



Tested

DEDICATED TO THE EMPLOYEES OF ENTERGY CORPORATION



When does 1+1 =

About the Cover

In the rush and confusion of the pre-Katrina evacuations, this American flag was left behind to ride out the storm in Chalmette, Louisiana – one of the hardest-hit communities on the Gulf Coast. Like most of our employees, customers, and neighbors, the flag was beaten and battered by the storm, but it survived. We celebrate the spirit of all those who were tested to their limits by Hurricanes Katrina and Rita, yet endured.

GROUND ZERO

In 2005, our service territory became Ground Zero for two of the most destructive hurricanes ever to hit the United States. We faced the highest number of customer outages ever in our company's history – twice. Our heroic employees overcame personal loss and widespread devastation in the coastal areas of Louisiana, Mississippi, and Texas to restore power to all customers who could accept power in just 47 days. This year's annual report tells their story – a story of determination, teamwork, and dedication.

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Entergy Corporation is an integrated energy company engaged primarily in electric power production and retail distribution operations. Entergy owns and operates power plants with approximately 30,000 megawatts of electric generating capacity, and it is the second-largest nuclear generator in the United States. Entergy delivers electricity to 2.7 million utility customers in Arkansas, Louisiana, Mississippi, and Texas. Entergy has annual revenues of more than \$10 billion and approximately 14,000 employees.

HIGHLIGHTS	2005	% Change	2004	% Change	2003
FINANCIAL RESULTS					
(in millions, except percentages and per share amounts)					
Operating revenues	\$10,106	4.3%	\$9,685	7.2%	\$9,032
Earnings applicable to common stock	\$ 898	(1.3%)	\$ 910	(1.8%)	\$ 927
Earnings per share					
Basic	\$ 4.27	6.5%	\$ 4.01	(2.0%)	\$ 4.09
Diluted	\$ 4.19	6.6%	\$ 3.93	(2.0%)	\$ 4.01
Average shares outstanding (in millions)					
Basic	210.1	(7.4%)	226.9	–	226.8
Diluted	214.4	(7.3%)	231.2	–	231.1
Return on average common equity	11.20%	4.7%	10.70%	(4.6%)	11.21%
Net cash flow provided by operating activities	\$ 1,468	(49.9%)	\$2,929	46.0%	\$2,006
UTILITY ELECTRIC OPERATING DATA					
Retail kilowatt-hour sales (in millions)	95,153	(6.9%)	102,225	2.3%	99,968
Peak demand (in megawatts)	21,391	1.0%	21,174	5.0%	20,162
Retail customers – year end (in thousands)	2,629	(1.2%)	2,662	1.2%	2,631
TOTAL EMPLOYEES – YEAR END	14,136	(2.0%)	14,425	(2.4%)	14,773

Thanks to the assistance of the mutual crews, suppliers, and business partners listed here, the storm restoration efforts delivered by Entergy employees were truly outstanding.

UTILITY COMPANIES

Alabama Power Company
 Allegheny Power
 Ameren Corporation
 American Electric Power
 Atmos Energy
 Austin Energy
 Baltimore Gas & Electric Company
 Brazos Electric Cooperative
 CenterPoint Energy
 Cinergy Corp.
 City of Fulton
 City of Hannibal
 City of Independence MO
 City of Lafayette
 Consolidated Edison Co.
 Consumers Energy
 CPS Energy
 Denton Municipal Electric
 Dominion
 Duke Power Co.
 El Paso Electric Co.
 FirstEnergy Corp.
 Florida Power & Light Company
 Florida Public Utilities Company
 Gainesville Regional Utilities
 Georgia Power Company
 Gulf Power Company
 Indianapolis Power & Light Company
 Kansas City Power & Light
 Kentucky Utilities Company
 La Natural Gas Services LLC
 Laclede Gas Company
 Louisville Gas & Electric Co.
 Lower Colorado River Authority
 Nebraska Public Power District
 Northeast Texas Electric Cooperative, Inc.
 Oklahoma Gas & Electric Company
 Omaha Public Power District

Pepco Holdings, Inc.
 PPL Electric Utilities
 Progress Energy
 Public Service Company of New Mexico
 Public Service Electric & Gas Company
 Savannah Electric Company
 Tampa Electric Company
 Tennessee Valley Authority
 Texas Gas Service Company
 Texas-New Mexico Power Company
 TXU Electric Delivery
 Westar Energy, Inc.
 Xcel Energy

