and 9)	**5,991,084**	6,187,442
Total	**10,891,939**	11,882,302
Noncurrent Liabilities:		
Obligations under capital leases (Note 9)	**355,835**	260,858
Other	**57,435**	56,876
Total	**413,270**	317,734
Current Liabilities:		
Notes payable (Note 4):		
Commercial paper	**–**	26,000
Other	**667**	21,657
Currently maturing long-term debt (Note 6)	**29,427**	306,346
Accounts payable	**339,500**	286,989
Gas contract settlements – liability to customers (Note 8)	**60,010**	257,054
Deferred revenue – gas supplier judgment proceeds (Note 2)	**33,802**	–
Deferred fuel cost	**2,465**	9,535
Customer deposits	**80,069**	73,880
Taxes accrued	**199,645**	162,485
Accumulated deferred income taxes (Note 3)	**15,685**	–
Interest accrued	**169,460**	165,723
Preferred dividends declared	**16,472**	23,454
Obligations under capital leases (Note 9)	**210,476**	300,118
Other	**81,111**	52,209
Total	**1,238,789**	1,685,450
Deferred Credits:		
Accumulated deferred income taxes (Note 3)	**1,597,817**	1,597,921
Accumulated deferred investment tax credits (Note 3)	**47,238**	66,621
Gas contract settlements – liability to customers (Note 8)	**168,782**	225,329
Deferred revenue – gas supplier judgment proceeds (Note 2)	**139,596**	–
Other	**217,810**	166,459
Total	**2,171,243**	2,056,330
Commitments and Contingencies (Note 8)		
Total	**$14,715,241**	$15,941,816

See Notes to Consolidated Financial Statements.

STATEMENTS OF CONSOLIDATED INCOME (LOSS)

Entergy Corporation and Subsidiaries

For the Years Ended December 31,	**1989**	1988	1987
		(In Thousands)	
Operating Revenues:			
Electric	**$3,633,637**	$ 3,473,552	$3,327,117
Natural gas	**90,367**	91,853	127,703
Total	**3,724,004**	3,565,405	3,454,820
Operating Expenses:			
Operation:			
Fuel for electric generation and fuel-related expenses	**766,787**	778,138	801,594
Purchased power	**186,835**	141,992	96,595
Gas purchased for resale	**62,705**	62,661	83,800
Other	**725,842**	751,274	686,460
Maintenance	**278,832**	235,733	256,202
Depreciation	**406,011**	390,554	384,374
Taxes other than income taxes	**185,660**	172,135	169,696
Income taxes (Note 3)	**211,973**	152,638	161,817
Rate deferrals:			
Rate deferrals (Note 1)	**(149,330)**	(292,078)	(468,495)
Write-off of previously deferred Grand Gulf 1 expenses (Notes 2 and 8)	**–**	–	135,000
Income taxes (Note 3)	**48,304**	102,789	137,721
Total	**2,723,619**	2,495,836	2,444,764
Operating Income	**1,000,385**	1,069,569	1,010,056
Other Income and Deductions:			
Project Olive Branch Settlements (Note 10)	**(1,105,185)**	–	–
Allowance for equity funds used during construction	**6,052**	7,818	7,901
Miscellaneous income and deductions – net	**102,844**	113,845	85,849
Income taxes – credit (Note 3)	**254,680**	14,549	24,918
Total	**(741,609)**	136,212	118,668
Interest and Other Charges:			
Interest on long-term debt	**631,600**	663,477	637,139
Other interest – net	**28,607**	35,826	44,095
Allowance for borrowed funds used during construction	**(4,793)**	8,680	(1,092)
Preferred dividend requirements of subsidiaries	**75,947**	86,770	91,978
Total	**731,361**	794,753	772,120
Net Income (Loss)	**$ (472,585)**	$ 411,028	$ 356,604
Earnings (Loss) per Common Share	**$(2.31)**	$2.01	$1.74
Dividends Declared per Common Share (Note 7)	**$ 0.90**	$0.20	–
Average Number of Common Shares Outstanding (Note 5)	**204,576,247**	204,581,092	204,581,092

See Notes to Consolidated Financial Statements.

STATEMENTS OF CONSOLIDATED CASH FLOWS

Entergy Corporation and Subsidiaries

For the Years Ended December 31,	1989	1988	1987
Operating Activities:		*(In Thousands)*	
Net income (loss)	**$ (472,585)**	$ 411,028	$ 356,604
Non-cash items included in net income (loss):			
Rate deferrals (Note 1)	**(149,330)**	(292,078)	(468,495)
Write-off of previously deferred Grand Gulf 1 expenses (Notes 2 and 8)	**–**	–	135,000
Depreciation	**406,011**	390,554	384,374
Deferred income taxes and investment tax credits	**(19,407)**	209,219	264,187
Project Olive Branch Settlements (Note 10)	**1,047,565**	–	–
Allowance for equity funds used during construction	**(6,052)**	(7,818)	(7,901)
Amortization of deferred revenue	**(25,641)**	–	–
Net gain on the sale of ANG	**–**	(5,350)	–
Changes in working capital:			
Receivables	**(71,970)**	(37,657)	59,887
Fuel inventory	**(4,005)**	30,573	(1,946)
Accounts payable	**52,511**	15,696	(8,898)
Other working capital accounts	**6,998**	(43,687)	(11,898)
Proceeds from gas contract settlements (Notes 2 and 8)	**–**	196,835	20,091
Refunds to customers – gas contract settlements (Note 8)	**(56,122)**	(57,152)	(252,785)
Change in bonding trust arrangement	**–**	101,202	(101,202)
Increase in decommissioning trust	**(13,314)**	(26,705)	(2,744)
Other	**6,051**	19,502	30,516
Net cash flow provided by operating activities	**700,710**	904,162	394,790
Investing Activities:			
Construction expenditures	**(363,788)**	(338,091)	(351,227)
Allowance for equity funds used during construction	**6,052**	7,818	7,901
Nuclear fuel sales (expenditures) – net	**2,779**	(40,123)	(7,193)
Expenditures on suspended construction project	**(7,175)**	(12,194)	(10,403)
Proceeds received from the sale of ANG	**–**	27,095	–
Other property – net	**1,319**	1,724	–
Net cash flow used by investing activities	**(360,813)**	(353,771)	(360,922)
Financing Activities:			
Proceeds from issuance of:			
Preferred stock	**–**	–	35,000
First mortgage bonds	**73,282**	75,000	375,000
General and refunding mortgage bonds	**100,000**	115,000	75,000
Bank notes and other long-term debt (Note 9)	**360,259**	510,369	51,377
Retirement of first mortgage bonds	**(1,023,397)**	(106,603)	(107,365)
Retirement of bank notes and other long-term debt	**(6,110)**	(381,250)	(406,758)
Redemption of preferred stock	**(117,449)**	(30,420)	(48,030)
Retirement of common stock	**(13,201)**	–	–
Proceeds from sale and leaseback of nuclear fuel	**73,863**	129,827	66,446
Common stock dividends paid	**(183,834)**	(40,916)	–
Proceeds from letter of credit escrow	**–**	192,885	–
Letter of credit escrow payments	**–**	(84,323)	(89,400)
Funds (held) released by first mortgage bond trustee	**–**	60,000	(60,000)
Changes in short-term borrowings	**(46,990)**	(208,010)	119,667
Other	**(71)**	99	–
Net cash flow provided (used) by financing activities	**(783,648)**	231,658	10,937
Net increase (decrease) in cash and cash equivalents	**(443,751)**	782,049	44,805
Cash and cash equivalents at beginning of period	**1,381,944**	599,895	555,090
Cash and cash equivalents at end of period	**$ 938,193**	$ 1,381,944	$ 599,895
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the period for:			
Interest (net of amount capitalized)	**$ 702,668**	$ 767,311	$ 745,608
Income taxes (refund)	**$ 16,301**	$ 4,098	$ (4,815)
Supplemental Schedule of Non-cash Investing and Financing Activities:			
Capital lease obligations incurred	**$ 381,792**	$ 129,629	$ 71,088
First mortgage bonds assumed in the sale of ANG	**–**	$ (3,780)	–

See Notes to Consolidated Financial Statements.

STATEMENTS OF CONSOLIDATED RETAINED EARNINGS AND PAID-IN CAPITAL

Entergy Corporation and Subsidiaries

For the Years Ended December 31,	**1989**	1988	1987
		(In Thousands)	
Retained Earnings, January 1	**$2,310,242**	$1,939,757	$1,583,402
Add – Net income (loss)	**(472,585)**	411,028	356,604
Total	**1,837,657**	2,350,785	1,940,006
Deduct:			
Dividends declared on common stock (Note 7)	**184,123**	40,916	–
Common stock retirements (Note 5)	**5,738**	–	–
Capital stock and other expenses	**11,542**	(373)	249
Total	**201,403**	40,543	249
Retained Earnings, December 31 (Note 7)	**$1,636,254**	$2,310,242	$1,939,757
Paid-in Capital, January 1	**$1,567,781**	$1,565,466	$1,565,889
Add:			
Gain (loss) on reacquisition of preferred stock	**48**	2,315	(423)
Deduct:			
Common stock retirements (Note 5)	**4,516**	–	–
Paid-in Capital, December 31	**$1,563,313**	$1,567,781	$1,565,466

See Notes to Consolidated Financial Statements.

Frequently Used Terms

AFUDC	Allowance for Funds Used During Construction
ANO	AP&L's Arkansas Nuclear One Steam Electric Generating Station
APSC	Arkansas Public Service Commission
City	City of New Orleans, Louisiana
Council	New Orleans City Council
FASB	Financial Accounting Standards Board
February 4 Resolution	The resolution adopted by the council on February 4, 1988, disallowing NOPSI's recovery of $135 million of previously deferred Grand Gulf 1-related costs
FERC	Federal Energy Regulatory Commission
FERC Settlement	Settlement offer filed with 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 pending Grand Gulf Nuclear Station-related issues, litigation, and other rate matters
G&R Bonds	General and Refunding Mortgage Bonds issued and issuable by MP&L and NOPSI
Grand Gulf 1	Unit 1 of the Grand Gulf Nuclear Station
Grand Gulf 2	Unit 2 of the Grand Gulf Nuclear Station
Independence 2	Unit 2 of AP&L's Independence Station (coal)
June 13 Decision	An order issued by FERC on June 13, 1985, relating to the Unit Power Sales Agreement and the System Agreement
LPSC	Louisiana Public Service Commission
MPSC	Mississippi Public Service Commission
NRC	Nuclear Regulatory Commission
Ritchie 2	Unit 2 of AP&L's Ritchie Steam Electric Generating Station (oil/gas)
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
System operating companies	AP&L, LP&L, MP&L, and NOPSI, collectively
Waterford 3	Unit 3 of LP&L's Waterford Steam Electric Generating Station (nuclear)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements include the accounts of Entergy Corporation (the Company) and its direct and indirect subsidiaries: AP&L, LP&L, MP&L, NOPSI, System Energy, Entergy Services, SFI, and Electec, Inc. The above companies are collectively referred to as the Middle South Electric System or System.

Systems of Accounts

The accounts of the Company and its service subsidiary, Entergy Services, are maintained in accordance with the Public Utility Holding Company Act of 1935, as administered by the SEC.

The accounts of the System operating companies are maintained in accordance with the systems of accounts prescribed by the applicable regulatory bodies, which systems of accounts substantially conform to those prescribed by FERC. The accounts of the generating subsidiary, System Energy, are maintained in accordance with the system of accounts prescribed by FERC. The accounts of the non-utility subsidiary, Electec, Inc., are maintained in accordance with the system of accounts prescribed by the SEC.

