ENTERGY

Entergy Operations, Inc.
P.O. Box 756
Port Gibson MS 39150
Tel 601 437 2800

C. R. Hutchinson
Vice President
Operations
Grand Gulf Nuclear Station

July 13, 1993

U.S. Nuclear Regulatory Commission
Mail Station P1-37
Washington, D.C. 20555

Attention: Document Control Desk

Subject: Grand Gulf Nuclear Station
Docket No. 50-416
License No. NPF-29
1992 Financial Reports

GNRO-93/00085

Gentlemen:

The 1992 annual financial reports for System Energy Resources, Inc., South Mississippi Electric Power Association, Mississippi Power and Light Co., and Entergy Operations, Inc., licensees of Grand Gulf Nuclear Station, are herein submitted in response to the requirement of 10CFR50.71(b).

Yours truly,

C. R. Hutchinson

CRH/MTC/ams
attachment: 1992 Financial Report
cc: Mr. R. H. Bernhard (w/a)
Mr. H. W. Keiser (w/o)
Mr. R. B. McGehee (w/o)
Mr. N. S. Reynolds (w/o)
Mr. H. L. Thomas (w/o)

Mr. Stewart D. Ebneter (w/a)
Regional Administrator
U.S. Nuclear Regulatory Commission
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101 Marietta St., N.W., Suite 2900
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Mississippi Power & Light Company/1992 Financial Statements

MP&L

DEFINITIONS — (Concluded)

Abbreviation or Acronym	Term
Revised Plan	MP&L's Grand Gulf 1-related rate phase-in plan, originally approved by the MPSC in the Final Order on Rehearing, as modified by the MPSC order issued September 29, 1988, to bring such plan into compliance with the requirements of SFAS No. 92
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards promulgated by the FASB
System Energy	System Energy Resources, Inc.
System Fuels	System Fuels, Inc.
System or Entergy System	Entergy and its various direct and indirect subsidiaries
System operating companies	MP&L, AP&L, LP&L and NOPSI, collectively
Unit Power Sales Agreement	Agreement, dated as of June 10, 1982, as amended, among the System operating companies and System Energy, relating to the sale of capacity and energy from System Energy's share of Grand Gulf 1

MISSISSIPPI POWER & LIGHT COMPANY

REPORT OF MANAGEMENT

The management of Mississippi Power & Light Company has prepared and is responsible for the financial statements and related financial informatio. included herein. 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.

Jerry L. Maulden	Gerald D. McInvale
JERRY L. MAULDEN	GERALD D. MCINVALE
Chairman and Chief Executive Officer	*Senior Vice President and Chief Financial Officer*

MISSISSIPPI POWER & LIGHT COMPANY

Mississippi Power & Light Company (MP&L) is a regulated public utility company engaged in the generation, distribution, and sale of electric energy.

MP&L serves approximately 355,000 customers in 45 counties of western Mississippi with an estimated population of approximately 1.3 million. As of December 31, 1992, MP&L provided electric service to 140 municipalities and provided transmission service to the South Mississippi Electric Power Association and to the Municipal Energy Agency of Mississippi.

MP&L is a wholly-owned subsidiary of Entergy Corporation, a public utility holding company. The Entergy 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, and Mississippi.

Headquartered in New Orleans, Louisiana, Entergy Corporation includes four retail operating companies: Arkansas Power & Light Company, Louisiana Power & Light Company, Mississippi Power & Light Company, and New Orleans Public Service Inc. Entergy Corporation also owns all of the outstanding common stock of Entergy Services, Inc., Entergy Operations, Inc., Entergy Power, Inc., Entergy Enterpises, Inc., and System Energy Resources, Inc. Entergy Services provides various technical, administrative, and corporate services to Entergy Corporation and the System companies. Entergy Operations, a nuclear management service company, operates the System's nuclear generating units. Entergy Power, an independent power producer, owns and markets capacity and energy to wholesale markets not otherwise served presently by the Entergy System. System Energy, a nuclear generating company, sells the capacity and energy from its 90% interest in Unit No. 1 of the Grand Gulf Station.

The Entergy System began a functional realignment of its activities during 1990 in order to be prepared to successfully meet challenges in the changing utility industry and to have the flexibility to compete effectively in the years ahead. The realignment has resulted in the formation of three consolidated line functions. The Energy Supply organization is responsible for the management and operation of the Entergy System's nuclear and fossil-fueled generation. The Transmission, Distribution, and Customer Service organization consists of transmission, customer services, retail marketing, state regulatory, and governmental affairs. The Entergy Business Support organization was established to direct the administrative business functions of the System.

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MISSISSIPPI POWER & LIGHT COMPANY

DEFINITIONS

Certain abbreviations or acronyms used in MP&L's Financial Statements, Notes, and Management's Financial Discussion and Analysis are defined below:

Abbreviation or Acronym	Term
AFUDC	Allowance for Funds Used During Construction
AP&L	Arkansas Power & Light Company
Availability Agreement	Agreement, dated as of June 21, 1974, as amended, among System Energy and the System operating companies and the assignments thereof
Entergy	Entergy Corporation
Entergy Services	Entergy Services, Inc.
Entergy System or System	Entergy and its various direct and indirect subsidiaries
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FERC Complaint Case settlement	Settlement effective May 21, 1991, whereby System Energy credited approximately $47.6 million in the aggregate (including interest) against its June 1991 bills to the System operating companies for capacity and energy from Grand Gulf 1.
Final Order on Rehearing	An order issued by the MPSC on September 16, 1985, with respect to MP&L's Grand Gulf 1-related rate issues
G&R Bonds	General and Refunding Mortgage Bonds issued and issuable under MP&L's G&R Mortgage dated as of February 1, 1988, as amended
G&R Mortgage	General and Refunding Mortgage established by MP&L effective February 1, 1988, to provide for issuances of G&R Bonds
Grand Gulf Station	Grand Gulf Steam Electric Generating Station
Grand Gulf 1	Unit No. 1 of the Grand Gulf Station
Grand Gulf 2	Unit No. 2 of the Grand Gulf Station
Independence Station	Independence Steam Electric Generating Station
KWH	Kilowatt-Hours
LP&L	Louisiana Power & Light Company
MWH	Megawatt-Hours
Money Pool	Entergy System Money Pool, which allows certain System companies to borrow from, or lend to, certain other System companies
MP&L	Mississippi Power & Light Company
MPSC	Mississippi Public Service Commission
NOPSI	New Orleans Public Service Inc.
Reallocation Agreement	1981 Agreement, superseded in part by a June 13, 1985 decision of FERC, among the System operating companies and System Energy relating to the sale of capacity and energy from the Grand Gulf Station

MISSISSIPPI POWER & LIGHT COMPANY

DEFINITIONS — (Concluded)

Abbreviation or Acronym	Term
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MISSISSIPPI POWER & LIGHT COMPANY

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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.

Jerry Maulden

JERRY L. MAULDEN
Chairman and Chief Executive Officer

Gerald D. McInvale

GERALD D. MCINVALE
Senior Vice President and Chief Financial Officer

MISSISSIPPI POWER & LIGHT COMPANY

AUDIT COMMITTEE CHAIRMAN'S LETTER

The Mississippi Power & Light Company Audit Committee of the Board of Directors is comprised of four directors, who are not officers of MP&L: E. B. Robinson, Jr. (Chairman), John O. Emmerich, Jr., Dr. Clyda S. Rent, and Dr. Walter Washington. The committee held three meetings during 1992.

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

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

E. B. Robinson, Jr.

E. B. Robinson, Jr.
Chairman, Audit Committee

INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of
Mississippi Power & Light Company

We have audited the accompanying balance sheets of Mississippi Power & Light Company (MP&L) as of December 31, 1992 and 1991, and the related statements of income, retained earnings, and cash flows for each of the three years in the period ended December 31, 1992. These financial statements are the responsibility of MP&L's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of MP&L at December 31, 1992 and 1991, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1992 in conformity with generally accepted accounting principles.

Deloitte & Touche

DELOITTE & TOUCHE
New Orleans, Louisiana
February 12, 1993

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MISSISSIPPI POWER & LIGHT COMPANY

BALANCE SHEETS

ASSETS

	December 31,	
	1992	1991
	(In Thousands)	
Utility Plant (Note 1):		
Electric	$1,364,419	$1,327,039
Construction work in progress	25,879	21,219
Electric plant acquisition adjustments	45	227
Total	1,390,343	1,348,485
Less — Accumulated depreciation and amortization	549,150	524,626
Utility plant — net	841,193	823,859
Other Property and Investments:		
Investment in subsidiary company — at equity (Note 8)	5,531	5,531
Other	4,382	1,035
Total	9,913	6,566
Current Assets:		
Cash and cash equivalents (Note 1):		
Cash	3,438	152
Temporary cash investments — at cost, which approximates market:		
Associated companies (Note 4)	2,356	4,560
Other	28,214	42,530
Total cash and cash equivalents	34,008	47,242
Notes receivable (Note 1)	7,405	5,838
Accounts receivable:		
Customer (less allowance for doubtful accounts of $1.3 million in 1992 and $1.4 million in 1991)	29,284	30,251
Associated companies (Note 10)	3,605	1,000
Other	4,718	5,318
Fuel inventory — at average cost	7,325	9,386
Materials and supplies — at average cost	21,472	20,107
Rate deferrals (Note 2)	72,816	38,372
Prepayments and other	1,354	3,791
Total	181,987	161,305
Deferred Debits:		
Rate deferrals (Note 2)	600,102	652,076
Notes receivable (Note 1)	15,739	14,746
Other	11,792	13,723
Total	627,633	680,545
TOTAL	$1,660,726	$1,672,275

See Notes to Financial Statements.

MISSISSIPPI POWER & LIGHT COMPANY

BALANCE SHEETS

CAPITALIZATION AND LIABILITIES

	December 31, 1992	December 31, 1991
	(In Thousands)	
Capitalization:		
Common stock, no par value, authorized 15,000,000 shares; issued and outstanding 8,666,357 shares in 1992 and 7,579,400 shares in 1991 (Note 5)	$ 199,326	$ 174,326
Retained earnings (Note 7)	230,201	243,819
Total common shareholder's equity	429,527	418,145
Preferred stock — net of premium and expense (Note 5):		
Without sinking fund	57,854	38,077
With sinking fund	60,581	69,339
Long-term debt (Note 6)	512,675	502,848
Total	1,060,637	1,028,409
Other Noncurrent Liabilities:		
Obligations under capital leases	842	981
Accumulated provision for losses	2,946	4,413
Total	3,788	5,39[illegible]
Current Liabilities:		
Currently maturing long-term debt (Note 6)	55,230	100,210
Accounts payable:		
Associated companies (Note 10)	27,634	30,165
Other	8,649	20,483
Customer deposits	20,460	19,622
Taxes accrued	28,452	26,278
Accumulated deferred income taxes (Note 3)	31,842	18,995
Interest accrued	22,391	22,28[illegible]
Dividends declared	2,472	2,40[illegible]
Obligations under capital leases	151	143
Other	7,745	5,112
Total	205,026	245,698
Deferred Credits:		
Accumulated deferred income taxes (Note 3)	346,107	349,864
Accumulated deferred investment tax credits (Note 3)	36,999	38,879
Other	8,169	4,031
Total	391,275	392,774
Commitments and Contingencies (Note 8)		
TOTAL	$1,660,726	$1,672,275

See Notes to Financial Statements.

MISSISSIPPI POWER & LIGHT COMPANY

STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	1992	1991	1990
		(In Thousands)	
Operating Activities:			
Net income	$ 65,036	$ 63,088	$ 60,830
Noncash items included in net income:			
Change in rate deferrals (Note 2)	17,530	14,626	(25,067)
Depreciation and amortization	31,493	30,089	38,023
Deferred income taxes and investment tax credits	18,685	30,857	33,888
Allowance for equity funds used during construction	(668)	(1,302)	(261)
Provisions for estimated losses	(1,467)	1,226	1,327
Changes in working capital:			
Receivables	(924)	(3,743)	(4,401)
Accounts payable	(14,365)	(3,255)	(4,212)
Taxes and interest accrued	2,279	(2,072)	1,551
Customer deposits	838	773	359
Materials and supplies	696	(3,939)	(6,829)
Other working capital accounts	2,445	819	(2,651)
Other	(2,805)	1,338	11,256
Net cash flow provided by operating activities	118,773	128,505	103,813
Investing Activities:			
Construction expenditures	(53,481)	(58,368)	(51,648)
Allowance for equity funds used during construction	668	1,302	261
Net cash flow used by investing activities	(52,813)	(57,066)	(51,387)
Financing Activities:			
Proceeds from issuance of:			
General and refunding bonds	65,000	—	30,000
Common stock	25,000	—	—
Preferred stock	19,777	—	—
Retirement of:			
First mortgage bonds	(101,416)	—	(30,000)
Preferred stock	(9,500)	(9,500)	(2,500)
Other long-term debt	(210)	(200)	(335)
Dividends paid:			
Preferred stock	(9,445)	(10,322)	(10,892)
Common stock	(68,400)	(7,847)	(33,901)
Changes in short-term borrowings	—	(3,000)	(1,700)
Net cash flow used by financing activities	(79,194)	(30,869)	(49,328)
Net increase (decrease) in cash and cash equivalents	(13,234)	40,570	3,098
Cash and cash equivalents at beginning of period	47,242	6,672	3,574
Cash and cash equivalents at end of period	$ 34,008	$ 47,242	$ 6,672
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest (net of amount capitalized)	$ 62,727	$ 69,548	$ 64,796
Income taxes	$ 14,866	$ 2,108	$ 1,685

See Notes to Financial Statements.

MISSISSIPPI POWER & LIGHT COMPANY

MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL CONDITION

Overview

As detailed in the Statements of Cash Flows, MP&L's cash requirements in 1992, including dividend payments to Entergy, were satisfied primarily with internally generated funds and cash on hand supplemented by issuances of debt and common and preferred stock.

Operating Activities

Net cash flow from operations totaled $117.4 million in 1992. While there were no significant nonrecurring items, various factors contributed to our cash position at year end. As previously deferred costs are recovered, collections under our Grand Gulf 1 rate phase-in plan exceed the current cash requirements for the Grand Gulf 1-related costs. In the income statement, these revenue collections are offset by the amortization of previously deferred costs, therefore, there is no effect on net income. See Note 2, incorporated herein by reference, for additional information on MP&L's rate phase-in plan.

Investing Activities

In 1992, cash was used primarily for construction expenditures related to existing plants.

Financing Activities

In 1992, MP&L's primary financing activities included the refinancing of high-cost debt and preferred stock, and dividend payments on common and preferred stock.

Capital and Refinancing Requirements and Capital Resources

See Note 8, incorporated herein by reference, for information on MP&L's capital and refinancing requirements for 1993 through 1995.