CONTRACTORS

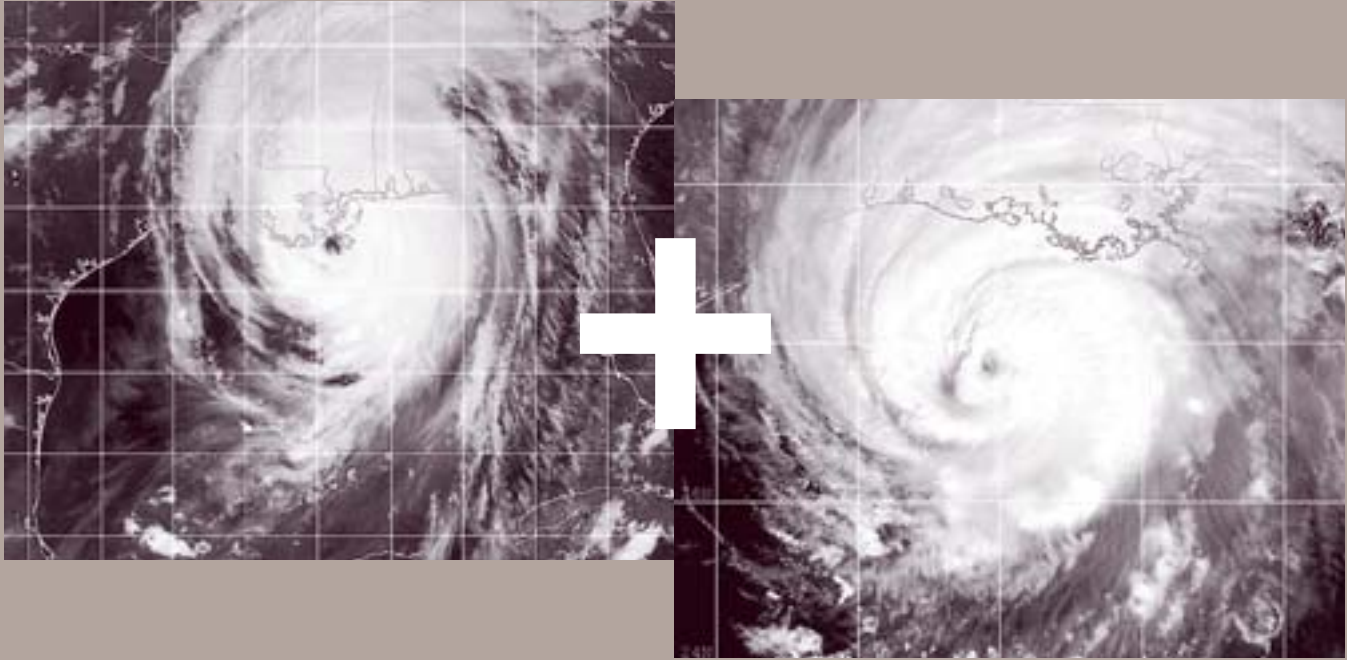
ABC Professional Tree Services, Inc.
 ACRT, Inc.
 Aerial Patrol, Inc.
 Aerial Solutions, Inc.
 AIR 2, LLC
 Asplundh Construction Corp.
 Asplundh Tree Expert Co.
 Auger Services Inc.
 B&B Utility Contractors, Inc.
 Bartech Group, Inc.
 Base Logistics, LLC
 BBC Electrical Services, Inc.
 Bison Electric, Inc.
 Burfords Tree Surgeons, Inc.
 C J Calamia Construction Co., Inc.
 C&C Powerline, Inc.
 C&H Powerline Construction Co., Inc.
 C&M Pole Line Construction, Inc.
 Calais Health, L.L.C.
 Cap Rock Energy Corp.
 Capital Electric Line Builders, Inc.
 Central Helicopter Service, Inc.
 Chain Electric Company