Revenues and Fuel Costs

Three of the operating companies record electric and gas revenues as billed to their customers on a cycle-billing basis. Revenues are not accrued for energy delivered but not yet billed by the end of the fiscal period. LP&L accrues revenue for the non-fuel portion of estimated unbilled revenues. Unbilled revenues result from energy delivered since the period covered by the latest billings to customers. Substantially all of the operating companies' rate schedules include adjustment clauses under which the cost of fuel used for generation and gas purchased for resale above or below specified base levels is permitted to be billed or required to be credited to customers.

MP&L has a fuel adjustment clause which allows current recovery of fuel costs. The three other operating companies utilize a deferral method of accounting for those fuel costs recoverable under fuel adjustment clauses. Under this method, such costs are deferred until related revenues are billed.

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

Utility Plant and Depreciation

Utility plant is stated at original cost. Partial disallowances of plant cost ordered by the regulators have been recorded as an adjustment to utility plant. The cost of additions to utility plant includes contracted work, direct labor and materials, allocable overheads, and an allowance for the composite cost of funds used during construction. The costs of units of property retired are removed from utility plant and such costs, plus removal costs, less salvage, are charged to accumulated depreciation. Maintenance and repairs of property and replacement of items determined to be less than units of property are charged to operating expenses.

Depreciation is computed on the straight-line basis at rates based on the estimated service lives of the various classes of property. Depreciation provisions on average depreciable property approximated 3.1%, 3%, and 3% in 1989, 1988, and 1987, respectively.

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

Rate Deferrals

The System operating companies have in effect various rate moderation or rate phase-in plans to reduce the immediate effect on ratepayers of the inclusion of Grand Gulf 1 and Waterford 3 costs in rates. Under these plans, certain costs are either permanently retained (and not recovered from ratepayers), deferred in the early years of commercial operation and collected in the later years, or recovered currently from customers. These plans vary both in the proportions of costs that each company retains, defers, or recovers and in the length of the deferral/recovery periods. By deferring costs associated with the rate moderation plans to the future when they will be collected through increased rates billed to customers, the impact of the deferral aspect of these plans on the income statement has been removed. Only those costs permanently retained and 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, each company records a deferred asset representing the amount of the deferrals and, at the same time, incurs additional capital requirements associated with these deferrals. In most cases, the carrying charges associated with the unamortized 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.

With respect to permanently retained costs, AP&L's retained share (stated as a percentage of System Energy's share of Grand Gulf 1) ranges from 5.6% in 1989 to 7.92% in 1994 and all succeeding years of the unit's commercial

operation. In the event AP&L is not able to sell its retained share to third parties, it has the right to sell such energy to its retail customers at a price equal to its avoided energy cost. In 1985, LP&L agreed to permanently absorb 18% of its FERC-allocated share of Grand Gulf 1-related costs. LP&L is allowed to recover 4.6 cents per kWh for the energy related to such retained portion through the fuel adjustment clause. This recovery amount was temporarily reduced to 2.55 cents per kWh pursuant to a recent agreement between LP&L and the LPSC. (See Note 10, "Project Olive Branch Settlements.") LP&L retains the right to sell such energy to non-affiliated parties at prices in excess of the fuel adjustment clause recovery amount, subject to LPSC approval. At December 31, 1989, the net investment in Grand Gulf 1 amounted to $3.1 billion.

Postretirement Benefits

The Company and its subsidiaries have various postretirement benefit plans covering substantially all of their employees. The policy of the Company and its subsidiaries 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 and record other postretirement plan costs on a cash basis.

Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return. Pursuant to an intra-System income tax allocation agreement, income taxes are allocated to the System companies in proportion to their 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 recorded based on differences between book and taxable income to the extent permitted by the regulatory bodies for ratemaking purposes. Investment tax credits utilized are deferred and amortized based upon the average useful life of the related property.

Allowance for Funds Used During Construction

To the extent that the Company's operating companies are not permitted by their regulatory bodies to recover in current rates the carrying costs of funds used for construction, they capitalize, as an appropriate cost of utility plant, an allowance for funds used during construction (AFUDC) that is calculated and recorded as provided by the regulatory systems of accounts. Under this utility industry practice, construction work in progress on the balance sheet is charged and the income statement is credited for the approximate net composite interest cost of borrowed funds and for a reasonable return on the equity funds used for construction. This procedure removes from the income statement the effect of the cost of financing the construction program. It effectively results in treating the AFUDC charges in the same manner as construction labor and material costs in that each is capitalized rather than expensed. As non-cash items, these income statement credits have no effect on current cash earnings. After the property is placed in service, the AFUDC charged to construction costs is recoverable from customers through depreciation provisions included in utility service rates. Effective composite rates of the System operating companies for AFUDC were 9.3%, 9.6%, and 9% for 1989, 1988, and 1987, respectively.

Other Noncurrent Liabilities

It is the policy of AP&L, LP&L, and NOPSI to record provisions for uninsured property risks, certain employee benefits, and claims for injuries and damages through charges to operating expenses on an accrual basis. In 1989, pursuant to MPSC authorization, MP&L reestablished provisions for uninsured property risks and claims for injuries and damages.

Statement of Cash Flows

For purposes of this statement, the Company considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

NOTE 2. RATE AND REGULATORY MATTERS

Project Olive Branch

In an effort, referred to by the System as "Project Olive Branch," to settle outstanding issues and litigation surrounding System Energy and the Grand Gulf Nuclear Station and to stabilize retail rates in the System's service area, the System explored with the FERC staff, state and local regulators and officials, and other interested parties, methods of resolving Grand Gulf Nuclear Station-related and other rate matters. To that end, on June 9, 1989, System Energy and the System operating companies filed with FERC an offer of settlement that would resolve various FERC-related issues. 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 FERC on July 21, 1989. (For a discussion of the FERC Settlement and of related state and local settlements, see Note 10, "Project Olive Branch Settlements.")

FERC's June 13 Decision

FERC's June 13 Decision allocating the capacity and energy from System Energy's 90% share of Grand Gulf 1 among the System operating companies continues to be challenged by various parties. (See Note 8, "Commitments

and Contingencies — Controversies Concerning Grand Gulf 1" for more information on this matter.)

LPSC Retail Rate Order

On March 1, 1989, the LPSC issued an order that addressed a general retail rate application filed by LP&L in 1988 and the disposition of the LPSC's jurisdictional portion (approximately 97.4%) of $193.7 million of gas supplier judgment proceeds received by LP&L in October 1988 resulting from litigation with a gas supplier. The LPSC found in its order that LP&L was entitled to an annual increase in retail rates of approximately $45.9 million, based upon a return on equity of 12.76% and an overall rate of return of 11.07%. However, in lieu of a rate increase, the March 1989 order provided that LP&L retain the LPSC jurisdictional portion of the gas supplier judgment proceeds (stated to approximate $188.6 million) and, for the benefit of ratepayers, begin immediately to amortize such jurisdictional proceeds plus interest thereon accrued through February 28, 1989, pursuant to a rate amortization schedule that currently extends over a 5.3-year period. The unamortized balances of such proceeds will reduce LP&L's rate base until completion of the amortization. LP&L believes that the March 1989 order should have the effect of providing approximately the same amount of additional net income available for common stock as would an annual rate increase of $45.7 million (approximately the amount of LP&L's revenue deficiency as determined by the LPSC) over the 5.3-year period. The impact of the March 1989 order was to increase net income in 1989 by approximately $23.1 million. LP&L agreed to a five-year base rate freeze, at the then current level, subject to certain conditions.

On April 17, 1989, the Louisiana Energy Users Group (LEUG), a group of LP&L's large industrial customers, and the members of such group individually, filed a petition for appeal and judicial review of the March 1989 order in the 19th Judicial District Court for the Parish of East Baton Rouge, Louisiana (district court). The LEUG contends that the LPSC was without jurisdiction or authority to permit LP&L to retain the judgment proceeds. Further, the LEUG requests that LP&L be directed to keep and maintain in a separate account, pending a decision by the district court, the judgment proceeds, or alternatively, the remainder of the proceeds after payment of the initial amount required to meet the first year's revenue requirement of approximately $45.9 million. Trial of the appeal had been scheduled for March 22, 1990. However, the LEUG filed a motion with the district court requesting continuance, without date, of these proceedings. LP&L will defend vigorously against the appeal. The LEUG has stated its intention to offer a witness at the trial of the appeal. If this occurs, LP&L intends and the LPSC has stated its intention to offer countervailing witnesses. The trial judge has stated his intention to send a transcript of the proceeding to the LPSC for its consideration. Should this occur, the LPSC may take further action in accordance with the additional evidence. As permitted by the March 1989 order, LP&L is expending the judgment proceeds in the normal course of its business. LP&L believes the intent of the March 1989 order is that the LPSC recognizes that LP&L is entitled to an annual revenue increase of approximately $45.9 million and that such intent will be upheld by the courts. The matter is pending.

NOPSI Prudence Disallowance

On February 4, 1988, after a lengthy prudence investigation, the council adopted the February 4 Resolution, which required NOPSI to write off, and not recover from its retail electric customers, $135 million of its previously deferred Grand Gulf 1-related costs in addition to the $51.2 million of such costs that NOPSI absorbed as part of its March 1986 rate settlement between NOPSI and the council. (The $135 million disallowance was written off in 1987.)

NOPSI is seeking relief in federal and state courts from this action by the council. NOPSI believes that the February 4 Resolution is in violation of the Federal Power Act, applicable FERC orders, and federal law as interpreted by the U.S. Supreme Court, and is contrary to the evidence presented to the council, and will ultimately be so declared by the courts. (For further information regarding these issues and the potential financial implications to NOPSI, see Note 8, "Commitments and Contingencies — Controversies Concerning Grand Gulf 1.")

Other FERC Matters

On February 1, 1990, the APSC, LPSC, MPSC, Mississippi Attorney General, and the City of New Orleans filed a complaint with FERC against System Energy and Entergy Services (as agent for the Company and the System operating companies) alleging that the rates currently being charged to the System operating companies by System Energy for Grand Gulf 1 capacity and energy are not just and reasonable. The issues raised by the complaint involve: (1) reducing System Energy's rate of return on common equity from 14% (a reduction in System Energy's rate of return on common equity by 1% would cause annual revenues to be reduced by approximately $17 million); (2) placing a ceiling for ratemaking purposes on System Energy's common equity ratio; (3) reducing System Energy's cash working capital allowance; (4) investigating the transfer of certain Grand Gulf 2 assets to Grand Gulf 1; and (5) investigating plant costs related to income tax accounting issues. System Energy has filed an answer to the complaint. In the event FERC decides to set these matters for investigation, FERC will establish a refund effective date, which under federal law cannot be earlier than April 2, 1990. Any adjustments to System Energy's rates found necessary by FERC pursuant to

this complaint would be effective retroactively to the refund effective date. With regard to income tax accounting issues, the FERC Division of Audits is conducting an audit of System Energy for the years 1986 through 1988 and has indicated that it may recommend certain adjustments to System Energy's books and records related to income tax accounting procedures. The FERC staff's preliminary indications are that approximately $95 million of Grand Gulf 1 costs may be at issue. The FERC staff's audit report is expected sometime in 1990. Entergy Corporation cannot predict the outcome of this matter. System Energy believes that its income tax accounting procedures are in compliance with SEC and FERC requirements and that in the event the FERC staff recommends adjustments or write-offs related to System Energy income tax accounting procedures, the ultimate resolution or settlement of any claims which may be asserted by FERC relative to this matter will not result in a material adverse impact on System Energy's financial position or results of operations.