Earnings coverage tests, bondable property additions, and accumulated deferred Grand Gulf 1-related costs recorded as assets, limit the G&R Bonds and preferred stock that MP&L can issue. Based on the most restrictive applicable tests as of December 31, 1992 and assuming an annual interest or dividend rate of 9%, MP&L could have issued $277 million of additional G&R Bonds or $200 million of additional preferred stock; however, based on the remaining amount of preferred stock authorized, but unissued, by MP&L's charter, MP&L only could issue $17.5 million in additional preferred stock. MP&L's charter, however, could be amended to increase the amount of authorized preferred stock. MP&L has the conditional ability to issue G&R Bonds against the retirement of bonds without satisfying an earnings coverage test.

See Notes 5 and 6, incorporated herein by reference, for information on MP&L's financing activities and Note 4, incorporated herein by reference, for information on MP&L's short-term borrowings and lines of credit.

MISSISSIPPI POWER & LIGHT COMPANY

STATEMENTS OF INCOME

	For the Years Ended December 31,		
	1992	1991	1990
		(In Thousands)	
Operating Revenues (Notes 1, 2, and 10)	$817,650	$754,632	$761,188
Operating Expenses:			
Operation (Note 10):			
Fuel for electric generation and fuel-related expenses	112,032	104,553	119,166
Purchased power	301,912	284,868	306,296
Other	104,287	98,884	93,294
Maintenance	42,153	37,660	31,132
Depreciation and amortization (Note 1)	31,493	30,089	38,023
Taxes other than income taxes	40,738	37,534	36,788
Income taxes (Note 3)	40,751	36,537	31,510
Rate deferrals:			
Rate deferrals	(22,876)	(53,333)	(89,273)
Amortization of rate deferrals	61,456	58,480	58,480
Income taxes — (credit) (Note 3)	(19,070)	(6,601)	6,803
Total	692,876	628,671	632,219
Operating Income	124,774	125,961	128,969
Other Income:			
Allowance for equity funds used during construction	668	1,302	261
Miscellaneous — net	4,562	1,525	(1,066)
Income taxes — (debit) (Note 3)	(1,467)	81	398
Total	3,763	2,908	(407)
Interest Charges:			
Interest on long-term debt	60,709	63,628	63,975
Other interest — net	3,357	4,013	4,743
Allowance for borrowed funds used during construction	(565)	(1,860)	(986)
Total	63,501	65,781	67,732
Net Income	65,036	63,088	60,830
Preferred Stock Dividend Requirements	9,513	10,074	10,802
Earnings Applicable to Common Stock	$ 55,523	$ 53,014	$ 50,028

See Notes to Financial Statements.

MISSISSIPPI POWER & LIGHT COMPANY

STATEMENTS OF RETAINED EARNINGS

	For the Years Ended December 31,		
	1992	1991	1990
		(In Thousands)	
Retained Earnings, January 1	$243,819	$199,393	$183,286
Add:			
Net income	65,036	63,088	60,830
Total	308,855	262,481	244,116
Deduct:			
Dividends declared:			
Preferred stock	9,513	10,074	10,802
Common stock	68,400	7,847	33,901
Preferred stock expense	741	741	20
Total	78,654	18,662	44,723
Retained Earnings, December 31 (Note 7)	$230,201	$243,819	$199,393

See Notes to Financial Statements.

MISSISSIPPI POWER & LIGHT COMPANY

MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Net Income

MP&L's net income increased in 1992 due primarily to increased operating revenues and decreased interest expense and income tax expense, partially offset by increased maintenance expense. Net income increased in 1991 due primarily to a reduction in depreciation expense and a decrease in income taxes caused by lower federal income tax rates on the utilization of net operating losses. These increases in net income were partially offset by the reduction in revenues from sales for resale from a one-time intra-system equalization billing adjustment recorded in September 1991 and the impact in 1990 resulting from the recording of materials and supplies inventory. Significant factors affecting the results of operations and causing variances between the years 1992 and 1991, and 1991 and 1990 are discussed under "Revenues and Sales," "Expenses," and "Other" below.

Revenues and Sales

See "Selected Financial Data — Five-Year Comparison," incorporated herein by reference, following the Notes, for information on operating revenues by source and KWH sales.

Electric operating revenues were higher in 1992 resulting from an increase in other revenue of approximately $36.5 million related to MP&L's rate deferral over/under recovery and an increase of approximately $14.0 million in retail operating revenues due to lower fuel adjustment credits. Neither of these revenue fluctuations affected net income. Revenues from sales for resale were higher in 1992 resulting from the September 1991 one-time equalization billing adjustment referred to below. While total energy sales were relatively flat in 1992, increased sales for resale to nonassociated companies, resulting from changes in generation availability and requirements among the System operating companies, were offset by lower retail sales resulting from milder temperatures.

Electric operating revenues were lower in 1991 resulting from a decrease in revenues from sales for resale as a result of a one-time intra-system equalization billing adjustment. (Certain 1985-1991 intra-system equalization billings under the System Agreement were adjusted in 1991, reducing operating revenues by approximately $10.6 million.) Miscellaneous revenue decreased by approximately $6.1 million in 1991 resulting primarily from a reduction in MP&L's collections through its fuel adjustment clause. These decreases were partially offset by a $9.7 million increase in retail operating revenues. Energy sales were 2% higher in 1991 resulting from sales for resale to associated and non-associated companies due to changes in generation capability and requirements among the System operating companies.

Expenses

Fuel for electric generation and fuel-related expenses decreased in 1991 as a result of an approximately $15 million decrease in oil-fired and gas-fired generation cost due to lower oil-fired generation requirements and lower average unit gas prices, respectively. Maintenance expense was higher in 1992 due primarily to an increase in scheduled maintenance at MP&L's power plants. This increased level of regular scheduled maintenance is anticipated to continue over the next few years. Maintenance expense was higher in 1991 due primarily to the 1990 recording of approximately $7.2 million of materials and supplies inventory, which correspondingly reduced 1990 maintenance expense.

Depreciation expense decreased in 1991 primarily as a result of the implementation of revised depreciation rates in the second quarter of 1991, approved by the MPSC, resulting from a new depreciation study. Implementation of the new rates resulted in a reduction of approximately

RESULTS OF OPERATIONS — (Concluded)

$9.0 million in depreciation expense in 1991 compared to the amount that would have been recorded using the previous depreciation rates. MP&L's deferrals of Grand Gulf 1-related costs decreased in both 1992 and 1991 resulting from the collection of a larger portion of these costs under the step-up provisions of our phase-in plan. Total income taxes were lower in 1992 due primarily to an increase of approximately $4.8 million in estimated income tax benefits related to tax depreciation resulting from certain elections made in 1991. Total income taxes were lower in 1991 due primarily to the $5.2 million decrease related to the impact of reductions in federal income tax rates on the utilization of MP&L's 1986 and 1987 federal net operating losses in 1991 and 1990.

Other

Miscellaneous other income — net increased in 1992 due primarily to interest income in connection with the settlement of deferred coal charges from System Fuels and increased in 1991 due primarily to a 1990 reduction in previously recorded finance charges related to sales of heat pumps.

SIGNIFICANT FACTORS AND KNOWN TRENDS

The Energy Policy Act of 1992

The Energy Policy Act of 1992 (Energy Act), signed into law in October 1992, will have a significant impact on our industry. This act will increase competition and afford the Entergy System the opportunity, and the risks, associated with an open and more competitive market environment. The Energy Act reforms the Public Utility Holding Company Act of 1935 and encourages competition in the wholesale energy market. The Energy Act creates a new class of energy providers known as exempt wholesale generators (EWGs). EWGs will be able to compete in the wholesale market without the constraints of certain regulation. The Energy Act also gives FERC the authority to order investor-owned utilities to provide transmission access to or for other utilities, including EWGs.

Least-Cost Planning

In December 1992, MP&L filed a Least Cost Integrated Resource Plan (Plan) with its retail regulator. The Plan includes demand-side measures such as customer energy conservation and shifting electrical usage to off-peak periods. Supply-side measures generally include greater efficiency of power plants through the reconfiguration or addition of equipment. These measures are designed to delay the building of any new power plants by the Entergy System for the next 20 years. Without implementing such measures, new electric generating capacity would be needed as early as 1999. Under the Plan, which is subject to regulatory approval, customers would see a slight increase in rates while the initial measures are implemented. Once the programs go into effect, it is anticipated that a reduction in customer bills will result. It is MP&L's intention to seek recovery for all demand-side Plan related costs in an appropriate proceeding filed with the MPSC at the conclusion of the Plan docket. Following implementation, savings will be generated from lower costs than would have otherwise been necessary. Least-cost planning enables MP&L, along with its customers and regulators, to prepare to meet our future energy needs.

Retail and Wholesale Rate Issues

To enhance our competitive position, MP&L is not currently planning to file for general changes in retail rates in 1993 (with the exception of minor increases under the Plan). MP&L is aggressively following a cost reduction program to avoid potential earnings erosions that might result from this policy. See "Corporate Reorganization" below. To avoid rate increases in the longer term, MP&L plans to take advantage of opportunities available through least-cost planning, as discussed above.

In 1992, FERC approved, with certain modifications, the proposal of the System operating companies and Entergy Power to sell wholesale power at market-based rates and to provide to electric utilities "open access" to the System's transmission system (subject to certain requirements). Various intervenors in the proceeding filed petitions for review with the United States Court of Appeals for the District of Columbia Circuit. FERC's order, once it takes effect, will increase marketing opportunities for MP&L, but will also expose MP&L to the risk of loss of load or reduced revenues due to competition with alternative suppliers.

Clean Air Act Amendments

The Clean Air Act Amendments of 1990, among other things, place limits on emissions of sulfur dioxide and nitrogen oxide from fossil-fueled generating plants. Utilities must comply with the first phase by 1995 and with the second phase by 2000. Based on current evaluations of our existing facilities, we believe that no additional equipment will be required to control sulfur dioxide emissions to comply with the Act. We may be required to install emission controls at our two coal units and to

SIGNIFICANT FACTORS AND KNOWN TRENDS — (Concluded)

install continuous emission monitoring systems at some or all of our fossil-fueled units to control nitrogen oxide emissions. We currently estimate that total capital costs of approximately $7.1 million could be required to comply with this and other provisions of the Act.

Corporate Reorganization

We, as a part of the Entergy System, are continuing to reorganize our corporate structure and streamline our operations in order to bring MP&L's administrative and general costs in line with top performing electric utilities. In addition, we are also implementing more stringent budgeting practices to contain costs.

Accounting Issues

See Note 9, incorporated herein by reference, for information on postretirement benefits other than pensions (SFAS No. 106) and postemployment benefits (SFAS No. 112). See Note 3, incorporated herein by reference, for information on accounting for income taxes (SFAS No. 109).

Summary

MP&L's future financial condition will be affected by many opportunities and challenges. Our positioning related to the provisions of the Energy Policy Act of 1992 will enable the Entergy System to aggressively and effectively compete in the evolving electric energy industry. Our Least Cost Integrated Resources Plan will also help us to plan and work with our customers and regulators to meet future energy needs. In addition, MP&L will continue to streamline operations and contain costs in an effort to bring MP&L in line with top performing electric utilities.

MISSISSIPPI POWER & LIGHT COMPANY

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

MP&L maintains accounts in accordance with FERC and other regulatory guidelines. Certain previously reported amounts have been reclassified to conform to current classifications.

Revenues and Fuel Costs

MP&L records revenues when billed to its customers with no accrual for energy delivered but not yet billed.

MP&L's rate schedules include fuel adjustment clauses that allow current recovery of estimated fuel costs, with subsequent adjustments of estimates to actual.

Utility Plant

Utility plant is stated at original cost, with additions to utility plant recorded at cost. The original cost of utility plant retired or removed, plus the applicable removal costs, less salvage, is charged to accumulated depreciation. Maintenance, repairs, and minor replacement costs are charged to operating expenses.

AFUDC represents the approximate net composite interest cost of borrowed funds and a reasonable return on the equity funds used for construction. Although AFUDC increases utility plant and represents current earnings, it is only realized in cash through depreciation provisions included in rates. MP&L's effective composite rates for AFUDC were 12.0%, 10.4%, and 9.4% for 1992, 1991, and 1990, respectively.

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 2.5% in 1992, 2.4% in 1991, and 3.1% in 1990.

MP&L filed, and the MPSC approved, a new depreciation study in June 1991. Implementation of the new depreciation rates effective January 1, 1991, which are lower than previous depreciation rates, resulted in a reduction of approximately $9.0 million in depreciation expense in 1991 as compared to the amount that would have been recorded using the previous depreciation rates. This change in depreciation expense during 1991 resulted in an increase in net income of approximately $7.0 million. There is no impact on the rates charged to customers under current rate schedules.

Substantially all of MP&L's utility plant is subject to the lien of its first mortgage bond indenture and the second lien of its G&R Mortgage bond indenture.

Jointly-Owned Generating Station

MP&L owns 25% of the Independence Station, a two-unit, coal-fired generating station located near Newark, Arkansas. MP&L records its investment in and expenses associated with this station to the extent of its ownership and participation. MP&L's investment in the Independence Station was approximately $222.4 million and $221.5 million, less accumulated depreciation of approximately $61.9 million and $57.4 million as of December 31, 1992, and December 31, 1991, respectively.

Notes Receivable

MP&L currently has a program, wherein it finances heat pumps for its customers through notes receivable. Such notes are repayable in equal monthly installments of principal and interest over a 5 year period and bear interest at a market-based rate at the time of sale. The amounts financed are classified on the Balance Sheet as current and noncurrent notes receivable.

Income Taxes

MP&L, its parent, and affiliates file a consolidated federal income tax return. Income taxes are allocated to MP&L in proportion to its contribution to consolidated taxable income. SEC regulations require that no System company pay more taxes than it would have had a separate income tax return been filed. Deferred income taxes include differences between book and taxable income to the extent permitted for ratemaking purposes. Investment tax credits are deferred and amortized based upon the average useful life of the related property, in accordance with rate treatment.

In addition, MP&L files a consolidated Mississippi state income tax return with certain other System companies.

Other Noncurrent Liabilities

MP&L records provisions for uninsured property risks and claims for injuries and damages through charges to operation expenses on an accrual basis. Provisions for these accruals, classified as other noncurrent liabilities, have been allowed for ratemaking purposes.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, MP&L considers all unrestricted highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Fair Value Disclosure

SFAS No. 107, which is effective for fiscal years ending after December 15, 1992, requires disclosure of the fair value of all significant financial instruments. The estimated fair value amounts have been determined by MP&L, using available market information and appropriate valuation methodologies. However, considerable judgment is required in developing the estimates of fair value. Therefore, our estimates are not necessarily indicative of the amounts that MP&L could realize in a current market exchange. In addition, gains or losses realized on financial instruments would generally be reflected in future rates and not accrue to the benefit of stockholders.