Chem-Spray South, Inc.
 City Lights Electrical Co., Inc.
 Coastal Amphibious Services, Inc.
 Comensura, Inc.
 Crafton Tree Service
 Croman Corp.
 Custom Lock & Key, Inc.
 CW Wright Construction Co., Inc.
 Davey Resource Group
 Davey Tree Expert Co.
 Davis H. Elliott Co.
 Construction Inc.
 Dillard Smith Construction Co., Inc.
 E&R Inc.
 ECI
 ElectriCom Inc.
 Erickson Air-Crane Co.
 Ertel Construction, Inc.
 Express Personnel Services
 Finway Inc.
 Flowers Construction, Inc.
 Freedom Aviation, LLC
 G&G Electric
 Gayco Electric, Inc.
 GE Energy
 Global Business Solutions
 Gohelitrans
 Great Lakes Power & Pipe, Inc.
 Great Southwestern Construction, Inc.
 Gregory Electric Co., Inc.
 Gulf Coast Sand Products, Inc.
 H&B Construction Ltd.
 Halter Tree Service Inc.
 Hawkeye Electric
 Haynes Electric Utility Corp.
 Hendrix Electric, Inc.
 Henkels & McCoy, Inc.
 Higher Ground Electric Co.
 Highlines Construction Co., Inc.
 Hooper Corporation

Hydaker-Wheatlake Company
 Industrial Power & Lighting, Inc.
 InfraSource
 Irby Construction Co.
 JF Electric Inc.
 JRE, Inc.
 Just Engineering & Inspection Services
 JW Didado Electric, Inc.
 KDM Construction, LLC
 Kent Power, Inc.
 Killen Contractors, Inc.
 Kohler Construction, Inc.
 Lawrence Electric Co.
 Lee Electrical Construction
 LE Myers Co.
 Lewis Tree Service, Inc.
 M&M Electrical Contractors, Inc.
 Magnolia Tree Service
 Mastec
 MDR Construction, Inc.
 Mercury Aviation, Inc.
 Michels Power
 Midwest Electric, Inc.
 Midwest Helicopter Airways, Inc.
 Midwestern Powerline of Florida, Inc.
 Miller Construction Co., Inc.
 MJ Electric Inc.
 Nelson Tree Service, Inc.
 New River Electric Corp.
 NG Gilbert Corp.
 NIROW, Inc.
 North Houston Pole Line, LP
 Onyx Special Services, Inc.
 Osmose Utilities Services, Inc.
 Over & Under Contractors, Inc.
 Panther Helicopter, Inc.
 PAR Electrical Contractors Inc.
 Penn Line Tree Service, Inc.
 Pieperline & Donovan Construction

Pike Electric Inc.
 Quality Lines, Inc.
 R/S Electric Corp.
 Richardson-Wayland Electrical Corp.
 Rocks Lawn Care
 Serco Management Services, Inc.
 Shaw Energy Delivery Services, Inc.
 Shelton Construction & Service Co.
 Southern Cross Corp.
 Southern Electric Corp.
 Southern Helicopters, Inc.
 South-Win, Inc.
 SPE Utility Contractors, LLC
 Sturgeon Electric Co., Inc.
 Sumter Utilities, Inc.
 Sunland Kori Services, Inc.
 Synergetic Design, Inc.
 TESSCO
 Tesso Utility Services, Inc.
 Texas Electric Utility Construction, Inc.
 The Energy Group, Inc.
 The Fishel Company
 Thiro USA, Inc.
 Thompson Electric Inc.
 Townsend Tree Service
 Trees, Inc.
 Utility Line Construction Service, Inc.
 Utility Support Services
 W.A. Kendall & Company, Inc.
 Welsbach Electric Corp.
 West Tree Service, Inc.
 Wil Co. Marsh Buggies
 Williams Electric Company
 Wilson Marsh Equipment Co.
 Woodson Inc.
 Zaval-Tex Construction Co.

On August 29, Hurricane Katrina literally blew apart thousands of lives and much of our infrastructure in Louisiana and Mississippi with strong winds and severe flooding. Twenty-six days later, Hurricane Rita stormed ashore at the Texas-Louisiana border, inflicting massive property damage to the surrounding region. It added up to two storms, billions of dollars in damage, and countless acts of ingenuity, skill, and bravery by our employees in the service of our customers.



Satellite images courtesy of the Naval Research Laboratory, Monterey, CA

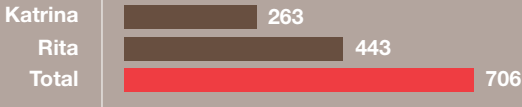
Customer outages
in millions



Generation units offline



Transmission substations out



Distribution poles destroyed





becoming more

Our darkest moment. Our finest hour. It's hard to imagine a scenario more catastrophic than the actual events of last year. It's equally hard to imagine a response more inspiring than that delivered by our exceptional employees.