NOTE 3. INCOME TAXES

Income tax expense (credit) consists of the following:

	1989	1988	1987
		(In Thousands)	
Current:			
Federal	–	$ 17,144	$ 10,138
State	$ 25,004	14,509	295
Total	25,004	31,653	10,433
Deferred – Net:			
Reclassification due to net operating loss	(43,652)	227,278	32,078
Tax gain on sale and leaseback transactions	(78,980)	(126,286)	–
Rate deferrals	48,304	102,789	137,721
Other deferred purchased power costs	2,316	(3,397)	17,396
Gas contract settlement	10,458	(69,201)	1,037
Liberalized depreciation	95,016	72,001	163,235
Amortization of excess deferred income taxes	(17,860)	(22,644)	(23,468)
Unbilled revenues	(24,307)	(20,455)	(12,530)
Customer deposits	(717)	18,735	–
Project Olive Branch Settlements	14,319	–	–
Nuclear refueling and maintenance	1,991	11,827	(9,328)
Deferred fuel	898	11,498	(2,222)
Alternative minimum tax	(1,808)	(15,864)	(32,302)
Other	(6,003)	10,554	(2,184)
Total	(25)	196,835	269,433
Investment tax credit adjustments – net	(19,382)	12,390	(5,246)
Recorded income tax expense	$ 5,597	$ 240,878	$ 274,620
Charged to operations	$ 260,277	$ 255,427	$ 299,538
Credited to other income	(254,680)	(14,549)	(24,918)
Recorded income tax expense	5,597	240,878	274,620
Income taxes applied against the debt component of AFUDC	556	(8,520)	(2,545)
Total income taxes	$ 6,153	$ 232,358	$ 272,075

Total income taxes differ from the amounts computed by applying the statutory federal income tax rate to income (loss) before taxes. The reasons for the differences are as follows (dollars in thousands):

	1989		1988		1987	
	Amount	% of Pre-tax Loss	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
Computed at statutory rate	$(132,954)	34.0	$251,149	34.0	$289,281	40.0
Increases (reductions) in tax resulting from:						
Project Olive Branch Settlements	150,191	(38.4)	–	–	–	–
Amortization of excess deferred income taxes	(17,860)	4.6	(22,644)	(3.1)	(23,468)	(3.2)
Write-off of LP&L's state deferred taxes related to depreciation timing differences	–	–	–	–	(23,828)	(3.3)
State income taxes net of federal income tax effect	(242)	0.1	4,833	0.7	16,251	2.2
Amortization of investment tax credit	(7,747)	2.0	(17,758)	(2.4)	(5,157)	(0.7)
Depreciation	23,790	(6.1)	17,262	2.4	20,337	2.8
Other – net	(9,581)	2.4	8,036	1.0	1,204	0.2
Recorded income tax expense	5,597	(1.4)	240,878	32.6	274,620	38.0
Income taxes applied against the debt component of AFUDC	556	(0.1)	(8,520)	(1.1)	(2,545)	(0.4)
Total income taxes	$ 6,153	(1.5)	$232,358	31.5	$272,075	37.6

The net operating loss carryforward at December 31, 1989, amounted to $280.8 million and is available to offset federal regular taxable income in future years. If not used, it will expire in the years 2001 and 2004. Unused investment tax credits at December 31, 1989, amounted to $445.9 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 1992 through 2003.

The alternative minimum tax (AMT) credit at December 31, 1989, was $29.8 million. This AMT credit can be carried forward indefinitely and will reduce federal regular income tax in the future.

Cumulative income tax timing differences for which deferred income tax expenses have not been provided are $449.3 million, $452.8 million, and $459.4 million at December 31, 1989, 1988, and 1987, respectively.

In December 1987, FASB issued SFAS No. 96, "Accounting for Income Taxes," which was scheduled to be effective for years beginning after December 15, 1988. FASB subsequently issued statement numbers 100 and 103, which delay the effective date of SFAS No. 96 to fiscal years beginning after December 15, 1991. During this extension period, 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 AFUDC. 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.

It is expected that reductions in deferred taxes resulting from the lower corporation federal tax rates will be reflected as liabilities to customers since the regulators may require any such savings to be passed through to ratepayers. However, based on a preliminary study, Entergy Corporation, the System operating companies, and System Energy expect that adoption of SFAS No. 96 in its present form will 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 Entergy Corporation, the System operating companies, and System Energy would be significantly impacted by the adoption of SFAS No. 96 in its present form.

NOTE 6. LINES OF CREDIT AND RELATED BORROWINGS

The System operating companies and System Energy are authorized through 1990 by the SEC to effect short-term borrowings in an aggregate amount outstanding at any one time of up to a specified dollar amount for each company (AP&L - $125 million; LP&L - $125 million; MP&L - $100 million; NOPSI - $30 million; and System Energy - $125 million), subject to increase to a maximum of 10% of each company's respective capitalization with further SEC approval. However, the ability of each of the System operating companies and System Energy to borrow is subject to the availability of funds through bank lines and other credit sources. MP&L and NOPSI are limited by the terms of their respective indentures providing for the issuance of G&R Bonds to short-term borrowings in an aggregate amount not exceeding, in general, the greater of 10% of capitalization or 50% of Grand Gulf 1 rate deferrals available to support the issuance of G&R Bonds. In addition, LP&L, MP&L, and NOPSI are subject to an SEC order which prohibits incurrence of short-term indebtedness if common stock equity is, or would thereby become, less than 30% of the sum of total capitalization plus short-term indebtedness. Due to the $135 million write-off in 1987 of previously deferred Grand Gulf 1-related costs and the reduction of NOPSI's common stock equity caused thereby (22% of total capitalization as of December 31, 1989), NOPSI is currently precluded from effecting any short-term borrowings, whether through bank loans or money pool borrowings, without further SEC approval, which is not likely to be obtained under the present circumstances.

The System operating companies, excluding NOPSI, have lines of credit, not requiring commitment fees, providing for short-term borrowings of $166.4 million through loans from banks within their service territory. Additionally, the four System operating companies, together with Entergy Corporation, System Energy, Entergy Services, and SFI, are authorized to participate in a System money pool, whereby those companies in the System with available funds can invest in the pool while other companies in the System (except Entergy Corporation) having short-term needs can borrow from the pool, thereby reducing the System's dependence on external short-term borrowings. The maximum borrowing and average borrowing by participants from the System money pool during 1989 were $92.1 million and $41.8 million, respectively. At December 31, 1989, the funds available in the money pool for borrowing aggregated $693.7 million. In addition, Entergy Services has a line of credit (effective January 1, 1990) with Entergy Corporation for $35 million through December 31, 1991.

SFI has two bank credit agreements for use in financing its fuel oil and nuclear fuel inventories, respectively. The fuel oil financing agreement allows for borrowings of up to $30 million subject to a limit equivalent to 80% of the lower of cost or fair market value of its fuel oil inventory stored at certain sites. The nuclear fuel financing agreement allows for borrowings of up to $45 million. Borrowings under these agreements are restricted as to use and are secured respectively by SFI's fuel oil and nuclear fuel inventories and certain accounts receivable arising from the sales of these inventories. In addition, AP&L, LP&L, and System Energy have agreed to purchase the nuclear fuel inventory in the event SFI is unable to fulfill its obligation under the related agreement. Fees are paid on the unused portion of these agreements. At December 31, 1989, there were no borrowings outstanding under these agreements.

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

Years Ended December 31,	1989	1988	1987
		(Dollars in Thousands)	
Average Borrowing:			
Bank loans	$ 6,023	$ 52,933	$ 12,665
Commercial paper	–	$ 53,216	$ 72,738
Other	$ 2,097	$ 19,127	$173,558
Maximum Borrowing:			
Bank loans	$ 30,300	$100,805	$ 26,000
Commercial paper	–	$ 65,000	$ 85,000
Other	$ 4,137	$ 32,667	$210,667
Year-end Borrowing:			
Commercial paper	–	$ 26,900	$ 65,000
Other	$ 667	$ 21,657	$190,667
Average Interest Rate:			
During period-			
Bank loans	11.1%	9.3%	8.1%
Commercial paper	–	9.1%	7.8%
Other	9.0%	10.4%	9.4%
At end of period-			
Commercial paper	–	9.3%	7.8%
Other	10.5%	11.0%	9.7%

Credit facilities (excluding the money pool) and borrowings thereunder of the System companies were as follows:

Years Ended December 31,	1989 Credit Facilities	1989 Borrowings	1988 Credit Facilities	1988 Borrowings	1987 Credit Facilities	1987 Borrowings
			(In Thousands)			
Short-term:						
System Energy	–	–	–	–	$158,000	$158,000
SFI	–	–	$105,000	$43,500	$105,000	$ 97,000
Operating companies	$166,415	$667	$140,588	$ 4,157	$220,800	$ 667
Long-term:						
Company	–	–	–	–	$ 60,000	–
System Energy	–	–	–	–	$374,349	$374,349
SFI	$ 75,000	–	–	–	$ 50,000	–

NOTE 5. PREFERRED AND COMMON STOCK

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

At December 31,	Shares Authorized 1989	Shares Outstanding 1989	Shares Outstanding 1988	Call Price Per Share
Cumulative, $100 par value				
Without sinking fund:				
4.16% – 5.56%	1,070,774	1,070,106	1,070,106	$102.50 to $107.00
6.08% – 8.56%	1,180,000	1,180,000	1,180,000	$102.80 to $103.78
9.16% – 11.48%	795,000	795,000	795,000	$104.06 to $108.24
Total	3,045,774	3,045,106	3,045,106	
With sinking fund:				
8.52% – 9.76%	1,200,000	1,200,000	1,200,000	$107.60 to $109.00
10.60% – 12.00%	317,700	317,700	373,000	$106.74 to $109.00
15.44% – 16.16%	169,495	169,495	266,995	$111.58 to $112.12
Total	1,687,195	1,687,195	1,839,995	
Unissued	5,406,500			
Total	10,139,469			
Cumulative, $25 par value				
Without sinking fund:				
8.84%	400,000	400,000	400,000	$27.11
10.40%	600,000	600,000	600,000	$27.30
Total	1,000,000	1,000,000	1,000,000	
With sinking fund:				
9.92% – 12.64%	4,778,099	4,778,099	5,276,063	$26.34 to $27.37
13.12% – 15.20%	3,056,697	3,056,697	4,645,823	$26.64 to $28.22
19.20%	–	–	2,000,000	
Total	7,834,796	7,834,796	11,921,886	
Unissued	15,572,482			
Total	24,407,278			
Cumulative, $0.01 par value				
Unissued	15,000,000			
Total	15,000,000			

Changes in the number of shares of preferred stock of the System operating companies, all of which were with sinking fund, during the last three years were as follows:

	Number of Shares		
	1989	1988	1987
Sales:			
MP&L			
9.76%, $100 par	–	–	350,000
Retirements:			
AP&L			
9.92%, $ 25 par	(81,960)	(137,043)	(111,000)
10.60%, $100 par	(8,000)	(18,012)	(13,880)
11.04%, $100 par	(40,000)	(35,325)	(24,675)
13.28%, $ 25 par	(117,126)	(200,175)	(280,325)
LP&L			
10.72%, $ 25 par	(116,004)	(93,635)	(480,000)
12.64%, $ 25 par	(300,000)	(165,130)	(134,500)
13.12%, $ 25 par	(160,000)	(291,390)	(202,489)
14.72%, $ 25 par	(832,000)	(900)	(366,684)
15.20%, $ 25 par	(480,000)	(119,880)	(119,960)
19.20%, $ 25 par	(2,000,000)	–	–
MP&L			
12.00%, $100 par	(7,300)	(5,000)	–
16.16%, $100 par	(90,000)	–	–
NOPSI			
15.44%, $100 par	(7,500)	–	(18,000)
Total	(4,239,890)	(1,066,490)	(1,401,513)

The amounts of preferred stock of the System operating companies as of the end of the last two years were as follows:

December 31,	1989	1988
	(In Thousands)	
Without sinking fund:		
Stated at $100 a share	$304,511	$304,511
Stated at $25 a share	25,000	25,000
Premium	1,456	1,456
Total without sinking fund	$330,967	$330,967
With sinking fund:		
Stated at $100 a share	$168,720	$184,000
Stated at $25 a share	195,870	298,047
Premium	518	567
Issuance and discount expense	(14,745)	(19,649)
Total with sinking fund	$350,363	$462,965

Cash sinking fund requirements for the ensuing five years for preferred stock outstanding at December 31, 1989, are as follows (in thousands): 1990, $22,250; 1991, $31,750; 1992, $31,750; 1993, $38,750; and 1994, $38,750.