MP&L considers the carrying amounts of financial instruments classified as current assets and liabilities to be a reasonable estimate of their fair value because of the short maturity of these instruments. In addition, MP&L does not presently expect that performance of its obligations will be required in connection with certain off-balance sheet commitments and guarantees considered financial instruments. Due to this factor, and because of the related party nature of these commitments and guarantees, determination of fair value is not considered practicable. See Notes 5, 6, and 8 for additional fair value disclosure.

NOTE 2. RATE AND REGULATORY MATTERS

Grand Gulf 1

MP&L's currently effective Grand Gulf 1-related rate deferral plan (Revised Plan) provides, among other things, for the recovery by MP&L, in equal annual installments over ten years beginning October 1, 1988, of all Grand Gulf 1-related costs deferred through September 30, 1988 pursuant to the Final Order on Rehearing. The balance as of September 30, 1988 of deferred Grand Gulf 1-related costs was approximately $648.4 million. Approximately $312.1 million has been recovered by MP&L from October 1, 1988 through December 31, 1992, leaving a balance of approximately $336.3 million as of December 31, 1992. Additionally, the Revised Plan provided that MP&L deferred, in decreasing amounts, a portion of its Grand Gulf 1-related costs over four years beginning October 1, 1988. In

October 1992, these deferrals began being recovered by MP&L over the next six years ending September 30, 1998. The Revised Plan also allows for the current recovery of carrying charges on all deferred amounts.

Least-Cost Planning

In December 1992, MP&L filed a Least Cost Integrated Resource Plan (Plan) with its retail regulator. The Plan includes demand-side measures such as customer energy conservation and shifting electrical usage to off-peak periods. Supply-side measures generally include greater efficiency of power plants through the reconfiguration or addition of equipment. These measures are designed to delay the building of any new power plants by the Entergy System for the next 20 years. Without implementing such measures, new electric generating capacity would be needed as early as 1999. Under the Plan, which is subject to regulatory approval, customers would see a slight increase in rates while the initial measures are implemented. Once the programs go into effect, it is anticipated that a reduction in customer bills will result. It is MP&L's intention to seek recovery for all demand-side Plan related costs in an appropriate proceeding filed with the MPSC at the conclusion of the Plan docket. Following implementation, savings will be generated from lower costs than would have otherwise been necessary. Least-cost planning enables MP&L, along with its customers and regulators, to prepare to meet our future energy needs.

NOTE 3. INCOME TAXES

Income tax expense consists of the following:

	For the Years Ended December 31,		
	1992	1991	1990
		(In Thousands)	
Current:			
Federal	$ 4,532	$ (1,000)	$ 4,027
State	(69)	—	—
Total	4,463	(1,000)	4,027
Deferred — net:			
Federal reclassification due to net operating loss	28,561	29,756	21,308
State reclassification due to net operating loss	4,883	4,587	2,997
Liberalized depreciation	9,448	8,565	5,245
Rate Deferral — net	(11,220)	(10,137)	4,668
Unbilled revenue	(5,722)	1,207	1,466
Pension liability	(1,233)	(157)	122
Adjustments of prior year taxes	(3,471)	(84)	(3,812)
Other	(815)	(1,248)	3,728
Total	20,431	32,489	35,722
Investment tax credit adjustments — net	(1,746)	(1,634)	(1,834)
Recorded income tax expense	$ 23,148	$ 29,855	$37,915
Charged to operations	$ 21,681	$ 29,936	$38,313
Charged (credited) to other income	1,467	(81)	(398)
Total income taxes	$ 23,148	$ 29,855	$37,915

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

	For the Years Ended December 31,					
	1992		1991		1990	
	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income
	(Dollars in Thousands)					
Computed at statutory rate	$29,983	34.0	$31,601	34.0	$33,573	34.0
Increases (reductions) in tax resulting from:						
Impact of change in tax rate	2,226	2.5	1,425	1.5	6,603	6.7
State income taxes net of federal income tax effect	2,703	3.1	3,175	3.4	3,472	3.5
Depreciation	(2,571)	(2.9)	944	1.0	981	1.0
Amortization of excess deferred income taxes	(4,682)	(5.3)	(4,682)	(5.0)	(4,682)	(4.7)
Amortization of investment tax credits	(1,746)	(2.0)	(1,634)	(1.8)	(1,620)	(1.6)
Adjustments of prior year taxes	(2,760)	(3.2)	(1,149)	(1.2)	(243)	(0.3)
Other — net	(5)	—	175	0.2	(169)	(0.2)
Total income taxes	$23,148	26.2	$29,855	32.1	$37,915	38.4

The tax effects of federal net operating tax losses that are carried forward have been recorded as reductions of deferred income taxes. These tax losses totaling $22.2 million as of December 31, 1992 are available to offset taxable income in future years and, if not used, will expire in the years 2006 through 2007.

The alternative minimum tax (AMT) credit as of December 31, 1992 was $5.1 million. This AMT credit can be carried forward indefinitely and will reduce MP&L federal income tax liability in the future.

In February 1992, the FASB issued SFAS No. 109, "Accounting for Income Taxes," which is generally effective for fiscal years beginning after December 15, 1992. The new standard requires that deferred income taxes be recorded for all temporary differences and carryforwards, and that deferred tax balances be based on enacted tax laws at tax rates that are expected to be in effect when the temporary differences reverse. The new standard was adopted by MP&L effective January 1, 1993. As a result of the adoption of SFAS No. 109, MP&L's 1993 net income will be reduced by $3.6 million, assets will be increased by $6.7 million, and liabilities will be increased by $10.3 million. This adjustment includes deferred income tax liabilities and related regulatory assets recorded for cumulative income tax timing differences which will be recovered through rates when the timing differences reverse.

NOTE 4. LINES OF CREDIT AND RELATED BORROWINGS

The SEC has authorized MP&L to effect short-term borrowings up to $100 million, subject to increase to as much as $113 million after further SEC approval. These authorizations are effective through November 30, 1994. As of December 31, 1992, MP&L had unused lines of credit for short-term borrowing of $30 million from banks within its service territory. In addition, MP&L can borrow from the Money Pool, subject to its maximum authorized level of short-term borrowings and the availability of funds. MP&L's short-term borrowings are limited by the terms of its G&R Mortgage to amounts not exceeding the greater of 10% of capitalization or 50% of Grand Gulf 1 rate deferrals available to support the issuance of G&R Bonds. MP&L had no outstanding borrowings under these arrangements as of December 31, 1992.

NOTE 5. PREFERRED AND COMMON STOCK

The number of shares and dollar value of MP&L's cumulative, $100 par value preferred stock was:

	As of December 31,				Call Price Per Share as of December 31, 1992
	Shares Authorized and Outstanding		Total Dollar Value		
	1992	1991	1992	1991	
			(Dollars in Thousands)		
Without sinking fund:					
4.36% Series	59,920	59,920	$ 5,992	$ 5,992	$103.86
4.56% Series	43,888	43,888	4,389	4,389	$107.00
4.92% Series	100,000	100,000	10,000	10,000	$102.88
7.44% Series	100,000	100,000	10,000	10,000	$102.81
8.36% Series	200,000	—	20,000	—	—
9.16% Series	75,000	75,000	7,500	7,500	$104.06
Issuance expense	—	—	(223)	—	
Premium	—	—	196	196	
Total without sinking fund			$ 57,854	$ 38,077	
With sinking fund:					
9.00% Series	210,000	280,000	$ 21,000	$ 28,000	$106.75
9.76% Series	350,000	350,000	35,000	35,000	$104.34
12.00% Series	57,700	67,700	5,770	6,770	$109.00
16.16% Series	15,000	30,000	1,500	3,000	$112.12
Discount	—	—	(2,689)	(3,431)	
Total with sinking fund			$ 60,581	$ 69,339	

The total carrying amount of MP&L's preferred stock was $118.4 million as of December 31, 1992. The fair value, determined using bid prices reported by dealer markets and by a nationally recognized investment banking firm, was estimated to be $116.1 million as of December 31, 1992. See Note 1 for additional information on disclosure of fair value of financial instruments.

As of December 31, 1992, MP&L had 175,000 shares of cumulative, $100 par value preferred stock that were authorized but unissued.

Changes in the common stock and preferred stock, with and without sinking fund, during the last three years were:

	Number of Shares		
	1992	1991	1990
Common stock issuances ($23 issuance price)	1,086,957	—	—
Preferred stock issuances:			
$100 par value:			
8.36% Series	200,000	—	—
Preferred stock retirements:			
$100 par value:			
9.00% Series	(70,000)	(70,000)	—
12.00% Series	(10,000)	(10,000)	(10,000)
16.16% Series	(15,000)	(15,000)	(15,000)

MISSISSIPPI POWER & LIGHT COMPANY

NOTES TO FINANCIAL STATEMENTS — (Continued)

Cash sinking fund requirements for the next five years for preferred stock outstanding as of December 31, 1992, are (in millions): 1993, $15.3; 1994, $15.3; 1995, $14.5; 1996, $7.5; and 1997, $7.5. MP&L has the annual non-cumulative option to redeem at par, additional amounts of its 12.00% series and 16.16% series preferred stock outstanding.

MP&L has SEC authorization for the issuance and sale through December 31, 1993, of up to $37.5 million of preferred stock (of which $17.5 million remained available as of December 31, 1992), and for the possible acquisition, in whole or in part, of not more than $50 million aggregate par value of MP&L's outstanding preferred stock, including but not limited to the 16.16% Series, the 12.00% Series, and the 9.76% Series. In the first quarter of 1993, MP&L redeemed 10,000 shares of its 12.00% series and 70,000 shares of its 9.76% series of preferred stock.

MP&L also has SEC authorization for the issuance and sale through December 31, 1993, of up to $50 million of common stock to Entergy (of which $25 million remained available as of December 31, 1992) for the possible acquisition, in whole or in part, of certain of MP&L's outstanding securities and for other corporate purposes.

NOTE 6. LONG-TERM DEBT

The long-term debt of MP&L as of December 31, 1992 and 1991 was as follows:

	1992	1991
	(In Thousands)	
First Mortgage Bonds:		
14.40% Series due 1992	—	$ 75,000
$4\frac{5}{8}\%$ Series due 1995	$ 20,000	20,000
$5\frac{1}{8}\%$ Series due 1996	25,000	25,000
$6\frac{3}{8}\%$ Series due 1996	10,000	10,000
$9\frac{5}{8}\%$ Series due 1999	20,000	20,000
$9\frac{1}{4}\%$ Series due 2000	17,500	17,500
$7\frac{3}{4}\%$ Series due 2002	15,000	15,000
$7\frac{3}{4}\%$ Series due 2003	30,000	30,000
$8\frac{1}{4}\%$ Series due 2003	20,000	20,000
$9\frac{7}{8}\%$ Series due 2004	25,000	25,000
$10\frac{7}{8}\%$ Series due 2005	—	25,000
$9\frac{5}{8}\%$ Series due 2016	70,000	70,000
Total First Mortgage Bonds	252,500	352,500
General and Refunding Bonds:		
14.65% Series due 1993	55,000	55,000
9.90% Series due 1994	30,000	30,000
11.11% Series due 1994	18,000	18,000
5.95% Series due 1995	15,000	—
11.14% Series due 1995	10,000	10,000
14.95% Series due 1995	20,000	20,000
11.18% Series due 1996	26,000	26,000
6.95% Series due 1997	50,000	—
11.20% Series due 1997	46,000	46,000
Total General and Refunding Bonds	270,000	205,000
Pollution Control Revenue Bonds:		
$7\frac{1}{2}\%$ Series due 1992 to 2004	9,000	9,110
$8\frac{1}{2}\%$ Series due 1992 to 2004	8,205	8,305
$8\frac{1}{2}\%$ Series due 1995	950	950
$9\frac{1}{2}\%$ Series due 2012*	10,000	10,000
9% Series due 2013*	10,000	10,000
$9\frac{1}{2}\%$ Series due 2014*	10,000	10,000
Total Pollution Control Revenue Bonds	48,155	48,365
Unamortized Premium and Discount-Net	(2,750)	(2,807)
Total Long-Term Debt	567,905	603,058
Less—Amount Due Within One Year	55,230	100,210
Long-term Debt Excluding Amount Due Within One Year	$512,675	$502,848

* The pollution control revenue bonds due 2012 at $9\frac{1}{2}\%$, 2013 at 9% and 2014 at $9\frac{1}{2}\%$ are secured by $10.9 million, $10.8 million and $10.8 million, respectively, of non-interest bearing first mortgage bonds.

The fair value of MP&L's long-term debt as of December 31, 1992 was estimated to be (in millions) \$258.0 for first mortgage bonds, \$286.9 for general and refunding bonds and \$49.0 for pollution control revenue bonds. Fair values were determined using bid prices reported by dealer markets and by nationally recognized investment banking firms. See Note 1 for additional information on disclosure of fair value of financial instruments.

For the years 1993, 1994, 1995, 1996 and 1997, MP&L has long-term debt maturities and cash sinking fund requirements of (in millions) \$55.2, \$48.3, \$66.2, \$61.3, and \$96.3, respectively. In addition, other sinking fund requirements of approximately \$1.5 million annually may be satisfied by cash or by certification of property additions at the rate of 167% of such requirements.

The G&R Mortgage prohibits the issuance of additional first mortgage bonds (including for refunding purposes) under MP&L's first mortgage indenture, except such first mortgage bonds as may hereafter be issued from time to time at MP&L's option to the corporate trustee under the G&R Mortgage to provide additional security for MP&L's G&R Bonds.

Under MP&L's G&R Mortgage indenture and subject to the earnings coverage test discussed below, G&R Bonds are issuable based upon 70% of property additions since December 31, 1987, plus up to 50% of cumulative deferred Grand Gulf 1-related costs recorded as an asset on the books of MP&L, provided that the maximum amount of G&R Bonds issuable against cumulative deferred Grand Gulf 1-related costs may not exceed \$400 million. The G&R Mortgage contains an earnings coverage test requiring a minimum earnings coverage (except for certain refunding issues) of twice the pro-forma annual mortgage interest requirements for the issuance of additional G&R Bonds. At December 31, 1992, the total amount of G&R Bonds outstanding aggregated \$270 million.

MP&L has requested SEC authorization allowing the issuance and sale through December 31, 1993 of up to \$300 million of G&R Bonds and up to \$25 million of tax-exempt bonds. Of these amounts, MP&L received authorization in 1992 for the issuance of \$65 million of G&R Bonds (leaving \$235 million unauthorized and unissued as of December 31, 1992). MP&L has also received SEC authorization through December 31, 1993, for the possible acquisition, in whole or in part, of not more than \$200 million aggregate principal amount of outstanding bonds, including, but not limited to, MP&L's First Mortgage Bonds, 9¼% Series due 1999, and 9⅞% Series due 2004, and MP&L's G&R Bonds, 14.95% Series due 1995; and not more than \$25 million aggregate principal amount of outstanding pollution control revenue bonds, including but not limited to Independence County Pollution Control Revenue Bonds, 9% 1982 Series B due 2013, 9.50% 1982 Series C due 2014, 9% 1982-A Series A due 2013 and 9.50% 1982-A Series B due 2014. On January 21, 1993, pursuant to further SEC authorization, MP&L issued and sold \$125 million principal amount of G&R Bonds, 8.65% Series due January 15, 2023. On February 1, 1993, MP&L retired at maturity its 14.65% Series G&R Bonds.