At Entergy, we pride ourselves on our customer service, our safe and efficient operations, our well-maintained infrastructure, and our thoughtful plans and strategies. We believe our employees are well-prepared and capable of responding to whatever comes our way – whether it's an abrupt change in market conditions or weather.

In 2005, two storms unprecedented in strength and size tested our company and our employees to their very limits. Not only did our employees respond brilliantly, they demonstrated the enormous potential

flooding in New Orleans left the city and our headquarters offices uninhabitable.

When the storm passed, our employees began the arduous work of restoring power. As a company, we worked through the issues – no communications capability, fuel shortages, severe flooding, and security threats. As individuals, many of our employees also dealt with overwhelming personal loss – families split apart, homes damaged or destroyed, and in too many cases the loss of a loved one. Thanks to their focus, commitment, and hard work, in just 16 days, we had restored power to 85 percent of customers who could take power in their homes and businesses. Then, on September 24 came Rita.

Making landfall in Sabine Pass, Texas, Hurricane Rita caused massive damage to our

“We are proud to serve with these people – our employees, our heroes.”

– *Wayne Leonard, Entergy CEO*

that exists in each of us when called upon to serve a cause that is right and dear to our hearts and minds.

CATASTROPHE TIMES TWO

On August 29, Hurricane Katrina stormed ashore near Buras, Louisiana, southeast of New Orleans. A strong Category 3 storm of unprecedented physical size, Katrina leveled much of a 400-mile section of coastline stretching from central Louisiana, across Mississippi, into Alabama and western Florida; and devastated the city of New Orleans. With damage estimates topping \$75 billion, Katrina ranks as the costliest natural disaster in U.S. history; and with more than 1,300 lives lost, it was also one of the deadliest. More than one million of our customers in Louisiana and Mississippi lost power and extensive

infrastructure in Louisiana and Texas – knocking 14 generation units offline and damaging more than 3,800 miles of transmission lines. More than 800,000 customers lost power.

When the storm passed, our employees – exhausted both mentally and physically – were faced with another enormous restoration effort and a wholly different set of issues. All transmission connections from Louisiana west to Texas were severed, making restoration much more difficult. In addition, several refineries with an aggregate capacity of 2.27 million barrels of crude oil per day lost power. Considered vital to the U.S. economy, restoration was urgent and had to be coordinated with each customer as well as the Departments of Energy and Homeland Security.



Randy Helmick (left), Vice President of Transmission and our official “storm boss”, led our storm restoration efforts with outstanding results. He is congratulated here by Bob Luft (right), Chairman, and Wayne Leonard (center), Chief Executive Officer.

“Despite the obstacles, Entergy...

Through extraordinary efforts and genuine creativity and innovation, 13 days after Rita’s landfall, 85 percent of customers who could take power had power.

The heroic efforts of our employees – and the huge number of outside workers who came to our assistance – are impossible to truly put into words. Even as they struggled to put their personal lives back together, they gave everything they had in the service of our customers. Randy Helmick, vice president of transmission and our official “storm boss”, led the restoration efforts with outstanding results.

Our employees repaired more than 75,000 miles of transmission lines and distribution circuits; handled more than 3 million calls; coordinated, clothed, housed, and fed more than 23,000 workers; restored critical IT systems so all employees were paid on time; and coordinated the redeployment of our headquarters offices and 1,500 headquarters employees. Our employees performed thousands of individual acts of courage and ingenuity that made our darkest moment truly our finest hour.

We are gratified by the appreciation and recognition our response received from the media, local regulators and officials, and most importantly, our customers. Without question, Entergy emerged from the trials of Katrina and Rita an even more responsive, prepared, and vigilant company.

FINANCIAL RECOVERY

Even as the physical restoration began to wind down, we faced an enormous financial recovery. We incurred restoration costs for Hurricanes Katrina and Rita of approximately \$1.5 billion, just over half of which was paid in 2005. This cost estimate does not include other storm effects such as estimated lost net revenue, uncollectible utility customer receivables, and the longer-term accelerated replacement of the gas distribution system in New Orleans. Based on standard, long-accepted, and applied regulatory principles, these costs should be recoverable in the retail ratemaking process. That is a well-settled principle of law, reinforced by historical practices. The company’s preparation for and response to the hurricanes and their aftermath has been in our view,