In 1989, Entergy Corporation received SEC authorization to repurchase, from time to time, up to 20,458,109 shares of its outstanding common stock either on the open market or through negotiated purchases or tender offers through December 31, 1991. Purchases are made depending upon favorable market conditions and authorization of the board of directors. There is no assurance as to the actual amount of purchases that will occur. As of December 31, 1989, Entergy Corporation had repurchased and retired 589,500 shares of its common stock at an aggregate cost of approximately $13.2 million. The effect of these transactions reduced common stock, paid-in capital, and retained earnings by approximately $3 million, $4.5 million, and $5.7 million, respectively.

NOTE 6. LONG-TERM DEBT

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

December 31,	1989	1988
	(In Thousands)	
First Mortgage Bonds	$3,830,313	$4,773,910
General and Refunding Bonds – due 1993-97, 10.95% – 14.95%	290,000	190,000
Other:		
Long-term Obligation – Department of Energy (Note 8)	82,393	75,733
Municipal Revenue Bonds – due serially through 2004, 1-1/4% – 8%	20,466	23,397
Pollution Control Revenue Bonds and Installment Purchase Contracts:		
Due serially through 2014, 6.4% – 9.5%	58,600	59,770
Due 1995-2016, 5-1/2% – 12-1/2%	896,050	896,225
Purchase Obligations Under Inventory Supply Agreement	26,163	27,997
Grand Gulf 1 Lease Obligation (Note 9)	500,000	500,000
Waterford 3 Lease Obligation (Note 9)	353,600	–
Total Other	1,937,272	1,583,122
Unamortized Premium and Discount – Net	(37,074)	(53,244)
Total Long-term Debt	6,020,511	6,493,788
Less – Amount Due Within One Year	29,427	306,346
Long-term Debt Excluding Amount Due Within One Year	$5,991,084	$6,187,442

Maturities and sinking fund requirements for the ensuing five years on long-term debt outstanding at December 31, 1989, excluding Grand Gulf 1 and Waterford 3 lease obligations (see Note 9, "Leases") are as follows:

	Maturities	Sinking Fund Requirements	
		Cash	Other*
		(In Thousands)	
1990	$ 28,527	$ 900	$17,898
1991	$345,712	$30,800	$17,428
1992	$220,058	$30,800	$17,348
1993	$406,155	$45,800	$17,928
1994	$260,606	$45,800	$17,148

**Sinking fund requirements may be satisfied by certification of property additions at the rate of 167% of such requirements.*

On December 28, 1988, System Energy entered into arrangements for sale and leasebacks aggregating an approximate 11.5% undivided ownership interest in Grand Gulf 1 for an aggregate cash consideration of $500 million. On September 28, 1989, LP&L entered into three substantially identical, but entirely separate, transactions for the sale (for an aggregate cash consideration of $353.6 million) and leaseback of three undivided portions amounting to approximately 9.3% of its 100% ownership interest in Waterford 3. The net proceeds from these arrangements were used by System Energy and LP&L to retire in 1989 high interest rate first mortgage bonds totaling $487.7 million and $340 million, respectively.

The outstanding first mortgage bonds of the Company's subsidiaries as of December 31, 1989 and 1988 were:

Maturity	4-1/8% – 5-7/8%	6% – 8-7/8%	9% – 11-7/8%	12% – 14-7/8%	15% – 16%	Total
			(In Thousands)			
1989						
1990	$ 20,500	–	–	–	–	$ 20,500
1991	$ 27,000	–	$300,000	–	–	327,000
1992	$ 8,000	–	–	$205,000	–	213,000
1993	$ 15,000	–	$200,000	$100,000	–	315,000
1994	$ 25,000	–	–	$200,000	–	225,000
1995-2004	$211,250	$505,960	$885,300	–	–	1,602,510
2005-2014	–	$ 40,000	$350,000	$150,000	–	540,000
2015-2017	–	–	$587,303	–	–	587,303
Total First Mortgage Bonds						$3,830,313
1988						
1989	–	–	–	–	–	–
1990	$ 20,600	–	–	–	$ 30,000	$ 50,600
1991	$ 27,000	–	$300,000	–	–	327,000
1992	$ 8,000	–	–	$265,000	–	273,000
1993	$ 15,000	–	$200,000	$100,000	–	315,000
1994-2003	$236,250	$461,560	$785,500	$215,000	$500,000	2,198,310
2004-2013	–	$ 85,000	$450,000	$250,000	–	785,000
2014-2016	–	–	$600,000	$190,000	$ 35,000	825,000
Total First Mortgage Bonds						$4,773,910

NOTE 7. RETAINED EARNINGS

The Public Utility Holding Company Act of 1935 prohibits the Company's subsidiaries from making loans or advances to Entergy Corporation. The indenture and charter provisions relating to the operating companies' long-term debt and preferred stock, respectively, and the provisions of System Energy's indenture and reimbursement agreement related to the Grand Gulf 1 sale and leaseback transactions restrict the amount of consolidated retained earnings available for cash dividends on common stock of the subsidiaries. In addition, transfers by the operating companies from retained earnings to the stated value of common stock impose similar restrictions on the amount of consolidated retained earnings available for cash dividends on common stock of the subsidiaries. Consolidated net assets consist primarily of the net assets of the Company's subsidiaries.

As of December 31, 1989, $685.4 million of consolidated retained earnings was unrestricted, including $208.8 million of unrestricted, undistributed retained earnings of the Company's subsidiaries. As discussed in Note 10, "Project Olive Branch Settlements," consolidated retained earnings were reduced by approximately $862 million as a result of implementation of the FERC Settlement and related state and local settlements. The unrestricted, undistributed retained earnings of any subsidiary of Entergy Corporation are not available for distribution to the common stockholders of Entergy Corporation until such earnings are made available to the Company through the declaration of dividends by such subsidiary.

NOTE 8. COMMITMENTS AND CONTINGENCIES

A number of significant uncertainties which had been adversely affecting the System for a number of years were resolved in 1989 as a result of the FERC Settlement (see Note 10, "Project Olive Branch Settlements"). Several Grand Gulf Nuclear Station-related issues not resolved by the FERC Settlement could affect the System's financial position and are discussed under "Controversies Concerning Grand Gulf 1." In addition, although Entergy Corporation and the New Orleans City Council are discussing a negotiated buyout of NOPSI by the City of New Orleans, in the event this buyout does not take place, the System's financial position could be affected by the outcome of the council's consideration of the involuntary municipalization of NOPSI's electric and gas utility properties (see "NOPSI Negotiated Buyout and Other Proposals" and "Potential NOPSI Municipalization" herein).

Controversies Concerning Grand Gulf 1

A disallowance by the council in the February 4 Resolution of $135 million of NOPSI's previously deferred Grand Gulf 1-related costs is still being litigated by NOPSI in both federal and state courts. NOPSI believes that the February 4 Resolution is in violation of the Federal Power Act, applicable FERC orders, and federal law as interpreted by the U.S. Supreme Court, and is contrary to the evidence presented to the council, and will ultimately be so declared by the courts.

In the meantime, NOPSI is maintaining in effect a series of cash conservation and other measures to mitigate the negative effects upon its cash flow caused by the February 4 Resolution and to stabilize its financial condition. In this connection, NOPSI has deferred and may continue to defer from time to time, in each case for less than 30 days, its monthly payments to System Energy for Grand Gulf 1 capacity and energy. While the February 4 Resolution continues to have an adverse effect upon NOPSI's financial condition and to constrain NOPSI's cash flow and ability over the near-term to raise funds from external sources, NOPSI now estimates that, even assuming there was no judicial reversal of the February 4 Resolution, NOPSI's projected earnings and cash flows should be sufficient to permit NOPSI to meet its projected regularly scheduled debt service obligations and to meet continuing preferred stock dividend and sinking fund requirements for the foreseeable future (including its obligations with respect to principal of and interest on its G&R Bonds). This estimate is based on the premise that no catastrophic or other extraordinary event occurs.

In view of the fact that NOPSI was not able to obtain a timely court injunction staying enforcement of the February 4 Resolution, an independent arbiter, acting pursuant to the provisions of NOPSI's G&R Mortgage, certified to the trustee for NOPSI's G&R bondholders its opinion to the effect that the February 4 Resolution would materially impair NOPSI's ability to perform its obligations in respect of NOPSI's $115 million of outstanding G&R Bonds. As a result, holders of the outstanding G&R Bonds had the right to tender their bonds during the period November 24, 1989, through December 13, 1989, for purchase by NOPSI on February 9, 1990, at a price of 100% of the principal amount plus accrued interest to the date of purchase. The tender period expired without any of the G&R bondholders tendering their bonds for purchase by NOPSI.

In addition to the above NOPSI proceedings, the June 13 Decision allocating the capacity and energy from System Energy's share of Grand Gulf 1 among the System operating companies was reaffirmed by FERC in its November 30, 1987, order. However, petitions for review of the November 30 order were filed with the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit) by various parties. On May 26, 1989, the D.C. Circuit denied the petitions for review holding that FERC's action was both rational and within 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 MPSC. On August 28, 1989, the D.C. Circuit denied the MPSC and Mississippi Attorney General's petition for rehearing and rejected the city's petition as not being filed in a timely manner. On December 27, 1989, the MPSC and the Mississippi Attorney General filed a petition for writ of certiorari to the D.C. Circuit seeking review by the U.S. Supreme Court of the May 26, 1989, decision of the D.C. Circuit. System Energy filed a brief opposing certiorari in February 1990. 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 System Energy and the System operating companies, 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.

Potential NOPSI Municipalization

The council has been considering the involuntary municipalization by the City of New Orleans of the electric and gas utility properties of NOPSI. The ordinances under which NOPSI operates state, among other things, that the city has a continuing option to purchase NOPSI's properties. On March 7, 1985, the council established a public power authority for the purposes, among others, of acquiring and operating electric power utilities in the city. The council has also received various reports from legal, engineering, and financial advisors with respect to the potential municipalization of NOPSI's electric utility facilities. These reports have

asserted, among other things, that such municipalization could be accomplished without the city being required to assume NOPSI's obligations with respect to its FERC-allocated share of Grand Gulf 1 capacity and energy. NOPSI believes that any attempt by the city to municipalize NOPSI's electric utility facilities in an attempt to enable electric customers in the city to avoid paying their federally allocated share of Grand Gulf 1-related costs could result in extensive and complex proceedings before various regulatory authorities and the courts, all of which could take many years to resolve. The February 4 Resolution, if not reversed, could have the effect of reducing the purchase price under municipalization by $135 million.