NOTE 7. DIVIDEND RESTRICTIONS

MP&L's bond indentures relating to long-term debt contain provisions restricting the payment of cash dividends or other distributions on common stock. As of December 31, 1992, \$142.5 million of MP&L's retained earnings were restricted against the payment of cash dividends or other distributions on common stock.

NOTE 8. COMMITMENTS AND CONTINGENCIES

Capital Requirements and Financing

Construction expenditures for the years 1993, 1994, and 1995 are estimated to total \$58.8 million, \$58.3 million and \$64.6 million, respectively. MP&L will also require \$214.8 million during the period 1993-1995 to meet long-term debt maturities and cash sinking fund requirements. MP&L plans to meet the above requirements with internally generated funds, including collections under its rate phase-in plan, and cash on hand, supplemented by the issuance of preferred stock and long-term debt. See Note 5 and Note 6 regarding the possible issuance, refunding, redemption, purchase or other acquisition of outstanding securities.

Unit Power Sales Agreement

System Energy has agreed to sell all of its 90% owned and leased share of capacity and energy from Grand Gulf 1 to the System operating companies in accordance with specified percentages (AP&L 36%, LP&L 14%, MP&L 33%, NOPSI 17%) as ordered by FERC. Charges under this agreement are paid in consideration for MP&L's respective entitlement to receive capacity and energy, and are payable irrespective of the quantity of energy delivered so long as the unit remains in commercial operation. The agreement will remain in effect until terminated by the parties and approved by FERC, most likely upon Grand Gulf 1's retirement from service. MP&L's monthly obligation for payments to System Energy for Grand Gulf 1 capacity and energy is approximately $20 million.

Availability Agreement

The System operating companies are individually obligated to make payments or subordinated advances to System Energy in accordance with stated percentages (AP&L 17.1%, LP&L 26.9%, MP&L 31.3%, and NOPSI 24.7%) in amounts that when added to amounts received under the Unit Power Sales Agreement or otherwise, are adequate to cover all of System Energy's operating expenses. System Energy has assigned its rights to payments and advances to certain creditors as security for certain obligations. Payments or advances under the Availability Agreement are only required if funds available to System Energy from all sources are less than the amount required under the Availability Agreement. Since commercial operation of Grand Gulf 1, payments under the Unit Power Sales Agreement have exceeded the amounts payable under the Availability Agreement. Accordingly, no payments have ever been required. In 1989, the Availability Agreement was amended to provide that the write-off of $900 million of Grand Gulf 2 costs would be amortized for Availability Agreement purposes over a period of 27 years in order to avoid the need for payments by the System operating companies.

Reallocation Agreement

System Energy and the System operating companies entered into the Reallocation Agreement relating to the sale of capacity and energy from the Grand Gulf Station and the related costs, in which LP&L, MP&L, and NOPSI agreed to assume all of AP&L's responsibilities and obligations with respect to the Grand Gulf Station under the Availability Agreement. FERC's decision allocating a portion of Grand Gulf 1 capacity and energy to AP&L supersedes the Reallocation Agreement as it relates to Grand Gulf 1. Responsibility for any Grand Gulf 2 amortization amounts has been individually allocated (LP&L 26.23%, MP&L 43.97%, and NOPSI 29.80%) under the terms of the Reallocation Agreement. However, the Reallocation Agreement does not affect AP&L's obligation to System Energy's lenders under the assignments referred to in the preceding paragraph. AP&L would be liable for its share of such amounts if the other System operating companies were 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, including other funds available to System Energy, exceed amounts required under the Availability Agreement, which is expected to be the case for the foreseeable future.

System Fuels

MP&L has a 19% interest in System Fuels, a jointly-owned subsidiary of the System operating companies. The parent companies of System Fuels, including MP&L, agreed to make loans to System Fuels to finance its fuel procurement, delivery, and storage activities. As of December 31, 1992, MP&L had approximately $6 million of loans outstanding to System Fuels which mature in 2008.

AP&L has SEC authorization to assume System Fuels' rights and obligations in connection with System Fuels' coal car leases. It is anticipated that the transaction will be consummated in March 1993. Once the obligation for the leases is transferred to AP&L, MP&L and the other parent companies of System Fuels will be released from their obligations with respect to the lease transaction. MP&L, as a co-owner of the Independence Station which uses coal transported by the leased coal cars will continue to reimburse AP&L for its share of costs associated with the leases.

Fuel Purchase Commitments

During 1990 three lawsuits, filed during the period 1986-1990 by MP&L against United Gas Pipe Line Company (United) arising out of a December 8, 1967 "Gas Sales Agreement" between MP&L and United were settled. A settlement agreement between the parties was approved by the MPSC on October 29, 1990, and the three suits were dismissed by the United States District Court for the Southern District of Mississippi on November 1, 1990. Pursuant to the settlement agreement, MP&L received approximately $8.2 million that was applied, pursuant to a December 1990 MPSC order, to reduce the phase-in/recovery adjustment portion of MP&L's rate deferral balance. In addition, MP&L and United entered into a new four-year gas purchase agreement under which, beginning January 1, 1991, MP&L is purchasing from United approximately 34.1 billion cubic feet of gas.

MP&L owns certain coal mining equipment and facilities at a mine in Wyoming. The mine's estimated reserves are presently expected to provide the projected requirements of the Independence Station through at least 2014.

NOTE 9. POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS

Pension Plan

MP&L has a defined benefit pension plan covering substantially all of its employees. The pension plan is noncontributory and provides pension benefits based on employees' credited service and average compensation, generally during the last five years before retirement. MP&L funds pension costs in accordance with contribution guidelines established by the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code of 1986, as amended. The assets of the plan consist primarily of common and preferred stocks, fixed income securities, interest in a money market fund, and insurance contracts.

MP&L's 1992, 1991, and 1990 pension cost, including amounts capitalized, included the following components:

	For the Years Ended December 31,		
	1992	1991	1990
		(In Thousands)	
Service cost — benefits earned during the period	$ 2,059	$ 2,061	$ 2,392
Interest cost on projected benefit obligation	8,269	7,472	6,743
Actual return on plan assets	(8,474)	(22,422)	445
Net amortization and deferral	(1,009)	13,323	(9,511)
Other	—	403	—
Net pension cost	$ 845	$ 837	$ 69

The funded status of MP&L's pension plan at December 31, 1992 and 1991 was as follows:

	1992	1991
	(In Thousands)	
Actuarial present value of accumulated pension plan benefits:		
Vested	$ 94,534	$ 85,560
Nonvested	304	7,258
Accumulated benefit obligation	$ 94,838	$ 92,818
Plan assets at fair value	$119,167	$117,977
Projected benefit obligation	108,758	103,718
Plan assets in excess of projected benefit obligation	10,409	14,259
Unrecognized prior service cost	3,467	3,730
Unrecognized transition asset	(11,253)	(12,503)
Unrecognized net gain	(4,651)	(6,669)
Accrued pension liability	$ (2,028)	$ (1,183)

The significant actuarial assumptions used in computing the information above were as follows:

	1992	1991	1990
Weighted average discount rate	8.25%	8.25%	8.75%
Weighted average rate of increase in future compensation levels	5.6 %	5.6 %	5.6 %
Expected long-term rate of return on plan assets	8.5 %	8.5 %	8.5 %

Transition assets are being amortized over 15 years.

Other Postretirement Benefits

MP&L also provides cer health care and life insurance benefits for retired employees. Substantially all employees m become eligible for these benefits if they reach retirement age while still working for MP&L. The cost of providing these benefits, recorded on a cash basis, to retirees in 1992 was approximately $1.6 million. Prior to 1992, the cost of providing these benefits for retirees was not separable from the cost of providing benefits for active employees. The total cost of providing these benefits, recorded on a cash basis, and the number of active employees and retirees for 1991 and 1990 is presented in the following table:

	1991	1990
	(In Thousands)	
Total cost of health care and life insurance (in thousands)	$5,439	$4,202
Number of active employees	1,572	1,621
Number of retirees	421	416

Effective January 1, 1993, MP&L must implement SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". The new standard requires a change from a cash method to an accrual method in accounting for these benefits. At January 1, 1993, the actuarially determined accumulated postretirement benefit obligation earned by retirees and active employees was estimated to be approximately $30 million. This obligation will be amortized over a 20-year period beginning in 1993. Adoption of this new standard is expected to increase annual expense associated with these benefits by approximately $2.8 million for MP&L, including the effects of the amortization of the transition obligation. On February 23, 1993, the MPSC issued a general policy statement articulating the MPSC's intention regarding SFAS No. 106. In its order, the MPSC adopted accrual accounting as required by SFAS No. 106 as an appropriate regulatory accounting treatment for all public utilities subject to SFAS No. 106. The MPSC also ordered that affected companies may establish a regulatory asset for the increased annual expense associated with these benefits.

Postemployment Benefits

In November 1992, the FASB issued SFAS No. 112, "Employers' Accounting for Postemployment Benefits," which is effective for fiscal years beginning after December 15, 1993. The new standard requires a change from a cash method to an accrual method in accounting for benefits paid to employees after employment, but before retirement, when certain conditions exist. The impact of this new standard has not been fully determined.

NOTE 10. TRANSACTIONS WITH AFFILIATES

MP&L buys electricity from and/or sells electricity to the other System operating companies and System Energy under rate schedules filed with FERC. In addition, MP&L purchases fuel from System Fuels and receives technical and advisory services from Entergy Services.

Operating revenues include revenues from sales to affiliates amounting to $18.0 million in 1992, $9.8 million in 1991 and $19.0 million in 1990. As a result of an internal review designed to ensure consistency among the System operating companies, certain 1985-1991 intra-system equalization billings pursuant to the System Agreement were adjusted in 1991 and reduced operating revenue in the amount of approximately $10.6 million. Operating expenses include charges from affiliates for fuel costs, purchased power and related charges, and technical and advisory services totaling $364.0 million in 1992, $310.8 million in 1991 and $297.6 million in 1989.

See Note 1 for information on MP&L's jointly-owned generating station.

MISSISSIPPI POWER & LIGHT COMPANY

NOTES TO FINANCIAL STATEMENTS — (Concluded)

NOTE 11. QUARTERLY FINANCIAL DATA (UNAUDITED)

Operating results for the four quarters of 1992 and 1991 were:

	Operating Revenues	Operating Income	Net Income
		(In Thousands)	
1992:			
First Quarter	$186,791	$26,866	$11,083
Second Quarter	$202,297	$25,830	$10,306
Third Quarter	$229,209	$40,673	$25,002
Fourth Quarter	$199,353	$31,405(1)	$18,645(1)
1991:			
First Quarter	$173,118	$28,468	$12,122
Second Quarter	$181,181	$29,787	$13,862
Third Quarter(2)	$206,259	$38,941	$22,752
Fourth Quarter	$194,074	$28,765	$14,352

(1) The fourth quarter of 1992 reflects a decrease in income tax expense of $4.8 million due to estimates of income tax benefits related to tax depreciation having been adjusted as a result of certain elections made in conjunction with the filing of the 1991 tax return.

(2) The third quarter of 1991 reflects a one-time decrease in operating revenues of approximately $10.6 million as a result of an intra-system equalization billing adjustment recorded in September 1991. The impact of this adjustment on third quarter 1991 operating income and net income was $6.3 million.

MP&L's business is subject to seasonal fluctuations with the peak period occurring during the third quarter.

MISSISSIPPI POWER & LIGHT COMPANY

SELECTED FINANCIAL DATA — FIVE-YEAR COMPARISON

	1992	1991	1990	1989	1988
			(In Thousands)		
Operating revenues	$ 817,650	$ 754,632	$ 761,188	$ 709,746	$ 683,547
Net income	$ 65,036	$ 63,088	$ 60,830	$ 12,419	$ 52,886
Total assets	$1,660,726	$1,672,275	$1,616,522	$1,565,707	$1,555,149
Long-term obligations(1)	$ 574,098	$ 573,168	$ 675,286	$ 689,141	$ 664,326

(1) Includes long-term debt (excluding currently maturing debt), preferred stock with sinking fund and noncurrent capital lease obligations.

	1992	1991	1990	1989	1988
Operating Revenues:			(Dollars in Thousands)		
Residential	$ 308,346	$ 307,283	$ 302,622	$ 274,841	$ 258,378
Commercial	235,137	229,597	227,140	212,107	195,451
Industrial	168,853	162,072	160,007	147,146	134,378
Governmental	26,250	25,630	25,117	23,624	21,143
Total retail	738,586	724,582	714,886	657,718	609,350
Sales for resale	37,983	25,487	35,678	45,886	60,772
Other	41,081	4,563	10,624	6,142	13,425
Total	$ 817,650	$ 754,632	$ 761,188	$ 709,746	$ 683,547
Energy Sales (Millions of KWH):					
Residential	3,644	3,739	3,701	3,452	3,430
Commercial	2,804	2,807	2,802	2,679	2,603
Industrial	2,631	2,582	2,564	2,368	2,228
Governmental	318	321	318	308	291
Total retail	9,397	9,449	9,385	8,807	8,552
Sales for resale	1,190	1,032	902	1,038	1,351
Total	10,587	10,481	10,287	9,845	9,903

MISSISSIPPI POWER & LIGHT COMPANY

DIRECTORS, OFFICERS, AND OTHER INFORMATION

DIRECTORS

Michael B. Bemis
Executive Vice President — Customer Service of MP&L, AP&L, LP&L, and NOPSI

Frank R. Day
Chairman of the Board and Chief Executive Officer of Trustmark National Bank, and Trustmark Corporation; Chairman of the Board and President of Smith County Bank; Chairman of the Board of the Bank of Edwards

John O. Emmerich, Jr. (A)
Editor and Publisher of Greenwood Commonwealth

Norman B. Gillis, Jr.
Attorney-at-Law, Gillis & Gillis, Attorneys

Donald C. Hintz
Senior Vice President — Nuclear of AP&L and LP&L; President and Chief Executive Officer of System Energy

Jerry D. Jackson
Executive Vice President — Finance and External Affairs and Secretary of Entergy, MP&L, AP&L, LP&L, and NOPSI

Robert E. Kennington, II
Chairman of the Board of Grenada Sunburst System Corporation and Sunburst Bank

Edwin Lupberger
Chairman of the Board and Chief Executive Officer of Entergy; Chairman of the Board of System Energy