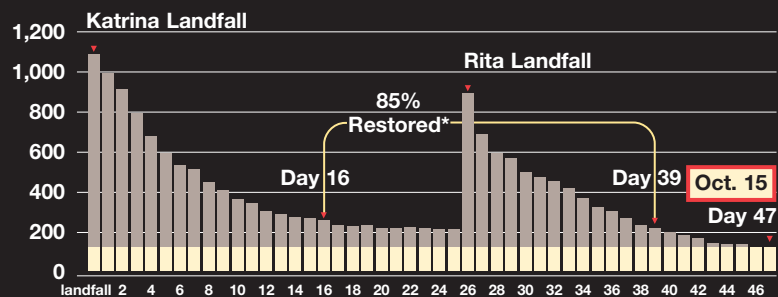
prudent under the circumstances. Although storm costs should be recoverable in rates, we do have as a primary objective that rates are both “just and reasonable.” Given the fact we serve some of the poorest communities in the country, maintaining “reasonable” rates in the aftermath of this catastrophe will test not only our effectiveness and efficiency as operators, but also our creativity and resolve as managers. We have pursued several initiatives to recover these costs through various sources and to maintain affordable rates while restoring our liquidity to its pre-hurricane position. While we are encouraged by the response we have received, our efforts continue along multiple fronts.

- Insurance is one avenue for cost recovery, and we expect it to cover a portion of our losses related to our generation assets and gas distribution properties. Losses related to transmission and distribution assets, representing roughly 80 percent of our restoration costs, are generally uninsurable.
- We continue to seek federal relief from Congress – a combination of Community Development Block Grants and tax benefits, as well as other federal relief. In late 2005, the Gulf Opportunity or GO Zone legislation and the Katrina Relief Bill were passed by Congress and signed into law. The GO Zone legislation permits public utilities to accelerate the realization of tax benefits for Hurricane Katrina casualty losses and repair costs. The Katrina Relief Bill provides \$11.5 billion of Community Development Block Grants and includes language that permits funding for infrastructure restoration. The Department of Housing and Urban Development has already allocated specific amounts to each of the states affected by Hurricanes Katrina, Rita, and Wilma and those states are responsible for administering the actual grants. We intend to pursue CDBG funding in Louisiana, Mississippi, and Texas, and we are working with state leaders on behalf of our customers to make the case for federal assistance through support of the operating companies in the affected areas. To be clear, these monies, if made available to utilities, are not a “shareholder” or “lender” bail-out but go directly to reducing rates that customers would otherwise struggle

In Hurricanes Katrina and Rita, we faced the highest number of customer outages in our company’s history. Thanks to the tireless efforts of thousands of workers, power was fully restored to all customers who could accept power in just 47 days.

Customer outages by day
in thousands

■ **Return to Service Customers**
■ **Extended Outage Customers**



* Percent of customers who can take power (“Return to Service Customers”)

by most accounts, exceeded expectations.”

– USA Today

to afford. We are still working at the federal level to create additional opportunities to recover our storm costs so that we can continue to serve our customers in the manner they deserve and at rate levels that encourage and promote continued development and restoration.

- At the state level, we have made filings to request interim recovery of nearly \$600 million of storm costs in Louisiana and Mississippi. And in Texas, the public utility commission has initiated a project to review exceptional storm damage costs caused by Hurricane Rita. We are also working with state regulators to possibly securitize our restoration costs – essentially spread the impact on rates over an extended period by accessing low-cost financing sources. Through securitization, we could recover our costs on a timely basis while our customers would benefit by incurring a smaller rate increase on their utility bills over a longer timeframe.

While we continue to pursue recovery initiatives, we also executed a comprehensive financing plan at the end of 2005, consisting of debt and equity units, to restore our financial flexibility. The plan gives us the financial capacity to meet current, as well as unexpected calls on our cash position, solidifies our credit ratings, and provides the flexibility to get the company back on the path it was on prior to the storms.

In fourth quarter 2005, we completed a new \$1.5 billion corporate revolver for our parent company, issued \$500 million of operating company debt, and marketed \$500 million of equity units. In addition, we infused \$300 million of equity into Entergy Gulf States – our subsidiary with the highest overall restoration costs – enabling it to maintain its liquidity and investment grade credit rating in anticipation of obtaining some form of cost recovery.