NOPSI Negotiated Buyout and Other Proposals

On March 29, 1988, the council proposed to Entergy Corporation to discuss a negotiated buyout of NOPSI by the city. Entergy Corporation responded by indicating a willingness to consider any alternatives that the council might propose if they are in the best interests of its stockholders, customers, and employees. On July 12, 1989, the parties to the negotiations concluded discussions resulting in a conceptual proposal that could have possibly become the basis for a negotiated buyout. Additional meetings were held to further develop the proposal, but on July 31, 1989, the negotiating parties separately announced that they had reached an impasse in formalizing the conceptual proposal. On October 23, 1989, the discussions resumed in order to consider the following three proposals: (1) legal consolidation of LP&L and NOPSI, (2) the city's negotiated buyout of NOPSI whereby the city would initially purchase only the transmission and distribution system of NOPSI and later acquire the generating facilities, and (3) a distribution system purchase option in which NOPSI would continue to provide bulk power to a city-owned distribution system for 15 to 20 years. These discussions culminated in a proposal setting forth basic terms and conditions regarding the negotiated buyout proposal referred to in item (2) above. This proposal could be the subject of public hearings and could form the basis for a negotiated buyout should definitive documentation be developed. However, no binding or definitive agreements have been reached and consummation of any agreements with the council is subject to a number of significant uncertainties. The eventual outcome of this matter cannot be predicted at this time.

Capital Requirements and Financing

Construction expenditures for the System during the years 1990, 1991, and 1992 are estimated to aggregate $398.3 million, $399.2 million, and $430.5 million, respectively. No significant costs in connection with generating facilities are expected to be incurred, except for certain post-commercial operation work on various nuclear units. In addition to construction expenditures, the System will have capital requirements in 1990 of $57 million in connection with the phasing of a portion of Grand Gulf 1 and Waterford 3 costs into retail rates. Pursuant to the phase-in plans, in 1991 and 1992, the System will be collecting Grand Gulf 1 and Waterford 3 costs incurred but not collected in previous years. These collections constitute cash available to satisfy construction expenditure requirements.

In addition to the capital requirements described above, the System will require $699.3 million of capital funds during the period 1990-92 to meet long-term debt maturities and to satisfy sinking fund requirements.

Certain System companies are proceeding with arrangements for the possible redemption, purchase, or other acquisition of all or a portion of certain outstanding series of high-cost debt and preferred stock. Further, certain System companies are investigating and could possibly 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 par. However, only AP&L currently has plans to do so.

In this connection, AP&L has filed with the APSC and the SEC applications requesting approval to sell and transfer its interest in Independence 2 and Ritchie 2 to Entergy Power, Inc. (a proposed subsidiary of Entergy Corporation that would market the related capacity and energy to other parties, principally non-affiliates, for resale). Other necessary regulatory approvals have been requested. There is no assurance as to when or whether consummation of such transaction would occur. In addition, AP&L has been approached considering a possible sale of its retail operations in Missouri. Preliminary discussions have been held with interested parties, but AP&L has made no decisions with regard to this matter. If either or both of these transactions were consummated, AP&L could use all or a portion of the proceeds to redeem all or a portion of certain series of its outstanding first mortgage bonds at special redemption prices at or near to par pursuant to and in compliance with applicable provisions of its mortgage and deed of trust.

Nuclear Management Consolidation

In June 1989, plans were announced whereby a nuclear management company to be named Entergy Operations, Inc. (a proposed subsidiary of Entergy Corporation) would assume operating responsibility for ANO, Waterford 3, and Grand Gulf 1, subject, respectively, to AP&L, LP&L, and System Energy's oversight. Under the proposal, AP&L, 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, AP&L, LP&L, and System Energy would retain their associated capacity and energy entitlements and would pay or reimburse Entergy Operations, Inc. for the costs associated

with operating these units in accordance with applicable rules and regulations of the SEC that require such services be rendered at cost. Applications for approval of or non-opposition to the proposed arrangements have been filed with the APSC, the LPSC, the council, the SEC, and the NRC. An intervenor has requested a hearing at the SEC challenging the System's assertions of efficiencies and cost reductions from the proposal. Approval by 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. The matter is pending.

Capital Funds, Unit Power Sales, Availability, and Reallocation Agreements

Under the Capital Funds Agreement, Entergy Corporation has agreed to supply or cause to be supplied to System Energy such amounts of capital as may be required in order to maintain System Energy's equity capital at an amount equal to at least 35% of System Energy's total capitalization (excluding short-term debt), and such amounts of capital as shall be required in order to permit the continuation of commercial operation of Grand Gulf 1 and to pay in full all indebtedness for borrowed money of System Energy whether at maturity, on prepayment, on acceleration, or otherwise. In addition, Entergy Corporation has agreed to make cash capital contributions to enable System Energy to make payments when due on its long-term debt. System Energy has, with the consent of Entergy Corporation, assigned its rights under the Capital Funds Agreement to certain creditors.

System Energy, Entergy Corporation, and various creditors entered into amendments to the Capital Funds Agreement so that abandonment of Grand Gulf 2 could proceed without violation of covenants in the Capital Funds Agreement.

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

The System operating companies are also severally obligated under the Availability Agreement in accordance with stated percentages (AP&L - 17.1%, LP&L - 26.9%, MP&L - 31.3%, 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. System Energy has, with the consent of the System operating companies, assigned its rights to payment and advances from the System operating companies under the Availability Agreement to certain creditors.

In June 1989, System Energy and the System operating companies agreed, with the prior consent of such creditors, to amend the Availability Agreement so that the Grand Gulf 2 write-off would be amortized for Availability Agreement purposes over 27 years rather than in the month the write-off is 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.

Responsibility for any Grand Gulf 2 amortization amounts has been allocated to LP&L, MP&L, and NOPSI under the terms of the Reallocation Agreement entered into in 1981. AP&L 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.

Shareholder Litigation

Entergy Corporation and certain other 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 Entergy Corporation shareholders (purporting to represent classes that purchased Entergy Corporation common stock). The five actions were consolidated in the U.S. 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, AP&L, and NOPSI; certain members of Entergy Corporation's Board of Directors,

certain current officers and former officers of Entergy Corporation, System Energy, LP&L, MP&L, AP&L, 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 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 in the U.S. 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 defendants' motion 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' motion 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 plaintiff's opposition. The district court has scheduled the trial to commence March 4, 1991. The outcome of this pending matter and its impact on the System's financial condition cannot be predicted.

Long-term Contracts

AP&L has long-term contracts for the supply of coal for the White Bluff Station and the Independence Station. Coal for the White Bluff Station is supplied under a contract providing for the deliveries of coal from a mine being operated in the state of Wyoming in amounts sufficient for the operation of the White Bluff Station through approximately 2002. Coal for the Independence Station is being provided under a contract with a joint venture operating another mine in the State of Wyoming. Coal supplied under this contract is expected to provide for the projected requirements of the Independence Station until approximately 2015. The System believes therefore that it will have adequate supplies of coal for its generating needs for the foreseeable future.

LP&L has entered into a long-term purchase agreement with the owner of a hydroelectric generating facility, consisting of eight separate generating units, to purchase, at specified prices, certain percentages of the energy generated and made available from the plant in the years 1989 through 2031. To date, LP&L has not purchased any energy because the projected commercial operation date of the first generating unit is scheduled for May 1990 with all eight units scheduled to be in commercial operation by August 1990. Assuming LP&L purchases the maximum percentage (94%) of the energy made available to it, and based on current production projections, required payments under the contract are estimated to be $19.8 million, $47.2 million, $47.2 million, $47.2 million, and $46.7 million, for 1990 through 1994, respectively, and a total of $3.7 billion for the years 1995-2031. LP&L recovers the costs of purchased energy through its fuel adjustment clause pursuant to LPSC orders.

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 was $7.741 billion. AP&L, LP&L, and System Energy are protected against this liability by a combination of private insurance (currently $200 million) and an industry assessment program. Under the assessment program, the maximum amount AP&L, LP&L, or System Energy 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% surcharge in the event the 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. As a co-licensee of Grand Gulf 1 with System Energy, South Mississippi Electric Power Association (SMEPA) is jointly and severally liable to share in this obligation. The System has a total of four licensed reactors.

AP&L, LP&L, and System Energy on behalf of themselves and other insured interests (including, in the case of System Energy and LP&L, the co-owners of Grand Gulf 1 and Waterford 3, respectively) are members of certain insurance programs that provide coverage for property damage, including decontamination expense, to members' nuclear generating plants. At December 31, 1989, these companies were insured against such losses up to $1.675 billion,

$1.875 billion, and $1.875 billion, respectively. (Effective January 1, 1990, LP&L's amount was increased to $2.035 billion.) In addition, AP&L, LP&L, MP&L, and NOPSI are members 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, these System companies could be subject to assessments if losses exceed the accumulated funds available to the insurer. At December 31, 1989, the maximum amounts of such assessments were: AP&L - $12.92 million; LP&L - $30.11 million; MP&L - $.42 million; NOPSI - $.21 million; and System Energy - $34.73 million. Under its agreement with System Energy, SMEPA would share in System Energy's obligation.

The amount of property insurance presently carried by AP&L, LP&L, and System Energy 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 first be used to place and maintain the reactor in a safe and stable condition and, second, be segregated in a trust administered by an independent trustee and be used to complete required decontamination operations. Only after proceeds are used or dedicated for such use and appropriate regulatory approval is 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 April 4, 1990.

AP&L, LP&L, and System Energy are unable to predict what effect the NRC's regulations would have at the time when insurance proceeds would be made available.

Spent Nuclear Fuel and Decommissioning Costs

Under the Nuclear Waste Policy Act of 1982 (NWPA), the Department of Energy (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 the NWPA, also requires operators of nuclear power reactors to enter into spent fuel disposal contracts with the DOE. The affected System companies have entered into such contracts with the DOE whereby the DOE will furnish disposal service at a cost of one mill per kilowatt-hour of net generation after April 7, 1983, plus a one-time fee for generation prior to that date. AP&L, the only System company which generated nuclear power prior to that date, has elected to pay the one-time fee, plus accrued interest, no earlier than 1998, and recorded as a liability at December 31, 1989, approximately $82.4 million (including accrued interest) for this payment. The fees payable to the DOE may be adjusted in the future to assure full cost recovery. AP&L, LP&L, and System Energy consider all costs incurred or to be incurred in connection with disposal of spent 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.

By law, 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, AP&L, LP&L, and System Energy's initial shipments of spent fuel to the DOE's storage facilities will occur in 2011, 2016, and 2016, respectively. In the meantime, these companies will be responsible for storage of spent fuel. AP&L, LP&L, and System Energy estimate that on-site spent fuel storage capacity at ANO, Waterford 3, and Grand Gulf 1, respectively, will be sufficient to store fuel from normal operations until the mid-1990s, 2000, and 2004, respectively. It is expected that any additional storage capacity required due to, among other things, delay of the DOE repository program will have to be provided by the affected companies.

AP&L, LP&L, and System Energy are recovering decommissioning costs for ANO, Waterford 3, and Grand Gulf 1, respectively. With respect to AP&L and System Energy, these amounts are deposited in external trust funds that can only be used for future decommissioning costs. LP&L expects to establish an external fund for this purpose by June 1990. AP&L, LP&L, and System Energy will regularly review and update estimated decommissioning costs to reflect inflation and changes in regulatory requirements and technology. Decommissioning costs for ANO and Waterford 3 are estimated to be approximately $399.4 million (in 1986 dollars) and $203 million (in 1988 dollars), respectively. AP&L and LP&L have been authorized to recover through rates amounts which, when added to estimated trust investment income during the collection period, will be sufficient to meet estimated decommissioning costs.