Jerry L. Maulden
Group President, System Executive — Transmission, Distribution and Customer Service of Entergy; Chairman of the Board and Chief Executive Officer of MP&L, AP&L, LP&L, and NOPSI

Donald E. Meiners
President of MP&L

John N. Palmer, Sr.
Chairman of the Board and Chief Executive Officer of Mobile Telecommunication Technologies Corporation

Dr. Clyda S. Rent (A)
President of Mississippi University for Women

E. B. Robinson, Jr. (A)
Chairman of the Board and Chief Executive Officer of Deposit Guaranty National Bank and Deposit Guaranty Corporation

Dr. Walter Washington (A)
President of Alcorn State University

Robert M. Williams, Jr.
Partner — Reeves-Williams

(A) Member of Audit Committee
(B) Effective in 1993

OFFICERS

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

Donald E. Meiners
President

Michael B. Bemis
Executive Vice President — Customer Service

Jerry D. Jackson
Executive Vice President — Finance and External Affairs and Secretary

Frank F. Gallaher
Senior Vice President — Fossil Operations

Gerald D. McInvale
Senior Vice President and Chief Financial Officer

Michael P. Niggli (B)
Senior Vice President — Marketing

Bill F. Cossar
Vice President — Governmental Affairs

Johnny D. Ervin
Vice President — Customer Service

Glenn E. Harder (B)
Vice President — Financial Strategies and Treasurer

Richard J. Landy
Vice President — Human Resources and Administration

Lee W. Randall
Vice President, Chief Accounting Officer, and Assistant Secretary

OTHER INFORMATION

Transfer Agent for Preferred Stock:
Trustmark National Bank
Post Office Box 291
Jackson, Mississippi 39215-0291
(601) 354-5061

Registrar for Preferred Stock:
Deposit Guaranty National Bank
Post Office Box 1200
Jackson, Mississippi 39215-1200
(601) 354-8114

Trustee for First Mortgage Bonds:
The Bank of New York
Corporate Trust Department
101 Barclay Street
21st Floor
New York, New York 10286
1-800-524-1458

Trustee for General and Refunding Bonds:
Bank of Montreal Trust Company
77 Water Street
New York, New York 10005
(212) 701-7673

Corporate Address:
Mississippi Power & Light Company
308 East Pearl Street
Jackson, Mississippi 39201

To request a copy of the Corporation's 1992 Annual Report to the Securities and Exchange Commission on Form 10-K (including MP&L's 1992 Annual Report), call or write:

Entergy Corporation
Investor Relations Department
Mail Suite PP/2308
P. O. Box 61005
New Orleans, LA 70161
Telephone: (504) 569-4365
1-800-292-9960

System Energy Resources, Inc./1992 Financial Statements

System
Energy

SYSTEM ENERGY RESOURCES, INC.

System Energy Resources, Inc. (System Energy), a nuclear generating company, has a 90 percent interest in Unit No. 1 of the Grand Gulf Station located near Port Gibson, Mississippi.

System Energy is a wholly-owned subsidiary of Entergy Corporation, a public utility holding company. The Entergy 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, and Mississippi.

Headquartered in New Orleans, Louisiana, Entergy Corporation includes four retail operating companies: Arkansas Power & Light Company, Louisiana Power & Light Company, Mississippi Power & Light Company, and New Orleans Public Service Inc. Entergy Corporation also owns all of the outstanding common stock of Entergy Services, Inc., Entergy Operations, Inc., Entergy Power, Inc., Entergy Enterprises, Inc., and System Energy Resources, Inc. Entergy Services provides various technical, administrative, and corporate services to Entergy Corporation and the System companies. Entergy Operations, a nuclear management service company, operates the System's nuclear generating units. Entergy Power, an independent power producer, owns and markets capacity and energy in wholesale markets not otherwise served presently by the Entergy System.

The Entergy System began a functional realignment of its activities during 1990 in order to be prepared to successfully meet challenges in the changing utility industry and to have the flexibility to compete effectively in the years ahead. The realignment has resulted in the formation of three consolidated line functions. The Energy Supply organization is responsible for the management and operation of the Entergy System's nuclear and fossil-fueled generation. The Transmission, Distribution, and Customer Service organization consists of transmission, customer services, retail marketing, state regulatory, and governmental affairs. The Entergy Business Support organization was established to direct the administrative business functions of the System.

TABLE OF CONTENTS

SYSTEM ENERGY RESOURCES, INC.

DEFINITIONS

Certain abbreviations or acronyms used in System Energy's Financial Statements, Notes, and Management's Financial Discussion and Analysis are defined below:

Abbreviation or Acronym	Term
AFUDC	Allowance for Funds Used During Construction
ALJ	Administrative Law Judge
ANO	AP&L's Arkansas Nuclear One Steam Electric Generating Station
AP&L	Arkansas Power & Light Company
APSC	Arkansas Public Service Commission
Availability Agreement	Agreement, dated as of June 21, 1974, as amended, among System Energy and the System operating companies, and the assignments thereof
Capital Funds Agreement	Agreement, dated as of June 21, 1974, as amended, between System Energy and Entergy Corporation, and the assignments thereof
City of New Orleans or City	New Orleans, Louisiana
Council	Council of the City of New Orleans, Louisiana
D.C. Circuit	United States Court of Appeals for the District of Columbia Circuit
DOE	Department of Energy
Entergy Operations	Entergy Operations, Inc., a subsidiary of Entergy that has operating responsibility for Grand Gulf 1, Waterford 3, and ANO
Entergy System or System	Entergy and its various direct and indirect subsidiaries
FASB	Financial Accounting Standards Board
February 4 Resolution	The Resolution (including the Determinations and Order referred to therein) adopted by the Council on February 4, 1988 disallowing the recovery by NOPSI of $135 million of previously deferred Grand Gulf 1-related costs
FERC	Federal Energy Regulatory Commission
FERC Complaint Case settlement	Settlement, effective May 21, 1991, whereby System Energy credited approximately $47.6 million in the aggregate (including interest) against its June 1991 bills to the System operating companies for capacity and energy from Grand Gulf 1.
Grand Gulf Station	Grand Gulf Steam Electric Generating Station
Grand Gulf 1	Unit No. 1 of the Grand Gulf Station
Grand Gulf 2	Unit No. 2 of the Grand Gulf Station
June 13 Decision	An order issued by the FERC on June 13, 1985 (Opinion No. 234) relating to the Unit Power Sales Agreement
KWH	Kilowatt-Hours
LP&L	Louisiana Power & Light Company
LPSC	Louisiana Public Service Commission

DEFINITIONS — (Concluded)

Abbreviation or Acronym	Term
Money Pool	Entergy System Money Pool which allows certain System companies to borrow from, or lend to, certain other System companies
MP&L	Mississippi Power & Light Company
MPSC	Mississippi Public Service Commission
NOPSI	New Orleans Public Service Inc.
November 30 Order	An order issued by the FERC on November 30, 1987 (Opinion No. 292) which reaffirmed and reinstated the June 13 Decision
NRC	Nuclear Regulatory Commission
PCRBs	Pollution Control Revenue Bonds
Reallocation Agreement	1981 Agreement, superseded in part by a June 13, 1985 decision of FERC, among the System operating companies and System Energy relating to the sale of capacity and energy from the Grand Gulf Station
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards promulgated by the FASB
SMEPA	South Mississippi Electric Power Association
System or Entergy System	Entergy and its various direct and indirect subsidiaries
System Energy	System Energy Resources, Inc.
System Fuels	System Fuels, Inc.
System operating companies	AP&L, LP&L, MP&L and NOPSI, collectively
Waterford 3	Unit No. 3 of LP&L's Waterford Steam Electric Generating Station
Unit Power Sales Agreement	Agreement, dated as of June 10, 1982, as amended, among the System operating companies and System Energy, relating to the sale of capacity and energy from System Energy's share of Grand Gulf 1.

SYSTEM ENERGY RESOURCES, INC.

REPORT OF MANAGEMENT

The management of System Energy Resources, Inc. has prepared and is responsible for the financial statements and related financial information included herein. 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.

D C Hintz

DONALD C. HINTZ
President and Chief Executive Officer

Gerald D McInvale

GERALD D. MCINVALE
Senior Vice President and Chief Financial Officer

SYSTEM ENERGY RESOURCES, INC.

AUDIT COMMITTEE CHAIRMAN'S LETTER

The Entergy Operations Board of Directors' Audit Committee functions as the Audit Committee for System Energy. The Audit Committee is comprised of three directors, who are not officers of System Energy or Entergy Operations: Brooke H. Duncan (Chairman), Robert D. Pugh, and William Clifford Smith. The committee held three meetings during 1992.

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

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

Brooke H. Duncan

BROOKE H. DUNCAN
Chairman, Audit Committee

INDEPENDENT AUDITORS' REPORT

To the Shareholder and the Board of Directors of
System Energy Resources, Inc.

We have audited the accompanying balance sheets of System Energy Resources, Inc. (System Energy) as of December 31, 1992 and 1991, and the related statements of income, retained earnings, and cash flows for each of the three years in the period ended December 31, 1992. These financial statements are the responsibility of System Energy's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of System Energy at December 31, 1992 and 1991, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1992 in conformity with generally accepted accounting principles.

As discussed in Note 2, "Rate and Regulatory Matters — FERC Audit" of Notes to Financial Statements, a regulatory proceeding is pending which, if ultimately resolved in an adverse manner, would require that System Energy (1) write off and not recover in rates approximately $95 million of costs charged to utility plant resulting from System Energy's accounting for certain allocated income tax charges and (2) make refunds for overcollections from the Entergy System operating companies related thereto. The ultimate outcome of this uncertainty cannot presently be determined. Accordingly, no provision has been made in the accompanying financial statements for the possible effects of a decision adverse to System Energy.

Deloitte & Touche

DELOITTE & TOUCHE
New Orleans, Louisiana
February 12, 1993

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SYSTEM ENERGY RESOURCES, INC.

BALANCE SHEETS

ASSETS

	December 31, 1992	December 31, 1991
	(In Thousands)	
Utility Plant (Note 1):		
Electric	$3,002,812	$3,011,223
Electric plant under lease (Note 8)	437,317	438,410
Construction work in progress	30,658	34,091
Plant held for future use	16,429	12,119
Nuclear fuel under capital lease (Notes 7 and 8)	67,991	85,206
Nuclear fuel	—	14,369
Total	3,555,207	3,595,418
Less — Accumulated depreciation	572,302	505,928
Utility plant — net	2,982,905	3,089,490
Other Investments:		
Decommissioning trust funds (Note 7)	19,127	13,486
Current Assets:		
Cash and cash equivalents (Note 1):		
Cash	—	175
Temporary cash investments — at cost, which approximates market:		
Associated companies (Note 4)	13,993	9,114
Other	167,802	85,221
Total cash and cash equivalents	181,795	94,510
Accounts receivable:		
Associated companies (Note 10)	60,601	61,962
Other	4,871	3,735
Materials and supplies — at average cost	71,660	66,189
Recoverable income taxes (Note 3)	47,900	54,600
Prepayments and other	3,497	4,165
Total	370,324	285,161
Deferred Debits:		
Recoverable income taxes (Note 3)	174,941	164,766
Unamortized loss on reacquired debt	14,723	11,751
Other (Notes 7 and 8)	110,421	77,549
Total	300,085	254,066
TOTAL	$3,672,441	$3,642,203

See Notes to Financial Statements.

SYSTEM ENERGY RESOURCES, INC.

BALANCE SHEETS

CAPITALIZATION AND LIABILITIES

	December 31, 1992	December 31, 1991
	(In Thousands)	
Capitalization:		
Common stock, no par value, authorized 1,000,000 shares; issued and outstanding 789,350 shares in 1992 and 1991	$ 789,350	$ 789,350
Retained earnings (Note 6)	367,747	375,306
Total common shareholder's equity	1,157,097	1,164,656
Long-term debt (Note 5)	1,755,308	1,682,265
Total	2,912,405	2,846,921
Other Noncurrent Liabilities:		
Obligations under capital lease (Note 8)	12,991	25,206
Current Liabilities:		
Currently maturing long-term debt (Note 5)	30,000	115,750
Accounts payable:		
Associated companies (Note 10)	2,164	16,345
Other	33,110	49,446
Taxes accrued	23,224	20,552
Interest accrued	50,560	49,308
Obligations under capital lease (Note 8)	55,000	60,000
Other	530	139
Total	194,588	311,540
Deferred Credits:		
Accumulated deferred income taxes (Note 3)	349,081	315,148
Accumulated deferred investment tax credits (Note 3)	144,284	111,981
Other (Note 7)	59,092	31,407
Total	552,457	458,536
Commitments and Contingencies (Notes 2 and 7)		
TOTAL	$3,672,441	$3,642,203

See Notes to Financial Statements.

SYSTEM ENERGY RESOURCES, INC.

STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	1992	1991	1990
		(In Thousands)	
Operating Activities:			
Net income	$ 130,141	$ 104,622	$ 168,677
Noncash items included in net income:			
Depreciation	85,932	85,986	69,653
Deferred income taxes and investment tax credits	70,356	79,660	109,282
Allowance for equity funds used during construction	(681)	(763)	(442)
Amortization of debt discount	6,417	7,495	10,532
Changes in working capital:			
Receivables	225	(5,530)	13,175
Payables	(30,517)	37,511	(23,632)
Materials and supplies	(5,471)	10,479	(6,577)
Taxes and interest accrued	3,924	(10,423)	(481)
Other working capital accounts	1,059	5,237	(264)
Income tax impact of future benefit related to AFUDC	—	—	9,861
Recoverable income taxes (Note 3)	(3,475)	(14,277)	32,246
Change in decommissioning trust funds	(5,641)	(2,201)	(5,847)
Gain on disposition of property	—	—	(7,189)
Other	86	(15,175)	900
Net cash flow provided by operating activities	252,355	282,621	369,894
Investing Activities:			
Construction expenditures	(21,671)	(21,663)	(24,633)
Allowance for equity funds used during construction	681	763	442
Nuclear fuel expenditures	(13,724)	(28,922)	(48,607)
Proceeds from sale of assets	—	—	13,046
Change in other temporary investments	—	125,225	(125,225)
Net cash flow provided (used) by investing activities	(34,714)	75,403	(184,977)
Financing Activities:			
Proceeds from sale and leaseback of nuclear fuel	28,094	14,552	48,607
Retirement of first mortgage bonds	(240,750)	(294,000)	(72,234)
Issuance of first mortgage bonds	220,000	—	—
Common stock dividend payments	(137,700)	(115,785)	(279,230)
Other	—	(279)	279
Net cash flow used by financing activities	(130,356)	(395,512)	(302,578)
Net increase (decrease) in cash and cash equivalents	87,285	(37,488)	(117,661)
Cash and cash equivalents at beginning of period	94,510	131,998	249,659
Cash and cash equivalents at end of period	$ 181,795	$ 94,510	$ 131,998
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid (received) during the period for:			
Interest (net of amount capitalized)	$ 201,287	$ 238,199	$ 246,280
Income taxes (refunds)	$ 21,431	$ (12,667)	$ (37,383)

See Notes to Financial Statements.