As our recovery initiatives progress and liquidity rises, we believe that unwinding our financing plan could be effected easily and at a reasonable cost. However, in the short term, we believe combining our cost recovery efforts with a comprehensive financing plan is highly consistent with the aspirations we have previously outlined

– to reliably serve our customers and deliver top-quartile shareholder returns – while keeping our overall risk profile on solid footing.

WHAT OF NEW ORLEANS?

While most of our service territory is on the road to recovery, the city of New Orleans is in a different situation. Extensive flooding from breaches in the levee system left much of the city uninhabitable. At the end of 2005, roughly two-thirds of the city’s population had not yet returned and when or if they will return is a very open question.

With the reduced population, the load level for Entergy New Orleans stands at approximately sixty percent of its pre-Katrina levels – essentially stranding much of the fixed costs in a system designed to serve a larger load. Even without the storm restoration costs, rates for this much reduced customer base would have to substantially increase to cover the costs of providing power. Add in the storm costs and customers could, in the absence of outside assistance, insurance proceeds, and severe cost cuts, face a roughly 140 percent rate increase – clearly unacceptable.

Given this difficult situation and the extreme liquidity constraints placed upon it, Entergy New Orleans took a necessary step on September 23, 2005 of filing a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. To ensure restoration efforts continued uninterrupted, we also filed a simultaneous motion for debtor-in-possession financing that would permit Entergy Corporation making loans of up to \$200 million to Entergy New Orleans. To date, debtor-in-possession loans of \$100 million have been made to Entergy New Orleans. In a major development, on December 7, 2005, the bankruptcy judge granted our request that Entergy Corporation’s debtor-in-possession financing prime all existing debt, including Entergy New Orleans’ first mortgage bondholders. In effect, Entergy New Orleans now has first claim on all property, plant, and equipment plus post-bankruptcy petition acquired assets, including insurance proceeds. This action by the bankruptcy court strengthens Entergy’s hand in trying to rebuild the Entergy New Orleans system.

A R E V I E W O F

< OUR ASPIRATIONS >

Even with the massive disruption we experienced last year, our long-term aspirations remain intact. Our progress against our aspirations was not as consistent in 2005 as in years past for obvious reasons. Yet we report our progress here in the spirit of always striving to do better, which is in fact what our aspirations are all about.

ASPIRATIONS

PROGRESS IN 2005

Entergy will be the consistent industry leader in total shareholder return.

Extensive storm damage and restoration costs had a negative impact on total shareholder return in 2005. We are working hard to quickly regain the ground we lost so that we are once again a leader in creating value for our shareholders.

Entergy will be recognized as an environmental leader, not only in generation, but among all U.S. industrial companies, and will demonstrate the advantage of environmental excellence in achieving financial results.

We continue to set and meet voluntary standards to stabilize CO₂ emissions from our generating facilities and strive to meet or beat all environmental standards. For the fourth year in a row, Entergy was named to the Dow Jones Sustainability Index.

Entergy will be one of five or fewer key owner/operators in a highly consolidated nuclear industry – the best of the best – who operate safe, secure, low-cost plants, and we will be demonstrating new nuclear technologies that produce far greater value.

We improved nuclear production costs for our Northeast fleet and see opportunities to improve productivity further. We always put safety first and seven of our nuclear sites have achieved OSHA VPP Star status – the highest industrial safety rating for a work site.

Entergy's utilities will be recognized for industry-leading satisfaction, and for a comprehensive approach to meeting the particular needs of low-income customers.

Our employees delivered a heroic storm recovery effort in 2005 – restoring power to all customers who could accept power in just 47 days. We maintained our focus on our low-income customers, establishing new policies to assist customers in need during times of crisis and raising \$1.4 million in Customer Assistance Funds.

Entergy's goal of an accident-free work environment will be internalized as more than an "aspiration." Nothing less is good enough.

Even taking the effects of the storm into account, our safety performance in 2005 was disappointing. We had one employee fatality and an increase in lost-time accidents. We will take the lessons we learned in 2005 to build a safe work environment – there can be no more important goal than this.

As prudent stewards of our shareholders' money, given the uncertainty surrounding the future of New Orleans, we cannot and will not fund Entergy New Orleans' shortfall indefinitely. No law or agreement exists that would force the company to continue to provide service at a loss. We continue to work with the federal government, and state and local regulators to resolve the bankruptcy in a manner that allows its customers to be served by a financially viable entity as required by the law.