With respect to System Energy, an outside engineering firm completed a new decommissioning study for Grand Gulf 1. Based upon the completed study, System Energy estimates that approximately $248.7 million (in 1989 dollars) will be required to fund the estimated costs of decommissioning System Energy's 90% interest in Grand Gulf 1. In a petition filed with FERC on September 29, 1989, System Energy requested an increase in annual decommissioning expense collections to $9.7 million per year to become effective January 1990. FERC accepted the proposed rates for filing and suspended the proposed rates for five months, to

become effective June 1, 1990, subject to refund. The APSC, LPSC, MPSC, the council, and the Mississippi Attorney General have filed notices of intervention with FERC where the matter is pending. Hearings are scheduled to begin in September 1990.

Settlement Agreement with a Gas Supplier

A dispute between a gas supplier and LP&L arising from the gas supplier's claimed inability to deliver the full quantities of fuel gas due LP&L under several natural gas contracts was settled by the execution of a settlement agreement in 1982. The settlement agreement provides for the payment of $1.087 billion in cash plus a guaranty of savings of at least $585 million in certain gas acquisition costs between 1982 and 1996. In 1983, the LPSC ordered LP&L to refund the settlement proceeds to customers over the period 1983-93. At December 31, 1989, the remaining liability to customers was approximately $225.2 million (of which $56.4 million was classified as a current liability).

Gas Contract Litigation

In December 1967, MP&L and United Gas Pipeline Company (United) entered into a Gas Sales Agreement, under which United agreed to sell and deliver, and MP&L agreed to purchase and receive, large volumes of natural gas. MP&L used the gas as fuel in generating electricity at two of its generating stations in Mississippi. The Gas Sales Agreement expired December 31, 1987.

In October 1986, MP&L filed a suit against United in the U.S. District Court for the Southern District of Mississippi contending that United's billing practices violate Article XIV of the Gas Sales Agreement, as amended, which sets forth the procedures under which United may calculate the price of gas to MP&L each month. This complaint was amended in August 1987. In this amended suit, MP&L seeks restitution of all monies heretofore wrongfully overcharged and billed by United, and other relief.

Pursuant to its claims in the suit concerning the improper billing practices by United, MP&L withheld approximately one-third of the amounts billed to MP&L by United on August and September 1986 statements from United and paid the amount withheld (approximately $8 million) into escrow with a bank in Jackson, Mississippi.

In November 1986, United answered MP&L's complaint and filed a counterclaim (which was amended in August 1987) seeking a declaratory judgment, which would interpret the Gas Sales Agreement to permit United to exclude the purchases of its marketing affiliates in calculating MP&L's invoice each month. In addition, United sought a judgment against MP&L in the amount of approximately $12.9 million with interest, attorney's fees, and other costs, and an order of the court requiring the escrow agent to pay United so much of the amount of the judgment as funds in the escrow would permit. MP&L answered United's counterclaim, as amended, denied that United was entitled to any of the relief claimed, and sought instead that the monies held in escrow be paid to MP&L. The MPSC has intervened in the case on behalf of MP&L's customers and in opposition to the claims of United.

In January 1987, United submitted an invoice to MP&L in the amount of approximately $24 million for an amount allegedly owed United for MP&L's failure to take certain volumes of gas during 1986 under the Gas Sales Agreement. In February 1987, MP&L filed a declaratory judgment suit against United in the U.S. District Court for the Southern District of Mississippi, which seeks a declaratory judgment that MP&L does not have to pay the January 1987 invoice from United because MP&L is relieved of its "take or pay" obligations under the Gas Sales Agreement as a result of United's improper billing practices. The suit also seeks a declaratory judgment that MP&L is entitled to certain credits under Article VIII of the Gas Sales Agreement due to force majeure conditions or maintenance shut-downs that its generating stations have experienced or may experience in the future. In March 1987, United filed its answer and counterclaim for the amount of the January invoice, plus interest, costs, and attorney's fees.

In February 1988, United submitted an invoice to MP&L in the amount of approximately $100.6 million for an amount allegedly owed United for MP&L's failure to take certain volumes of gas during 1987 under the Gas Sales Agreement. Accordingly, MP&L amended the suit filed in February 1987, to include issues raised by United's second invoice. In April 1988, United filed its amended answer and counterclaim for the amount of the 1987 and 1988 invoices, plus interest, costs, and attorney's fees. The MPSC has also intervened in opposition to United in this action.

In the event the courts ultimately hold that United did not overcharge MP&L during 1986 and 1987 and that a deficiency occurred in the amount of gas taken by MP&L during those years after all credits have been applied, it would be MP&L's intention to take and pay as taken for the gas comprising the deficiency, or to pay United for the deficiency and to take the gas paid for during the year following such final judicial ruling. MP&L's right to take the gas could be contested by United. MP&L recovers purchased gas costs from its customers under a fuel adjustment clause.

In addition to questions of whether MP&L was excused from its obligation to United under the Gas Sales Agreement in 1986 and 1987, and whether or not United overcharged MP&L under the agreement, the court will address issues such as (1) the amount of any credits available to MP&L under the agreement, (2) the method of calculation, the timing and the manner of any payment due to United, and (3) the method of accounting for takes of gas after payment under the agreement. The matter is pending.

NOTE 9. LEASES

General

In accordance with SFAS No. 13, "Accounting for Leases," the System records the assets and related obligations applicable to capital leases as required by SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation."

At December 31, 1989, the System companies had capital leases and noncancelable operating leases (excluding nuclear fuel leases and the sale and leaseback transactions discussed herein) with minimum rental commitments as follows:

	Capital Leases	Operating Leases
	(In Thousands)	
1990	$ 30,558	$ 56,153
1991	30,131	43,597
1992	29,796	40,218
1993	24,201	36,638
1994	18,705	33,391
Years thereafter	124,207	150,507
Minimum rental commitments	257,598	$360,504
Less: Amount representing interest	111,411	
Present value of net minimum lease payments	$146,187	

Rental expense for capital and operating leases (excluding nuclear fuel leases and the sale and leaseback transactions) amounted to approximately $80 million, $85.3 million, and $77.6 million in 1989, 1988, and 1987, respectively.

Nuclear Fuel Leases

Three subsidiaries have nuclear fuel leasing arrangements. As of December 31, 1989, nuclear fuel leases aggregated $505 million. On December 22, 1988, AP&L entered into a new nuclear fuel lease which permits the lease of up to $195 million of nuclear fuel. On February 3, 1989, and February 24, 1989, LP&L and System Energy also entered into new nuclear fuel leasing arrangements permitting the lease of up to $125 million and $185 million of nuclear fuel, respectively. Each lessor finances its acquisition and ownership of nuclear fuel under a credit agreement and through the issuance of intermediate term notes. The credit agreements all have terms of five years and the intermediate term notes have varying maturities of 1-1/2 to 10 years. It is contemplated that these arrangements will be extended or alternative financing will be secured by each lessor upon the maturity of the current arrangements, based on the particular lessee's nuclear fuel requirements. If a lessor cannot arrange for alternative financing upon the regularly scheduled maturity of its borrowings, the particular lessee must purchase nuclear fuel in an amount equal to the amount required by the lessor to retire such borrowings. All prior nuclear fuel leasing arrangements were effectively canceled with the start of the new nuclear fuel lease arrangements.

Lease payments are based on nuclear fuel use. Nuclear fuel lease expenses of $188.9 million, $219.7 million, and $190.8 million were charged to operations in 1989, 1988, and 1987, respectively. The unrecovered cost base of the leases was $420.1 million, $396.1 million, and $397.9 million at December 31, 1989, 1988, and 1987, respectively.

Sale and Leaseback Transactions

Arrangements for the sale and leasebacks of an aggregate 11.5% undivided ownership interest in Grand Gulf 1 and of three undivided portions of Waterford 3, equivalent on an aggregate cost basis to 9.3% of Waterford 3, were entered into by System Energy on December 28, 1988, and LP&L on September 28, 1989, for aggregate cash considerations of $500 million and $353.6 million, respectively. The sales were made to owner trustees under trust agreements with owner participants. System Energy and LP&L are leasing back the sold interests on a net lease basis over 26-1/2-year and 28-year basic lease terms, respectively. Both System Energy and LP&L have options to terminate the leases and to repurchase the sold interests in Grand Gulf 1 and Waterford 3 at certain intervals during the basic lease terms. Further, at the end of the basic lease terms, both companies have an option to renew the leases or to repurchase the interests sold in Grand Gulf 1 and Waterford 3.

In connection with the equity funding of System Energy's sale and leaseback arrangements, letters of credit are required to be maintained to secure certain amounts payable by System Energy under the leases. The initial letters of credit which were obtained by System Energy (amounting to $130 million at December 31, 1989) are scheduled to expire on December 28, 1991, and it is expected that such letters of credit will either be renewed, extended, or replaced prior to expiration.

In connection with LP&L's sale and leaseback arrangement, if LP&L does not exercise its option to repurchase the undivided interests in Waterford 3 on the fifth anniversary of the closing date of the sale and leaseback transactions, LP&L will be required to provide collateral to the owner participants for the equity portion of certain amounts payable by LP&L under the lease. Such collateral requirements are to be in the form of either a bank letter of credit or new series of first mortgage bonds issued by LP&L under its first mortgage bond indenture.

In May 1988, FASB issued SFAS No. 98, "Accounting for Leases." Under SFAS No. 98, System Energy and LP&L's transactions meet the criteria for having "continuing involvement." Consequently, the sale and leasebacks are accounted for as financing transactions in the financial statements even though the sold interests of Grand Gulf 1 and Waterford 3 are no longer owned by System Energy and LP&L, respectively. For financial reporting purposes utility plant includes the interests of Grand Gulf 1 and Waterford 3 that were sold, are no longer owned by System Energy and LP&L, and are currently under lease. Both companies have retired such property from their continuing property records as formerly owned property released from and no longer subject to System Energy and LP&L's mortgages and deeds of trust. The leased property is being amortized over the life of the basic lease terms. The transactions are treated as sale and leaseback transactions, as opposed to financing transactions, for income tax purposes, and constitute sales and leases under applicable Louisiana and Mississippi law.

At December 31, 1989, System Energy and LP&L had future minimum lease payments (reflecting overall implicit rates of 9.86% and 8.76%, respectively) in connection with the sale and leaseback transactions as follows:

	System Energy	LP&L
	(In Thousands)	
1990	$ 49,333	–
1991	49,333	$ 32,571
1992	49,333	32,569
1993	49,333	32,568
1994	57,295	32,568
Years thereafter	1,248,122	875,729
Total	$1,496,749	$ 1,006,005

NOTE 10. PROJECT OLIVE BRANCH SETTLEMENTS

In the FERC Settlement, System Energy and the System operating companies agreed with the FERC staff, state and local regulators and officials, and other interested parties to resolve a number of Grand Gulf Nuclear Station-related matters that had been adversely affecting the System for a number of years. Implementation of the FERC Settlement has 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. Based on a System Energy study of the costs associated with the Grand Gulf 2 cancellation, equipment and materials of approximately $26 million previously recorded as Grand Gulf 2 costs were determined to be economically and technologically viable for use in Grand Gulf 1 and were therefore retained as inventory, plant-in-service, or plant held for future use related to Grand Gulf 1;

(2) Without prejudice to the right of any party to pursue a prudence disallowance in proceedings at FERC with respect to construction costs and other expenses of Grand Gulf 1 incurred by System Energy after June 9, 1989, and without prejudice to further prosecution of any prudence decision presently on judicial appeal, 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, thereby permanently resolving all prudence questions with respect to all such recorded Grand Gulf 1 costs and expenses, and thereby eliminating the threat of a prudence proceeding by certain governmental bodies, including the Arkansas Attorney General, the LPSC, the Mississippi Attorney General, the MPSC, and the council;

(3) All issues relating to a FERC audit of the books and records of System Energy (covering all years prior to 1985) and other System companies were resolved generally in the following manner: System Energy wrote off $43 million of AFUDC equity recorded as of December 31, 1985, allocable to its investment in Grand Gulf 1 and removed certain recoverable income taxes (future benefits related to AFUDC) from its net unit investment in Grand Gulf 1; 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 (see Note 8, "Commitments and Contingencies — Capital Funds, Unit Power Sales, Availability, and Reallocation Agreements");

(4) No other modifications to the Unit Power Sales Agreement relating to sales to the System operating companies of Grand Gulf 1 capacity and energy or to the books and records of System Energy were made as a result of the FERC Settlement; however, System Energy and all other parties to the FERC Settlement remain free to seek future changes to the Unit Power Sales Agreement or to the books and records of System Energy not inconsistent with the FERC Settlement, in accordance with FERC regulations; and

(5) The FERC Settlement does not prejudice any party's right to continue to appeal FERC's orders with respect to the allocation of Grand Gulf 1 capacity and energy and related costs among the System operating companies. (See Note 8, "Commitments and Contingencies — Controversies Concerning Grand Gulf 1.")