SYSTEM ENERGY RESOURCES, INC.

MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL CONDITION

Overview

The financial condition of System Energy significantly depends on the continued commercial operation of Grand Gulf 1 and on the receipt of payments from the System operating companies. Payments under the Unit Power Sales Agreement are System Energy's only source of operating revenues. As detailed in the Statements of Cash Flows, System Energy's cash requirements in 1992, including dividend payments to Entergy, were satisfied with internally generated funds and cash on hand, supplemented by issuances of debt.

In addition, System Energy's financial condition could be affected by the outcome of a pending FERC audit matter. In December 1990, FERC Division of Audits issued a report for System Energy that recommended that System Energy write off and not recover in its rates approximately $95 million of Grand Gulf 1 costs included in utility plant, and compute refunds for over collections from the System operating companies. In August 1992, FERC issued an opinion and order (August 4 Order) affirming an initial decision by a FERC ALJ. System Energy filed a Request for Rehearing, and in October 1992, FERC issued an order allowing additional time for its consideration of the request, and it deferred System Energy's refund obligation until 30 days after FERC issues an order on rehearing. If the decision is implemented, System Energy estimates that as of December 31, 1992, net income would be reduced by $141.1 million. This amount includes refund obligations of approximately $90.2 million (including interest). See Note 2, incorporated herein by reference, for additional information. System Energy's financial condition could also be affected by uncertainties regarding its FERC Return on Equity case. See Note 2, incorporated herein by reference, for additional information.

Operating Activities

Net cash flow from operations totaled $252.4 million in 1992. While there were no significant nonrecurring items, various factors contributed to our cash position at year end.

Investing Activities

In 1992, cash was used primarily for construction expenditures related to existing plant and nuclear fuel expenditures.

Financing Activities

In 1992, System Energy's primary financing activities included the refinancing of high-cost debt, receipt of proceeds from the sale and leaseback of nuclear fuel, and dividend payments on common stock.

Capital and Refinancing Requirements and Capital Resources

See Note 7, incorporated herein by reference, for information on System Energy's capital and refinancing requirements for 1993 through 1995.

Earnings coverage tests, bondable property additions, and equity ratio requirements contained in its mortgage, and in its letters of credit and reimbursement agreement in connection with its sale and leaseback transactions, limit the amount of first mortgage bonds that System Energy can issue. Based on the most restrictive applicable tests as of December 31, 1992 and assuming an annual interest rate of 9%, System Energy could have issued $280 million of additional first mortgage bonds. System Energy has the conditional ability to issue first mortgage bonds against the retirement of first mortgage bonds without satisfying an earnings coverage test.

SYSTEM ENERGY RESOURCES, INC.

MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL CONDITION — (Concluded)

In connection with the financing of Grand Gulf 1, Entergy has undertaken, in the Capital Funds Agreement, to provide to System Energy sufficient capital to (1) maintain System Energy's equity capital at an amount equal to at least 35% of System Energy's total capitalization (excluding short-term debt), (2) permit the continuation of commercial operation of Grand Gulf 1 and (3) enable System Energy to pay in full all borrowings, whether at maturity, on prepayment, on acceleration or otherwise. In addition, Entergy has agreed in the Capital Funds Agreement to make certain cash capital contributions, if required, to enable System Energy to make payments when due on specific issues of its long-term debt.

See Note 4, incorporated herein by reference, for information regarding System Energy's short-term borrowings authorizations.

SYSTEM ENERGY RESOURCES, INC.

STATEMENTS OF INCOME

	For the Years Ended December 31,		
	1992	1991	1990
		(In Thousands)	
Operating Revenues	$723,410	$686,664	$801,618
Operating Expenses:			
Operation:			
Fuel for electric generation and fuel-related expenses	55,110	78,060	78,968
Other	102,971	79,494	97,133
Maintenance	29,370	14,358	31,594
Depreciation and decommissioning (Notes 7 and 8)	90,628	87,296	75,789
Taxes other than income taxes	28,717	27,342	25,879
Income taxes (Note 3)	93,438	81,302	110,227
Total	400,234	367,852	419,590
Operating Income	323,176	318,812	382,028
Other Income:			
Allowance for equity funds used during construction	681	763	442
Miscellaneous — net	5,816	6,378	25,093
Income taxes (Notes 1 and 3)	4,584	7,726	(3,675)
Gain on disposition of property	—	—	7,189
Total	11,081	14,867	29,049
Interest Charges:			
Interest on long-term debt	196,618	218,538	230,643
Other interest — net	7,923	11,111	11,992
Allowance for borrowed funds used during construction	(425)	(592)	(235)
Total	204,116	229,057	242,400
Net Income	$130,141	$104,622	$168,677

See Notes to Financial Statements.

SYSTEM ENERGY RESOURCES, INC.

STATEMENTS OF RETAINED EARNINGS

	For the Years Ended December 31,		
	1992	1991	1990
		(In Thousands)	
Retained Earnings, January 1	$375,306	$386,469	$497,022
Add:			
Net income	130,141	104,622	168,677
Total	505,447	491,091	665,699
Deduct:			
Cash dividends	137,700	115,785	279,230
Retained Earnings, December 31 (Note 6)	$367,747	$375,306	$386,469

See Notes to Financial Statements.

SYSTEM ENERGY RESOURCES, INC.

MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

Net Income

Net income increased in 1992 primarily due to the impact of the FERC Complaint Case settlement recorded in June 1991, which reduced net income by approximately $36 million in 1991. See Note 2, incorporated herein by reference, for further information on this settlement. In addition, 1992 net income was impacted by a reduction in interest expense (as a result of the repayment of and refunding of higher cost debt) not recovered through rates, a decrease in interest income attributable to lower average investment balances and lower yields on those investments, and the lower return System Energy earned on its net investment in Grand Gulf 1 during 1992.

Net income decreased in 1991 due, in part, to the effect of the FERC Complaint Case settlement discussed above. In addition, net income decreased due to the impact of the lower return System Energy earned on its investment in Grand Gulf 1, and a number of other factors, including changes in interest income, and depreciation expense.

Significant factors affecting the results of operations and causing variances between the years 1992 and 1991, and 1991 and 1990 are discussed under "Revenues" and "Expenses" below.

Revenues

System Energy's operating revenues recover operating expenses, depreciation and capital costs attributable to Grand Gulf 1. The capital costs are computed by allowing a return, currently set at a rate of 13%, (see Note 2, incorporated herein by reference, for further information on the FERC Return on Equity case) on System Energy's common equity funds allocable to its investment in Grand Gulf 1 plus System Energy's effective interest cost for its debt allocable to this investment.

Operating revenues were higher in 1992 and lower in 1991 due primarily to the effect of the FERC Complaint Case settlement. The higher operating revenues in 1992 also reflect the increase in 1992 operating expenses primarily associated with the scheduled fifth refueling outage. System Energy's 1991 operating revenues were reduced by approximately $70 million as a result of the FERC Complaint Case settlement. Operating revenues also declined in 1992 and 1991 due to the lower return System Energy earned on its investment in Grand Gulf 1 resulting from a decrease in net unit investment. Future revenues attributable to the return on investment are expected to decrease by approximately $11 million in 1993 and by declining amounts each year thereafter as a result of the depreciation of System Energy's investment in Grand Gulf 1.

Expenses

Grand Gulf 1 was on-line for 298 of 366 days in 1992 as compared with 335 of 365 days in 1991. The unit capability factor, which is a measure of the unit's performance (based on a ratio of available energy generation to the maximum power capability multiplied by the period hours), was 79.9% for 1992 as compared with 88.7% for 1991. These variances are primarily due to the unit's fifth refueling outage that lasted from April 17, 1992 to June 9, 1992 (52 days) and due, to a lesser extent, to a ten day unplanned outage in January, 1992. The 1992 outages contributed significantly to the decrease in 1992 fuel for electric generation and fuel-related expenses and to the increases in 1992 other operation expense and maintenance expense. The decrease in fuel expense during 1992 is also due to the replacement of approximately one-third of the reactor core with less expensive nuclear fuel during the fifth refueling outage. Maintenance expense was lower in 1991 than in 1990 primarily because there was no refueling outage in 1991.

The FERC Complaint Case settlement, recorded by System Energy in June 1991, contributed to fluctuations in 1992 and 1991 operating results. Other operation expense increased in 1992 and

RESULTS OF OPERATIONS — (Concluded)

decreased in 1991 due, in part, to the provision of that settlement that called for 1991 credits from System Energy to the System operating companies totaling approximately $10 million relating to System Energy's rate treatment of the portions of Grand Gulf 1 sold and leased back. Miscellaneous other income-net decreased in 1991 due primarily to one-time charges associated with the settlement. The tax effects of the settlement resulted in higher income taxes in 1992 and lower income taxes in 1991.

Other than the operating results fluctuations related to refueling outages and the FERC Complaint Case settlement, other significant operating results fluctuations for 1992 and 1991 included a decrease in miscellaneous other income-net, in 1992, due primarily to decreased interest income resulting from lower investment balances and lower yields on these investments. The decrease in this line item in 1991 was also due in part to a decrease in interest income resulting from the lower investment balances. Depreciation expense increased during 1991 primarily due to the deferral in 1990 of approximately $30 million of depreciation expense representing current and prior year depreciation expense related to the sale and leaseback property. The amount of depreciation expense deferred in 1991 was approximately $15 million. See Note 8, incorporated herein by reference, for further information. System Energy's gain on disposition of property in 1990 was due to the sale of certain Grand Gulf 2 property that was written off in 1989.

SYSTEM ENERGY RESOURCES, INC.

MANAGEMENT'S FINANCIAL DISCUSSION AND ANALYSIS

SIGNIFICANT FACTORS AND KNOWN TRENDS

FERC Audit

See Note 2, incorporated herein by reference, for information with respect to a decision issued by the FERC that, if implemented, would require System Energy to write off and not recover in rates approximately $95 million of Grand Gulf 1 costs.

Accounting Issues

See Note 3, incorporated herein by reference, for information on accounting for income taxes (SFAS No. 109).

SYSTEM ENERGY RESOURCES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

System Energy maintains accounts in accordance with FERC guidelines. Certain previously reported amounts have been reclassified to conform to current classifications.

Organization

System Energy is a generating company providing electricity to the System operating companies and has a 90% interest in Grand Gulf 1, a nuclear generating station that began commercial operation in 1985. The Grand Gulf Station was originally designed as two 1,250 megawatt nuclear generating units. In September 1989, System Energy canceled and wrote off its investment in Grand Gulf 2. In June 1990, Entergy Operations assumed responsibility for the operation and maintenance of Grand Gulf 1.

System Energy has a combined ownership and leasehold interest of 90% and SMEPA has an undivided ownership interest of 10% in Grand Gulf 1. System Energy records its investment associated with Grand Gulf 1 to the extent to which it owns and maintains a leasehold interest in the generating station. Likewise, System Energy's operating expenses reflected in the accompanying financial statements represent 90% of such Grand Gulf 1 expenses.

Utility Plant

Utility plant is stated at original cost, with additions to utility plant recorded at cost. The original cost of utility plant retired or removed, plus the applicable removal costs, less salvage, is charged to accumulated depreciation. Maintenance, repairs, and minor replacement costs are charged to operating expenses.

AFUDC represents the approximate net composite interest cost of borrowed funds and a reasonable return on the equity funds used for construction. Although AFUDC increases utility plant and represents current earnings, it is only realized in cash through depreciation provisions included in rates. System Energy's effective composite rates for AFUDC were 10.0%, 9.9%, and 10.2% for 1992, 1991, and 1990, respectively.

Utility plant includes the portions of Grand Gulf 1 that were sold and are currently under lease. System Energy retired this property from its continuing property records as formerly owned property released from and no longer subject to System Energy's mortgage and deed of trust. System Energy is reflecting such leased property for financial reporting purposes as property under lease from others and is depreciating this property over the life of the basic lease term. Such depreciation is being deferred until recoverable from customers in future periods. See Note 8.

Depreciation is computed on a straight-line basis at rates based on the estimated service lives of the various classes of property. Depreciation provisions on average depreciable property approximated 2.85% in 1992, 1991, and 1990.

Substantially all of the utility plant owned by System Energy is subject to the lien of its first mortgage bond indenture.

Income Taxes

System Energy, its parent, and affiliates file a consolidated federal income tax return. Income taxes are allocated to System Energy in proportion to its contribution to consolidated taxable income. SEC regulations require that no System company pay more taxes than it would have 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 for ratemaking purposes. Investment tax credits are deferred and amortized based upon the average useful life of the related property in accordance with rate treatment.

In addition, System Energy files a consolidated Mississippi state income tax return with certain other system companies.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, System Energy considers all unrestricted highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Fair Value Disclosure

SFAS No. 107, which is effective for fiscal years ending after December 15, 1992, requires disclosure of the fair value of all significant financial instruments. The estimated fair value amounts have been determined by System Energy, using available market information and appropriate valuation methodologies. However, considerable judgment is required in developing the estimates of fair value. Therefore, our estimates are not necessarily indicative of the amounts that System Energy could realize in a current market exchange. In addition, gains or losses realized on financial instruments would generally be reflected in future rates and not accrue to the benefit of stockholders.

System Energy considers the carrying amounts of financial instruments classified as current assets and liabilities to be a reasonable estimate of their fair value because of the short maturity of these instruments. In addition, System Energy does not presently expect that performance of its obligations will be required in connection with certain off-balance sheet commitments and guarantees considered financial instruments. Due to this factor, and because of the related party nature of these commitments and guarantees, determination of fair value is not considered practicable. See Notes 5 and 7 for additional fair value disclosure.

NOTE 2. RATE AND REGULATORY MATTERS

FERC Audit

In December 1990, FERC Division of Audits issued a report for System Energy for the years 1986 through 1988. The report recommended that System Energy (1) write off and not recover in rates approximately $95 million of Grand Gulf 1 costs included in utility plant related to certain System income tax allocation procedures (and System Energy's accounting resulting from certain allocated income tax charges) alleged to be inconsistent with FERC's accounting requirements and (2) compute refunds for the years 1987 to date to correct for overcollections from the System operating companies.

In August 1992, FERC issued an opinion and order (August 4 Order) affirming an initial decision by a FERC ALJ which found that System Energy overstated its Grand Gulf 1 utility plant account by approximately $95 million as indicated in FERC's report. The order required System Energy to make adjusting accounting entries and refunds, with interest, to the System operating companies within 90 days from the date of the order. System Energy filed a Request for Rehearing, and in October 1992, FERC issued an order allowing additional time for its consideration of the request. In addition, it deferred System Energy's refund obligation until 30 days after FERC issues an order on rehearing. Should such refunds and adjusting entries be necessary, System Energy estimates that as of December 31, 1992, its net income would be reduced by approximately $141.1 million. This amount includes System Energy's potential refund obligation which is estimated to be $90.2 million (including interest) as of December 31, 1992. The ongoing effect of this order, if implemented, would be to reduce System Energy's revenues by approximately $22.0 million during the first twelve months following the write-off and by a comparable amount (but decreasing by approximately $0.5 million per year) in each subsequent year.

If the August 4 Order is implemented, System Energy would need the consent of certain banks to temporarily waive the fixed charge coverage covenants in the letters of credit and reimbursement agreement related to the Grand Gulf 1 sale and leaseback transaction (see Note 7) in order to avoid violation of the covenant. Absent a waiver, System Energy's failure to perform this covenant could cause a draw under the letters of credit and/or early termination of the letters of credit. If the letters of credit were not replaced in a timely manner, a default or early termination of System Energy's leases could result.

System Energy believes that its consolidated income tax accounting procedures and related rate treatment are in compliance with SEC and FERC requirements and is vigorously contesting this issue. The ultimate resolution of this matter cannot be predicted.

FERC Return on Equity Case

In August 1992, FERC instituted an investigation of the justness and reasonableness of all formula wholesale rates that include a return on equity component greater than 11.6% for System Energy as well as the System operating companies.

Payments received by System Energy under the Unit Power Sales Agreement are its only source of operating revenues. Rates under the Unit Power Sales Agreement are based on System Energy's cost of service including a return on common equity, which is currently set at 13%. If FERC were to reduce System Energy's rate of return on common equity, its annual net income would be reduced by approximately $10 million for each 1% of reduction. A prehearing conference was held in October 1992, and hearings are scheduled to begin in April 1993 with an initial decision expected on or about October 15, 1993. Any refunds payable would be due prospectively from November 2, 1992. System Energy cannot predict to what extent, if any, FERC will reduce its rate of return on common equity.

FERC Complaint Case Settlement

In February 1990, the APSC, the LPSC, the MPSC, the Mississippi Attorney General, and the City of New Orleans filed a complaint with FERC against System Energy and Entergy Services, Inc. (as agent for Entergy Corporation and the System operating companies) alleging that the rates being charged to the System operating companies by System Energy for capacity and energy from Grand Gulf 1 were not just and reasonable. This filing was consolidated with proceedings related to System Energy's decommissioning collections.

In May 1991, a settlement was reached which, among other things (1) reduced System Energy's rate of return on common equity from 14% to 13% effective retroactively to April, 1990; (2) imposed no ceiling for ratemaking purposes on System Energy's common equity ratio; (3) established a zero cash working capital allowance, effective retroactively to April 1990; (4) resolved the cost of service treatment of certain Grand Gulf 2 assets transferred to Grand Gulf 1; (5) set the amount to be collected in rates for the cost of decommissioning System Energy's 90% interest in Grand Gulf 1 at approximately $198 million in 1989 dollars (with a new study of these costs to be prepared and submitted to FERC on or before June 1, 1995); (6) increased System Energy's decommissioning expense collections from approximately $1.1 million to approximately $4.3 million per year, effective retroactively to June 1990, subject to a 5% annual inflation adjustment; and (7) provided for 1991 credits from System Energy to the System operating companies totaling approximately $17 million relating to System Energy's rate treatment of the portions of Grand Gulf 1 sold and leased back. The settlement did not resolve income tax accounting issues raised in the complaint (see "FERC Audit" above). The settlement was approved by FERC in September 1991.

Based on the settlement, System Energy credited in 1991 approximately $47.6 million in the aggregate (including interest) against its bills to the System operating companies for capacity and energy from Grand Gulf 1. As a result of the FERC Complaint Case settlement, 1991 net income was reduced by approximately $36.0 million, of which approximately $15.8 million relates to billings in 1990.

NOTE 3. INCOME TAXES

Income tax expense consists of the following:

	For the Years Ended December 31,		
	1992	1991	1990
		(In Thousands)	
Current:			
Federal	$13,890	$(31,900)	$ (4,176)
State	6,786	5,052	8,796
Total	20,676	(26,848)	4,620
Deferred — net:			
Liberalized depreciation	43,873	45,551	46,825
Nuclear fuel	(3,299)	(2,927)	1,424
Capitalized interest	(1,402)	(1,441)	(721)
Taxes capitalized	(935)	(572)	(1,154)
Other	(182)	(3,443)	6,588
Total	38,055	37,168	52,962
Investment tax credit adjustments — net	30,123	63,256	56,320
Recorded income tax expense	$88,854	$ 73,576	$113,902
Charged to operations	$93,438	$ 81,302	$110,227
Charged (credited) to other income	(4,584)	(7,726)	3,675
Recorded income tax expense	88,854	73,576	113,902
Income taxes applied against the debt component of AFUDC	253	352	140
Total income taxes	$89,107	$ 73,928	$114,042

Total income taxes differ from the amounts computed by applying the statutory Federal income tax rate to income or loss before taxes. The reasons for the differences are:

	For the Years Ended December 31,					
	1992		1991		1990	
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
	(Dollars in Thousands)					
Computed at statutory rate	$74,458	34.0	$60,587	34.0	$ 96,077	34.0
Increases (reductions) in tax resulting from:						
Depreciation	11,520	5.3	8,343	4.7	8,326	2.9
State income taxes net of federal income tax effect	8,380	3.8	6,084	3.4	10,115	3.6
Amortization of investment tax credits	(3,865)	(1.8)	(1,928)	(1.1)	(749)	(0.3)
Other — (net)	(1,639)	(0.7)	490	0.3	133	—
Recorded income tax expense	88,854	40.6	73,576	41.3	113,902	40.2
Income taxes applied against the debt component of AFUDC	253	0.1	352	0.2	140	—
Total income taxes	$89,107	40.7	$73,928	41.5	$114,042	40.2

Recoverable income taxes include the tax effects of the substantial tax loss generated in September 1989 by the Grand Gulf 2 write-off. The loss was recognized in 1989 and increased System Energy's net operating loss carryforward, to a total of approximately $639.9 million as of December 31, 1992, which may be utilized in the future to offset taxable income. If not utilized to offset Federal taxable income, income tax benefits related to the net operating loss carryforwards will expire in the years 2004 through 2007. In connection with an Internal Revenue Service (IRS) audit of Entergy's 1988, 1989, and 1990 consolidated federal income tax returns, the IRS is proposing that adjustments be made to the Grand Gulf 2 abandonment loss deduction claimed on Entergy's 1989 consolidated federal income tax return. If any such adjustments are necessary, the effect on System Energy's net income should be immaterial. Entergy intends to contest the proposed adjustments if finalized by the IRS. The outcome of such proceedings cannot be predicted at this time.

The alternative minimum tax (AMT) credit at December 31, 1992 was $18.9 million. This AMT credit can be carried forward indefinitely and will reduce System Energy's federal income tax liability in the future.

In February 1992, the FASB issued SFAS No. 109, "Accounting for Income Taxes," which is generally effective for fiscal years beginning after December 15, 1992. The new standard requires that deferred income taxes be recorded for all temporary differences and carryforwards, and that deferred tax balances be based on enacted tax laws at tax rates that are expected to be in effect when the temporary differences reverse. The new standard was adopted by System Energy effective January 1, 1993. As a result of the adoption of SFAS No. 109, System Energy's 1993 net income will be increased by $0.4 million, assets will be increased by $504.6 million and liabilities will be increased by $504.2 million.

NOTE 4. LINES OF CREDIT AND RELATED BORROWINGS

The SEC has authorized System Energy to effect short-term borrowings up to $125 million, subject to increase to as much as $238 million after further SEC approval. These authorizations are effective through November 30, 1994. In addition, System Energy can borrow from the Money Pool, subject to its maximum authorized level of short-term borrowings and the availability of funds. System Energy had no short-term borrowings or bank lines of credit as of December 31, 1992.

NOTE 5. LONG-TERM DEBT

The long-term debt of System Energy as of December 31, 1992 and 1991 was as follows:

	1992	1991
	(In Thousands)	
First Mortgage Bonds:		
14.34% Series, Due 1992	—	$ 100,000
14% Series, Due 1994	$ 200,000	200,000
6.12% Series, Due 1995	105,000	—
10½% Series, Due 1996	250,000	250,000
11% Series, Due 2000	120,000	255,750
8.25% Series, Due 2002	70,000	—
8.4% Series, Due 2002	45,000	—
11⅜% Series, Due 2016	90,319	90,319
Total	880,319	896,069
Pollution Control Revenue Bonds:		
Claiborne County, Mississippi —		
9½% Series, Due 2013	49,500	49,500
8.25% Series, Due 2014	27,100	27,100
9⅞% Series, Due 2014	206,000	206,000
12.5% Series, Due 2015	44,000	44,000
9.5% Series, Due 2016	90,000	90,000
Total	416,600	416,600
Grand Gulf 1 Lease Obligations (Note 8)	500,000	500,000
Unamortized Discount	(11,611)	(14,654)
Total Long-Term Debt	1,785,308	1,798,015
Less — Amount Due Within One Year	30,000	115,750
Long-Term Debt Excluding Amount Due Within One Year	$1,755,308	$1,682,265

The fair value of certain of System Energy's long-term debt as of December 31, 1992 was estimated to be (in millions) $968.4 for first mortgage bonds and $474.3 for pollution control revenue bonds. Fair values were determined using bid prices reported by dealer markets and by nationally recognized investment banking firms. See Note 1 for additional information on disclosure of fair value of financial instruments.

For the years 1993, 1994, 1995, 1996 and 1997 System Energy has long-term debt maturities and sinking fund requirements (in millions) of $30, $230, $135, $280, and $0, respectively.

System Energy has SEC authorization for the issuance and sale of up to $500 million of first mortgage bonds through December 30, 1994 (of which $280 million remains available as of December 31, 1992). In addition, System Energy has SEC authorization for the acquisition of not more than $500 million of its outstanding first mortgage bonds through December 31, 1994 all of which remains available as of December 31, 1992.

The pollution control revenue bonds due 2015 at 12.50% and those due 2016 at 9.50% are secured by $47.2 million and $95.6 million, respectively, of non-interest bearing first mortgage bonds.

NOTE 6. DIVIDEND RESTRICTIONS

Various agreements relating to the long-term debt of System Energy restrict the payment of cash dividends or other distributions on its common stock. As of December 31, 1992, $172.0 million of System Energy's retained earnings were restricted against the payment of cash dividends or other distributions on common stock.

NOTE 7. COMMITMENTS AND CONTINGENCIES

Capital Requirements and Financing

Construction expenditures (excluding nuclear fuel) for the years 1993, 1994, and 1995 are estimated to total $23.2 million, $25.8 million, and $22.6 million, respectively. System Energy will also require $395.0 million during the period 1993-1995 to meet long-term debt maturities and sinking fund requirements. System Energy plans to meet the above requirements with internally generated funds and cash on hand supplemented by the issuance of long-term debt. See Note 5 for the possible issuance of new first mortgage bonds and the potential refunding, redemption, purchase, or other acquisition of outstanding first mortgage bonds.

Capital Funds Agreement

Entergy has agreed to arrange for or supply to System Energy sufficient amounts of capital to (1) maintain System Energy's equity capital at not less than 35% of System Energy's total capitalization (excluding short-term debt), and (2) continue commercial operation of Grand Gulf 1 and enable System Energy to pay its borrowings under any circumstances. In addition, under supplements to the Capital Funds Agreement assigning System Energy's rights as security for specific debt of System Energy, Entergy has agreed to make cash capital contributions to enable System Energy to make payments on such debt when due.

System Energy has entered into various agreements with the System operating companies, whereby the System operating companies are obligated to purchase their respective entitlements of capacity and energy from System Energy's 90% ownership and leasehold interest in Grand Gulf 1, and to make payments that, together with other available funds, are adequate to cover System Energy's operating expenses. System Energy would have to secure funds from other sources, including Entergy's obligations under the Capital Funds Agreement, to cover any shortfalls from payments received from the System operating companies under these agreements.

Unit Power Sales Agreement

System Energy has agreed to sell all of its 90% owned and leased share of capacity and energy from Grand Gulf 1 to the System operating companies in accordance with specified percentages (AP&L 36%, LP&L 14%, MP&L 33%, NOPSI 17%) as ordered by FERC. Charges under this agreement are paid in consideration for the respective entitlements of the System operating companies to receive capacity and energy, and are payable irrespective of the quantity of energy delivered so long as the unit remains in commercial operation. The agreement will remain in effect until terminated by the parties and approved by FERC, which most likely would occur after Grand Gulf 1's retirement from service. The monthly obligation for payments from the System operating companies to System Energy is approximately $60 million.

Availability Agreement

The System operating companies are individually obligated in accordance with stated percentages (AP&L 17.1%, LP&L 26.9% MP&L 31.3%, and NOPSI 24.7%) to make payments or subordinated advances to System Energy in amounts that, when added to amounts received under the Unit Power Sales Agreement or otherwise, are adequate to cover all of System Energy's operating expenses as defined, including an amount sufficient to amortize Grand Gulf 2 over 27 years, as discussed below. System Energy has assigned its rights to payments and advances to certain creditors as security for certain obligations. Payments or advances under the Availability Agreement are only required if funds available to System Energy from all sources are less than the amount required under the Availability Agreement. Since commercial operation of Grand Gulf 1, payments under the Unit Power Sales Agreement have exceeded the amounts payable under the Availability Agreement. Accordingly, no payments have ever been required. In 1989, the Availability Agreement was amended to provide that the write-off of approximately $900 million of Grand Gulf 2 costs would be amortized for Availability Agreement purposes over a period of 27 years, in order to avoid the need for payments under the Availability Agreement by the System operating companies.

Reallocation Agreement

System Energy and the System operating companies entered into the Reallocation Agreement relating to the sale of capacity and energy from the Grand Gulf Station and the related costs, in which LP&L, MP&L, and NOPSI agreed to assume all of AP&L's responsibilities and obligations with respect to the Grand Gulf Station under the Availability Agreement. FERC's decision allocating a portion of Grand Gulf 1 capacity and energy to AP&L supersedes the Reallocation Agreement as it relates to Grand Gulf 1. Responsibility for any Grand Gulf 2 amortization amounts has been individually allocated (LP&L 26.23%, MP&L 43.97% and NOPSI 29.80%) under the terms of the Reallocation Agreement. However, the Reallocation Agreement does not affect AP&L's obligation to System Energy's lenders under the assignments referred to in the preceding paragraph. AP&L would be liable for its share of such amounts if the other System operating companies were 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, including other funds available to System Energy, exceed amounts required under the Availability Agreement, which is expected to be the case for the foreseeable future.