Notwithstanding the agreements stated in (1) and (2), if (a) any party to the FERC proceeding were to seek to bring a proceeding before FERC challenging the prudence of Grand Gulf 1 construction costs or operating and maintenance expenses recorded through June 9, 1989, and FERC were to institute such a proceeding, or (b) any other person or entity were to seek to bring such a proceeding, FERC were to institute such a proceeding and FERC were to disallow any such costs or expenses because of imprudence, then System Energy would have the right to seek recovery of Grand Gulf 2 abandonment or cancellation costs from any System operating company providing service in the retail jurisdiction associated with such party, person, or entity, and such System operating company would have the right to recovery of such FERC-approved costs in retail rates.

In addition to settlement of FERC-related issues embodied in the FERC Settlement, agreements on other issues affecting individual System operating companies were reached with representatives of state regulators and officials in Louisiana and Mississippi and with local regulators in New Orleans. These agreements have resulted in, among other things, the following: (1) LP&L has temporarily reduced its recovery from retail ratepayers of certain Grand Gulf 1-related costs through the fuel adjustment clause until such time as the reduction has provided savings to LP&L's ratepayers of $14.5 million on a net present value basis (LP&L recorded the full impact of this temporary reduction in 1989). Also, pursuant to a March 1989 rate order, LP&L has in effect a five-year base rate freeze at the current level; (2) MP&L has written off, in September 1989, $60 million of its deferred Grand Gulf 1 costs and has agreed, except in limited circumstances, not to seek to change its retail rate structure through 1991; and (3) NOPSI has temporarily absorbed a percentage of its FERC-allocated share of Grand Gulf 1-related costs until such time as the present value savings to NOPSI's retail ratepayers shall total $23.5 million (NOPSI recorded the full impact of these additional costs in 1989). In addition, it was agreed between NOPSI and the council that the FERC Settlement and the individual agreement with the council would not settle the litigation concerning the February 4 Resolution and would not affect the buyout discussions between NOPSI and the City of New Orleans (see Note 8, "Commitments and Contingencies — Controversies Concerning Grand Gulf 1" and "NOPSI Negotiated Buyout and Other Proposals").

AP&L, the staff of the APSC, and the Arkansas Attorney General have entered into a stipulation and settlement agreement requesting, among other things, APSC approval of the consolidation within the System of operating responsibility for the System's nuclear generating units, the sale and transfer of AP&L's Independence 2 and Ritchie 2 to Entergy Power, Inc., and APSC approval of a rate change moratorium whereby AP&L would not seek changes in retail rates through 1991, except under specific circumstances. Effectiveness of this stipulation and settlement agreement is contingent upon APSC approval. Certain industrial retail customers of AP&L 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. These matters are pending.

Implementation of the FERC Settlement (including the cancellation of Grand Gulf 2 and the related write-off) and of the related state and local settlements has reduced consolidated net income and retained earnings by approximately $862 million and has reduced earnings per share by approximately $4.22. As a result of such settlements, the System reported a net loss of approximately $473 million and a loss per common share of $2.31 for the year 1989. While 1989 earnings have been adversely affected, Entergy Corporation and System Energy's cash positions have not been materially impacted. Further, the implementation of these settlements has not affected Entergy Corporation's ability to continue to declare and pay dividends on its common stock at the current level.

Recapped below are the significant components of the charge to other income and deductions resulting from the Project Olive Branch Settlements.

	1989
	(In Thousands)
System Energy's Grand Gulf 2 write-off (including net demobilization and disposition costs)	$ (907,932)
System Energy's AFUDC equity write-off	(43,000)
System Energy's one-time credit	(50,000)
LP&L's effect	(18,350)
MP&L's write-off of Grand Gulf 1 deferrals	(60,000)
NOPSI's effect	(25,965)
Miscellaneous items	62
Total	(1,105,185)
Income tax credits	242,702
Net charge	$ (862,483)

NOTE 11. POSTRETIREMENT BENEFITS

The System companies have various postretirement benefit plans covering substantially all of their employees. The pension plans are noncontributory and provide pension benefits that are based on the employees' credited service and average compensation, generally during the last five years before retirement. The policy of the Company and its subsidiaries is to fund pension costs in accordance with contribution guidelines established by the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986, both as amended.

Effective October 1, 1988, NOPSI terminated its defined benefit pension plan and as of that same date adopted, as a participating employer, a defined benefit pension plan sponsored by LP&L. This successor plan provides employees with substantially the same benefit program with no loss of accrued benefits as provided under the terminated plan. In January 1989, the accumulated benefit obligation of the terminated plan was settled by purchasing annuity contracts. As a result, NOPSI recorded a settlement gain, net of applicable taxes, of approximately $8.4 million in the first quarter of 1989 in accordance with the provisions of SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." On January 31, 1989, NOPSI was refunded approximately $16.7 million (net of a 10% excise tax) from the terminated plan in excess of amounts required to purchase the annuity contracts, pay certain plan participants a pro-rata portion (approximately $1.3 million) of excess plan assets as required by law, and satisfy other related costs and expenses connected with the settlement.

Total 1989, 1988, and 1987 pension cost of the Company and its subsidiaries, including amounts capitalized, included the following components:

	1989	1988	1987
		(In Thousands)	
Service cost – benefits earned during the period	$16,291	$16,391	$ 18,501
Interest cost on projected benefit obligation	36,689	40,504	38,280
Actual return on plan assets	(105,129)	(67,794)	(19,554)
Net amortization and deferral	56,517	5,167	(38,713)
1988 LP&L/NOPSI early retirement program	–	12,150	–
Net pension cost (income)	$ 4,368	$ 6,418	$(1,486)

The assets of the plans consist primarily of common and preferred stocks, fixed income securities, interest in a money market fund, and insurance contracts.

The funded status of the Company's various pension plans at December 31, 1989 and 1988, was as follows:

	1989	1988
	(In Thousands)	
Actuarial present value of accumulated pension plan benefits:		
Vested	$337,300	$390,477
Nonvested	27,045	29,135
Accumulated benefit obligation	$364,345	$419,612
Projected benefit obligation	$478,908	$518,360
Plan assets at fair value	578,402	623,179
Plan assets in excess of projected benefit obligation	99,494	104,819
Unrecognized prior service cost	5,164	4,634
Unrecognized transition asset	(90,971)	(122,960)
Unrecognized net gain	(59,672)	(25,038)
Accrued pension liability	$(45,985)	$(38,545)

The weighted average discount rate and rate of increase in future compensation used in determining the 1989 and 1988 actuarial present value of the projected benefit obligation were 9% and 5.6%, respectively. The expected long-term rate of return on plan assets for 1989 and 1988 was 8.5%. Transition assets are being amortized over the greater of the remaining service period of active participants or 15 years.

The System companies also provide certain health care and life insurance benefits for retired employees. Substantially all employees may become eligible for these benefits if they reach retirement age while still working for the System companies. The cost of providing postretirement health care and life insurance benefits is recorded on a cash basis. The cost of providing these benefits for retirees is not separable from the cost of providing benefits for active employees. The total cost of providing these benefits and the number of active employees and retirees for the last three years were as follows:

	1989	1988	1987
Total cost of health care and life insurance (in thousands)	$41,100	$35,730	$32,133
Number of active employees	12,884	13,049	13,560
Number of retirees	3,528	3,322	3,098

NOTE 12. QUARTERLY RESULTS (UNAUDITED)

Consolidated operating results for the four quarters of 1989 and 1988 were as follows:

Quarter Ended	Operating Revenues	Operating Income	Net Income (Loss)	Earnings (Loss) Per Share
		(In Thousands, except per share amounts)		
1989:				
March	$ 836,630	$247,872	$ 97,033	$ 0.47
June	$ 901,282	$243,110	$ 94,566	$ 0.46
September	$1,103,272	$342,679	$(679,257)*	$(3.32)*
December	$ 882,820	$196,724	$ 15,073*	$ 0.08*
1988:				
March	$ 786,907	$258,394	$ 92,167	$ 0.45
June	$ 819,681	$249,790	$ 88,845	$ 0.43
September	$1,095,335	$345,260	$ 171,755	$ 0.84
December	$ 863,482	$216,125	$ 58,261	$ 0.29

**The quarter ended September 30, 1989, includes certain write-offs related to Project Olive Branch. The quarter ended December 31, 1989, reflects LP&L and NOPSI's non-recurring recognition of the remaining future impact of their respective settlements. (See Note 10, "Project Olive Branch Settlements.")*

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

SELECTED FINANCIAL DATA — FIVE-YEAR COMPARISON

	1989	1988	1987	1986	1985
		(In Thousands, except per share amounts)			
Net operating revenues	**$ 3,724,004**	$ 3,565,405	$ 3,454,820	$ 3,485,912	$ 3,238,459
Net income (loss)	**$ (472,585)**	$ 411,028	$ 356,604	$ 454,465	$ 215,598
Earnings (loss) per share	**$ (2.31)**	$ 2.01	$ 1.74	$ 2.22	$ 1.08
Dividends declared per share	**$ 0.90**	$ 0.20	–	–	$ 0.89
Book value per share, year-end	**$ 20.68**	$ 23.96	$ 22.13	$ 20.39	$ 18.19
Total assets	**$ 14,715,241**	$15,941,816	$15,156,832	$14,090,431	$13,390,015
Long-term debt (excluding current maturities)	**$ 5,991,084**	$ 6,187,442	$ 5,945,054	$ 5,983,029	$ 5,680,590
Preferred stock with sinking fund	**$ 350,363**	$ 462,965	$ 496,405	$ 508,165	$ 467,293