Reimbursement Agreement

In December 1988, System Energy entered into two entirely separate, but identical, arrangements for the sales and leasebacks of an approximate aggregate 11.5% ownership interest in Grand Gulf 1 (see Note 8). In connection with the equity funding of the sale and leaseback arrangements, letters of credit are required to be maintained to secure certain amounts payable for the benefit of the equity investors by System Energy under the leases. The current letters of credit are effective until January 15, 1994. It is expected that the letters of credit will either be renewed, extended, or replaced prior to expiration.

Under the provisions of the Reimbursement Agreement, as amended, related to the letters of credit, System Energy has agreed to a number of covenants relating to the maintenance of certain capitalization and fixed charge coverage ratios. System Energy agreed, during the term of the reimbursement agreement, to maintain its equity at not less than 33% of its adjusted capitalization (as defined in the reimbursement agreement) and to maintain its common equity at not less than 29% of such amount. In addition, System Energy must maintain, with respect to each fiscal quarter during the term of the reimbursement agreement, a ratio of adjusted net income to interest expense (calculated, in each case, as specified in the reimbursement agreement) of at least 1.60. At December 31, 1992, System Energy's equity and common equity in each case approximated 37.39% of its adjusted capitalization, and its fixed charge coverage ratio was 2.04.

Failure by System Energy to perform its covenants under the reimbursement agreement could give rise to a draw under the letters of credit and/or an early termination of the letters of credit. If such letters of credit were not replaced in a timely manner, a default under System Energy's related leases could result. Draws under the letters of credit must be repaid by System Energy within 5 days (or in some cases, 90 days) following the date of drawing.

See Note 2 for information with respect to a FERC order that, if ultimately sustained and implemented, could cause System Energy to seek waivers from the banks to avoid violation of the fixed charge coverage covenant.

Nuclear Insurance

The Price-Anderson Act limits public liability for a single nuclear incident to approximately $7.81 billion, as of December 31, 1992. System Energy has protection for this liability through a combination of private insurance (currently $200 million) and an industry assessment program. Under the assessment program, the maximum amount that would be required for each nuclear incident would be $66.15 million per reactor, payable at a rate of $10 million per licensed reactor per incident per year. As a colicensee of Grand Gulf 1 with System Energy, SMEPA would share in this obligation. System Energy has one licensed reactor. In addition, System Energy participates in a private insurance program which provides coverage for worker tort claims filed for bodily injury caused by radiation exposure. System Energy's maximum assessment under the program is an aggregate of approximately $3.1 million in the event losses exceed accumulated reserve funds.

System Energy on behalf of itself and other insured interests (including other co-owners of Grand Gulf 1) is a member of certain insurance programs that provide coverage for property damage, including decontamination expense, to members' nuclear generating plants. As of December 31, 1992, System Energy was insured against such losses up to $2.59 billion with a $350 million sublimit for premature decommissioning coverage. Under the property damage insurance programs, System Energy could be subject to assessments if losses exceed the accumulated funds available to the insurers. As of December 31, 1992, the maximum amount of such possible assessments to System Energy was $21.7 million. Under its agreement with System Energy, SMEPA would share in System Energy's obligation.

The amount of property insurance presently carried by System Energy exceeds the NRC's minimum requirement for nuclear power plant licensees of $1.06 billion per site. NRC regulations provide that the proceeds of this insurance must be used, first, to place and maintain the reactor in a safe and stable condition and, second, to complete decontamination operations. Only after proceeds are dedicated for such use and regulatory approval is secured, would any remaining proceeds be made available for the benefit of plant owners or their creditors.

Spent Nuclear Fuel and Decommissioning Costs

System Energy provides for estimated future disposal costs for spent nuclear fuel in accordance with the Nuclear Waste Policy Act of 1982. System Energy entered into a contract with the DOE, whereby the DOE will furnish disposal service at a cost of one mill per net KWH generated and sold after April 7, 1983. The fees payable to the DOE may be adjusted in the future to assure full recovery. System Energy considers all costs incurred or to be incurred for the disposal of spent nuclear fuel to be proper components of nuclear fuel expense and recovers such costs in rates.

Due to delays of the DOE's repository program for the acceptance of spent nuclear fuel, it is uncertain when shipments of spent fuel from System Energy will commence. In the meantime, System Energy is responsible for spent fuel storage. Current on-site spent fuel storage capacity at Grand Gulf 1 is estimated to be sufficient until 2004. Thereafter, System Energy will provide additional storage capacity at an estimated cost of $5.0 million to $10.0 million (in 1992 dollars). In addition, approximately $3.0 million to $5.0 million (in 1992 dollars) will be required every four to five years subsequent to 2004 until DOE's repository begins accepting Grand Gulf 1 spent fuel.

As a result of the FERC Complaint Case settlement, the amount to be collected in rates for the total cost of decommissioning System Energy's 90% interest in Grand Gulf 1 was set at approximately $198 million (in 1989 dollars). These collections, through rates, are deposited in external trust funds, with a market value of $20.1 million as of December 31, 1992 that can only be used for future decommissioning costs. These decommissioning costs were estimated to approximate $248.7 million in 1989 dollars based on a 1989 decommissioning cost study. System Energy regularly reviews and updates estimated decommissioning costs to reflect inflation and changes in regulatory requirements and technology. Applications will be made to FERC to reflect in rates any changes in estimated decommissioning costs.

The Energy Policy Act of 1992 has a provision that assesses domestic nuclear utilities with fees for the decontamination and decommissioning of DOE's past uranium enrichment operations. The decontamination and decommissioning provisions will be used to set up a fund into which contributions from utilities and the federal government will be placed. System Energy's assessment is $1.1 million (in 1992 dollars) annually for approximately fifteen years. The cumulative liability of $16.5 million was recorded at December 31, 1992, as a deferred credit. The legislation requires that regulators treat these assessments as costs of fuel when paid. The cumulative liability is offset in the financial statements by an equal regulatory asset, recorded as a deferred debit.

System Fuels

System Fuels entered into a revolving credit agreement with banks that provides $45 million in borrowings to finance System Fuels' nuclear materials and services inventory. Should System Fuels default on its obligations under its credit agreement, AP&L, LP&L, and System Energy have agreed to purchase the nuclear materials and services financed under the agreement.

NOTE 8. LEASES

Nuclear Fuel Leases

System Energy has an arrangement to lease nuclear fuel, in an aggregate amount up to $130 million. The lessor finances its acquisition of nuclear fuel through a credit agreement and the issuance of notes. The credit agreement, which was entered into in 1989 has been extended to February 1996 and the notes have varying remaining maturities of up to 5 years. It is expected that the credit arrangements will be extended or alternative financing will be secured by the lessor upon the maturity of the current arrangements. If the lessor cannot arrange for alternative financing upon maturity of its borrowings, System Energy must purchase nuclear fuel in an amount sufficient to enable the lessor to retire such borrowings.

Lease payments are based on nuclear fuel use. Nuclear fuel lease expense, including interest, of $48.4 million, $66.9 million, and $72.4 million was charged to operations in 1992, 1991, and 1990 respectively.

Sale and Leaseback Transactions

On December 28, 1988, System Energy entered into two entirely separate, but identical, arrangements for the sales and leasebacks of an approximate aggregate 11.5% undivided ownership interest in Grand Gulf 1 for an aggregate cash consideration of $500 million. System Energy is leasing back the undivided interest on a net lease basis over a 26½-year basic lease term. System Energy has options to terminate the leases and to repurchase the undivided interest in Grand Gulf 1 at certain intervals during the basic lease term. Further, at the end of the basic lease term, System Energy has an option to renew the leases or to repurchase the undivided interest in Grand Gulf 1. See Note 7 with respect to certain other terms of the transaction.

In accordance with SFAS No. 98, "Accounting for Leases," due to "continuing involvement" by System Energy, the sales and leasebacks of the undivided portions of Grand Gulf 1, as described above, are required to be reflected for financial reporting purposes as financing transactions in System Energy's financial statements. The amounts charged to expense for financial reporting purposes include the interest portion of the lease obligations and depreciation of the plant. However, operating revenues include the recovery of the lease payments because the transactions are accounted for as sales and leasebacks for rate-making purposes. The total of interest and depreciation expense exceeds the corresponding revenues realized during the early part of the lease term. In December 1990, consistent with a recommendation contained in a FERC audit report, System Energy recorded as a deferred asset the current and prior year difference between the recovery of the lease payments and the amounts expensed for interest and depreciation, and began recording such difference as a deferred asset on an ongoing basis. Recognition of the deferred asset has resulted in an increase in net income of approximately $24 million in 1990. Depreciation expense increased approximately $15 million in 1991 and 1992 as compared with 1990 due to the 1990 adjustment.

See Note 1 for further information regarding the accounting for the sale and leaseback transactions.

As of December 31, 1992, System Energy had future minimum lease payments (reflecting implicit rate of 9.86%) as follows:

	Minimum Lease Payments (In Thousands)
1993	$ 49,333
1994	51,295
1995	52,247
1996	52,247
1997	52,247
Years thereafter	1,091,379
Total	$1,348,748

NOTE 9. POSTRETIREMENT BENEFITS

Pension Plan

System Energy participates in a defined benefit pension plan sponsored by Entergy. Effective June 1990, all of System Energy's employees became employees of Entergy Operations. However, the employees still remain under System Energy's plan and no transfers of related pension liabilities and assets have been made. The pension plan, which covers substantially all of its employees, is noncontributory and provides pension benefits based on employees' credited service and average compensation, generally during the last five years before retirement. System Energy funds pension costs in accordance with contribution guidelines established by the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code of 1986, as amended. The assets of the plan consist primarily of common and preferred stocks, fixed income securities, interest in a money market fund, and insurance contracts.

System Energy's 1992, 1991, and 1990 pension cost (credit), including amounts capitalized, included the following components:

	1992	1991	1990
		(In Thousands)	
Service cost—benefits earned during the period	$ 1,737	$ 1,327	$ 1,398
Interest cost on projected benefit obligation	1,439	1,035	762
Actual return on plan assets	(2,070)	(5,432)	48
Net amortization and deferral	(587)	2,991	(2,402)
Other	—	17	—
Net pension cost (income)	$ 519	$ (62)	$ (194)

The funded status of System Energy's pension plan at December 31, 1992 and 1991 was:

	1992	1991
	(In Thousands)	
Actuarial present value of accumulated pension plan benefits:		
Vested	$12,377	$ 8,580
Nonvested	625	2,088
Accumulated benefit obligation	$13,002	$10,668
Plan assets at fair value	$30,167	$28,194
Projected benefit obligation	21,096	16,067
Plan assets in excess of projected benefit obligation	9,071	12,127
Unrecognized prior service cost	925	971
Unrecognized transition asset	(7,677)	(8,274)
Unrecognized net gain	(839)	(2,825)
Accrued pension asset	$ 1,480	$ 1,999

The significant actuarial assumptions used in computing the information above were as follows:

	1992	1991	1990
Weighted average discount rate	8.25%	8.25%	8.75%
Weighted average rate of increase in future compensation levels	5.6 %	5.6 %	5.6 %
Expected long-term rate of return on plan assets	8.5 %	8.5 %	8.5 %

Transition assets are being amortized over the average remaining service period of active participants.

NOTE 10. TRANSACTIONS WITH AFFILIATES

System Energy sells all of the capacity and energy from its share of Grand Gulf 1 to the System operating companies under rate schedules approved by FERC. Accordingly, all of System Energy's operating revenues consist of billings to the System operating companies.

MP&L provides a minimal amount of technical and advisory services and other miscellaneous services to System Energy. In addition, pursuant to a service agreement, System Energy receives technical and advisory services from Entergy Services, Inc. Charges from MP&L and Entergy Services, Inc. for technical, advisory and miscellaneous services amounted to approximately $13.8 million in 1992, $10.9 million in 1991, and $10.6 million in 1990. System Energy pays directly or reimburses Entergy Operations for the costs associated with operating Grand Gulf 1, which were approximately $179 million in 1992, $136 million in 1991, and $138 million in 1990.

In addition, certain materials and services required for fabrication of nuclear fuel are acquired and financed by System Fuels and then sold to System Energy, as needed. Charges for these materials and services, which represent additions to nuclear fuel, amounted to approximately $13.7 million in 1992, $28.9 million in 1991, $34.3 million in 1990.

NOTE 11. QUARTERLY FINANCIAL DATA (Unaudited)

Operating results for the four quarters of 1992 and 1991 were:

	Operating Revenue	Operating Income	Net Income
		(In Thousands)	
1992:			
First Quarter	$177,466	$82,294	$33,198
Second Quarter	$194,140	$81,688	$32,321
Third Quarter	$177,464	$80,784	$32,584
Fourth Quarter	$174,340	$78,410	$32,038
1991:			
First Quarter	$185,048	$87,703	$35,184
Second Quarter(1)	$143,738	$65,216	$ 6,910
Third Quarter	$174,516	$82,443	$30,589
Fourth Quarter	$183,362	$83,450	$31,939

(1) Operating revenues, operating income, and net income in the second quarter of 1991 were affected by the FERC Complaint Case settlement. See Note 2.

SYSTEM ENERGY RESOURCES, INC.

SELECTED FINANCIAL DATA — FIVE-YEAR COMPARISON

	1992	1991	1990	1989	1988
			(Dollars in Thousands)		
Operating revenues	$ 723,410	$ 686,664	$ 801,618	$ 837,307	$ 933,828
Net income (loss)(1)	$ 130,141	$ 104,622	$ 168,677	$ (655,524)	$ 180,314
Total assets(1)	$3,672,441	$3,642,203	$3,883,241	$3,987,055	$5,160,249
Long-term obligations(2)	$1,768,299	$1,707,470	$1,849,000	$2,229,022	$2,553,002
Electric energy sales (in millions of KWH)	7,354	8,220	6,666	7,064	8,632

(1) The year 1989 includes the effects of the write-off by System Energy of its investment in Grand Gulf 2.

(2) Includes long-term debt (excluding current maturities) and noncurrent capital lease obligations.

SYSTEM ENERGY RESOURCES, INC.

DIRECTORS, OFFICERS, AND OTHER INFORMATION

DIRECTORS

James M. Cain
Vice Chairman of Entergy

Donald C. Hintz
President and Chief Executive Officer of System Energy; Senior Vice President — Nuclear of AP&L and LP&L

Edwin Lupberger
Chairman of the Board of System Energy; Chairman of the Board and Chief Executive Officer of Entergy

Jerry L. Maulden
Group President, System Executive — Transmission, Distribution and Customer Service of Entergy; Chairman of the Board and Chief Executive Officer of AP&L, LP&L, MP&L, and NOPSI

OFFICERS

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Chairman of the Board

Donald C. Hintz
President and Chief Executive Officer

Gerald D. McInvale
Senior Vice President and Chief Financial Officer

Glenn E. Harder (A)
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Vice President and Chief Accounting Officer

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(A) Effective in 1993