CONSOLIDATED SUMMARY OF FINANCIAL INFORMATION

Entergy Corporation and Subsidiaries

	1989	1988	1987	1986
Electric Revenues (Thousands):				
Residential	**$ 1,331,154**	$ 1,285,472	$ 1,239,877	$ 1,228,556
Commercial	**930,345**	877,029	814,586	799,256
Industrial	**1,021,456**	956,165	938,541	936,573
Governmental	**121,912**	121,983	121,234	118,360
Total retail customers	**3,404,867**	3,240,649	3,114,238	3,082,745
Municipals & co-ops	**95,018**	93,995	99,757	117,288
Adjoining utility systems	**81,996**	91,260	81,654	102,788
Other	**51,756**	47,648	31,468	36,311
Total	**$ 3,633,637**	$ 3,473,552	$ 3,327,117	$ 3,339,132
Energy Sales (Millions of kWh):				
Residential	**17,245**	17,155	17,053	17,118
Commercial	**12,533**	12,192	11,693	11,539
Industrial	**22,396**	21,282	20,615	19,460
Governmental	**1,833**	1,946	2,050	2,016
Total retail customers	**54,007**	52,575	51,411	50,133
Municipals & co-ops	**1,816**	1,934	2,397	2,780
Adjoining utility systems	**3,041**	3,562	3,823	4,894
Total	**58,864**	58,071	57,631	57,807
Number of Customers (At December 31):				
Residential	**1,485,102**	1,475,022	1,462,917	1,456,594
Commercial	**183,666**	181,054	178,504	177,054
Industrial	**28,412**	27,801	27,379	27,468
Governmental	**9,399**	9,715	9,484	9,293
Wholesale	**16**	17	18	21
Total	**1,706,595**	1,693,609	1,678,302	1,670,430

UTILITY PLANT AND CAPITALIZATION

(at December 31)

Fixed Assets:				
Utility plant	**$14,296,742**	$14,101,255	$13,955,459	$13,193,137
Less – Accumulated depreciation and amortization	**3,298,370**	2,989,863	2,715,314	2,386,723
Utility plant – net	**$10,998,372**	$11,111,392	$11,240,145	$10,806,414
Capitalization:				
Common equity	**$ 4,219,525**	$ 4,900,928	$ 4,528,128	$ 4,172,196
Preferred stock (including premium and issuance expense):				
Without sinking fund	**330,967**	330,967	330,967	330,967
With sinking fund	**350,363**	462,965	496,405	508,165
Long-term debt (excluding currently maturing debt)	**5,991,084**	6,187,442	5,945,054	5,983,029
Total	**$10,891,939**	$11,882,302	$11,300,554	$10,994,357
Capitalization Ratios:				
Common equity	**38.7%**	41.2%	40.1%	38.0%
Preferred stock (including premium and issuance expense)	**6.3**	6.7	7.3	7.6
Long-term debt (excluding currently maturing debt)	**55.0**	52.1	52.6	54.4

1985	1984	1983	1982	1981	1980	1979
$ 1,083,865	$ 1,034,940	$ 958,540	$ 926,645	$ 874,505	$ 732,202	$ 553,272
702,318	660,337	590,380	566,656	533,721	443,940	356,757
965,688	1,022,873	931,369	954,195	925,413	718,358	528,611
111,922	115,755	108,805	107,791	97,042	76,746	63,016
2,863,793	2,833,905	2,589,094	2,555,287	2,430,681	1,971,246	1,501,656
78,795	84,106	84,002	87,740	89,575	132,799	138,258
92,244	6,291	6,718	8,219	38,421	51,961	18,062
50,045	35,268	36,515	22,326	24,101	23,226	13,515
$ 3,084,877	$ 2,959,570	$ 2,716,329	$ 2,673,572	$ 2,582,778	$ 2,179,232	$ 1,671,491
16,748	16,069	15,465	15,596	15,472	16,065	14,606
11,235	10,516	9,776	9,620	9,396	9,277	8,754
21,206	22,494	21,084	22,092	23,462	22,876	22,329
2,043	2,059	2,025	2,045	1,902	1,837	1,790
51,232	51,138	48,350	49,353	50,232	50,055	47,479
1,460	1,697	1,942	1,969	2,259	4,244	5,074
3,571	155	130	134	544	855	394
56,263	52,990	50,422	51,456	53,035	55,154	52,947
1,447,121	1,432,022	1,409,022	1,387,389	1,372,106	1,351,838	1,327,515
176,050	172,662	168,652	165,460	164,070	161,864	159,536
27,957	26,637	26,134	24,390	24,631	23,880	23,996
9,062	10,370	9,989	9,635	9,444	9,079	8,941
22	25	32	30	43	72	154
1,660,212	1,641,716	1,613,829	1,586,904	1,570,294	1,546,733	1,520,142
$ 13,866,838	$ 13,294,825	$ 11,942,417	$ 10,464,188	$ 9,080,436	$ 7,893,636	$ 7,002,052
2,078,960	1,856,279	1,694,475	1,551,700	1,407,584	1,264,525	1,139,164
$ 11,787,878	$ 11,438,546	$ 10,247,942	$ 8,912,488	$ 7,672,852	$ 6,629,111	$ 5,862,888
$ 3,721,766	$ 3,472,246	$ 3,001,542	$ 2,481,916	$ 2,185,546	$ 1,901,204	$ 1,659,736
330,967	330,967	330,967	330,967	330,967	330,967	330,967
467,293	476,928	429,601	354,957	300,219	283,165	193,507
5,680,590	5,865,304	5,032,175	4,429,447	3,896,370	3,392,309	3,017,816
$ 10,200,616	$ 10,145,445	$ 8,794,285	$ 7,597,287	$ 6,713,102	$ 5,907,645	$ 5,202,026
36.5%	34.2%	34.1%	32.7%	32.6%	32.2%	31.9%
7.8	8.0	8.7	9.0	9.4	10.4	10.1
55.7	57.8	57.2	58.3	58.0	57.4	58.0

ENTERGY DIRECTORS

William C. Battle
Retired President and Chief Executive Officer of Fieldcrest Mills, Inc., Ivy, Virginia.

W. Frank Blount
Group President, Communications Products, AT&T Company, Basking Ridge, New Jersey.

James B. Campbell
Chairman of the Board and President of MISSCO Corporation, Jackson, Mississippi.

Brooke H. Duncan
President of Foster Company, Inc., New Orleans, Louisiana.

Kaneaster Hodges Jr.
Attorney, Newport, Arkansas.

Edwin Lupberger
Chairman and President of Entergy Corporation, New Orleans, Louisiana.

Robert D. Pugh
Chairman of the Board of Portland Gin Company, Portland, Arkansas.

H. Duke Shackelford
President of Shackelford Co., Inc., Bonita, Louisiana.

Wm. Clifford Smith
President of T. Baker Smith & Son, Inc., Houma, Louisiana.

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Wm. Clifford Smith
President of T. Baker Smith & Son, Inc., Houma, Louisiana.

John A. Cooper Jr.
President of Cooper Communities, Inc.,
Bella Vista, Arkansas.

James R. Nichols
Partner of Nichols & Pratt,
Boston, Massachusetts.

Dr. Walter Washington
President of Alcorn State University,
Lorman, Mississippi.

ENTERGY OFFICERS

Edwin Lupberger
Chairman and President.

James M. Cain
Senior Vice President, System Executive — Louisiana Division.

William Cavanaugh III
Senior Vice President, System Executive — Nuclear.

John L. Cowan
Senior Vice President, System Executive — Finance.

Jerry D. Jackson
Senior Vice President, System Executive — Legal and External Affairs.

Jack L. King
Senior Vice President, System Executive — Operations.

Jerry L. Maulden
Senior Vice President, System Executive — Arkansas, Mississippi, and Missouri Division.

Donald E. Meiners
Senior Vice President, System Executive — Services Division.

S. M. Henry Brown Jr.
Vice President, Governmental Affairs.

Glenn H. Parsons
Vice President, Corporate Communications.

Alan M. Wright
Vice President, Finance.

H. Stuart Ball
Treasurer.

Dan E. Stapp
Secretary.

Dorothy M. Antoine
Assistant Secretary.

INVESTOR INFORMATION
Entergy Corporation

Annual Meeting

The 1990 Annual Meeting of Stockholders will be held at 10 a.m. (CDT) on May 4, 1990, at the New Orleans Hilton Hotel. A badge for admission may be obtained at the registration desk at the meeting. Stockholders whose shares are held in "street name," i.e., in the name of their broker, must present a letter from their broker indicating ownership of the Company's common stock as of March 19, 1990.

Dividends and Reinvestment

Four consecutive quarterly common stock dividends were paid to stockholders in 1989. Dividends of 20 cents per share were paid on March 1 and June 1, and dividends of 25 cents per share were paid on September 1 and December 1, following a July 28 decision by the Entergy Corporation Board of Directors to increase the quarterly payout.

At its December 1 meeting, the Entergy board voted to adopt a dividend reinvestment and stock purchase plan. Details of the plan were mailed to stockholders of record in January 1990.

Stockholders of Record

At the close of 1989, there were 78,583 stockholders of record of Entergy Corporation. A total of 203,991,592 shares were outstanding.

Transfer Agent and Registrar

The Chase Manhattan Bank, N.A. is the transfer agent, registrar, and dividend disbursing agent for the common stock of Entergy Corporation. All correspondence concerning stockholder records, or the issuance or transfer of common stock certificates, should be directed to:

The Chase Manhattan Bank, N.A.
1 New York Plaza – 14th Floor
New York, NY 10081
(800) 526-0801

Composite Common Stock Prices by Quarters

	1989		1988	
	High	Low	High	Low
	(In Dollars)			
First	$17\frac{1}{8}$	$15\frac{1}{2}$	$10\frac{1}{8}$	$8\frac{1}{2}$
Second	$19\frac{5}{8}$	$16\frac{7}{8}$	$14\frac{1}{8}$	$8\frac{5}{8}$
Third	23	$19\frac{1}{8}$	$15\frac{1}{8}$	$12\frac{5}{8}$
Fourth	$23\frac{1}{4}$	$20\frac{1}{8}$	$16\frac{1}{8}$	$14\frac{7}{8}$

Form 10-K

The Middle South Electric System 1989 Annual Report to the Securities and Exchange Commission on Form 10-K (including financial statement schedules) is available to stockholders upon request. To receive a copy without charge, call or write to:

Dan E. Stapp, Secretary
Entergy Corporation
P.O. Box 61005
New Orleans, LA 70161
(504) 529-5262

Financial and Statistical Review

Historical statistics and financial information supplemental to the 1989 annual report and Form 10-K are available in the Company's 1989 Financial and Statistical Review, which will be available for distribution in July. Copies of the review may be obtained by contacting System Investor Relations at the address given in the next section.

Investor Relations

Entergy Corporation conducts an active investor relations program to communicate the System's performance to institutional investors, security analysts, registered representatives, and individual investors. System Investor Relations may be contacted by writing or calling:

Entergy Corporation
System Investor Relations
P.O. Box 61005
New Orleans, LA 70161
(800) 292-9960

Exchange Listings

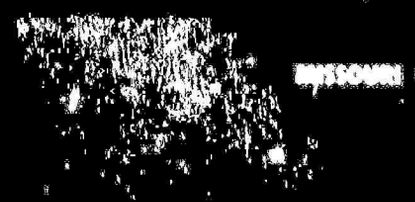
The common stock of Entergy Corporation is listed and traded on the New York, Midwest, and Pacific stock exchanges. The ticker symbol for the Company is "ETR." Newspaper stock table listing is "Entergy."

Entergy Corporation, formerly Middle South Utilities, Inc., is an electric utility holding company for the companies comprising the Middle South Electric System. For the past 43 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, [illegible] Corporation [illegible] retail operating [illegible] Arkansas Power & Light, 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 seeking regulatory approval to consolidate operating responsibility for the System's four nuclear units into a proposed new subsidiary, Entergy Operations, Inc. After providing 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 Nelson 2 generating units, and then sell the capacity and energy from those units outside the Middle South Electric System.



MIDDLE SOUTH ELECTRIC SYSTEM
Retail Service Area

The Middle South Electric System, through its subsidiary companies, provides electric service within the portions of Arkansas, Louisiana, Mississippi, and Missouri shown in red.

Entergy Corporation
P.O. Box 61005
New Orleans, LA 70161