We are also redefining our corporate headquarters. Previously we had 1,500 employees and multiple functions operating out of the city of New Orleans. Given the failure of the levees to withstand Category 3 hurricane strengths and the time required to reinforce and redo or redesign and rebuild the levee system, we are assessing the various alternative locations for critical business continuity functions in order to lessen the risk posed by any single event. Like everyone, we learned many lessons from the events of 2005 and identified many opportunities to reduce our risks from uncontrollable events. The reconfiguration of our headquarters is one that we intend to pursue in 2006.

2005 FINANCIAL RESULTS

The excellent emergency response and operating performance delivered by our employees in 2005 is reflected in our financial performance. In spite of the severe impact of the two hurricanes, as-reported earnings were \$898.3 million, or \$4.19 per share, in 2005, compared to \$909.5 million, or \$3.93 per share, in 2004. Operational earnings were \$943.1 million, or \$4.40 per share, compared to \$879.5 million, or \$3.80 per share, in the prior year.

While the impact of the hurricanes depressed earnings at our utility business in 2005, we still saw an overall improvement in operational earnings – up 16% on a per share basis over 2004 – primarily from the result of strong contributions from our competitive businesses and accretion from our share repurchase program.

Entergy Nuclear delivered excellent results throughout 2005, largely due to higher contract pricing, higher generation, and lower operating and maintenance expense. Nuclear operational initiatives were implemented effectively and efficiently in 2005 despite the huge distraction of storm restoration – further testimony to the depth and strength of our nuclear team.

With the passage of the Energy Policy Act of 2005 and its incentives for new nuclear unit construction and operation, NuStart – a consortium of industry leaders – announced it had selected Grand Gulf as one of two sites to pursue a Construction and Operating License, a COL. Separately, we are pursuing an Early Site Permit for Grand Gulf and a COL for our River Bend site. In our point of view, nuclear remains the only economically viable and technically proven source for the large scale needs for clean, affordable power and we plan to preserve our opportunities to pursue the avenues presented in the new Energy Policy.

Finally, our non-nuclear wholesale assets business delivered improved results in 2005 due to the sale of SO₂ allowances that were freed up as a result of our strong environmental programs and leadership. Some of the generating assets in this business have operating attributes that produce excess allowances, which we are periodically able to monetize.

While we had repurchased more than \$1.1 billion of outstanding shares as part of our \$1.5 billion share repurchase program, we halted our repurchase activity following Hurricane Katrina. Prior to that, we had expected to complete our repurchase program by the end of 2006. Instead, our Board of Directors extended the program ending date into 2008 so that we may continue to return available cash to our shareholders once our financial flexibility is restored.

In 2005, we also welcomed three new members to our Board of Directors – Gary W. Edwards, Stuart L. Levenick, and W. J. “Billy” Tauzin. Their collective experience spans a wide range of industries as well as public service and our

While the impact of the hurricanes depressed earnings from our utilities in 2005, we still realized an overall 16% increase in operational earnings on a per share basis versus 2004 due to strong contributions from our competitive businesses and accretion from our share repurchase program.

Earnings per share
in dollars



“Entergy... has been given high

company will greatly benefit from their expert insights and knowledge. We would like to thank two departing Board members – Claiborne P. Deming and Kathleen A. Murphy – for their exceptional leadership. We appreciate their many contributions and wish them well in their future endeavors.

RECLAIMING LOST GROUND

We come out of the tests of 2005 more determined than ever to be the best-in-class at safely providing clean, reliable, and affordable power to our customers. Financially, we realize we lost ground in 2005 and we will take measured steps to not only make it up, but return to where we would have been if Katrina and Rita had never hit.

- In our utilities, we expect in 2006 to have hurricane regulatory recovery mechanisms in place, a decision on our request for federal relief, and a clear line of sight on a resolution for Entergy New Orleans. By 2007, we expect our utility business to be back on track.
- In our nuclear business, we continue to see strong upside potential for efficient nuclear generators which can deliver reliable power. Faced with the alternative supplies from expensive natural gas-fueled plants, our nuclear business continues to enter into new contracts with attractive pricing for both new and existing customers and to generate excellent results. As we did in 2005, we will adjust our hedging strategy to enable us to take measured market risks going forward and to conform to our dynamic point of view on market pricing for natural gas or other alternative fuels. In addition, we continue to assess opportunities to broaden our nuclear portfolio. We will act only when we find opportunities that are fairly priced and leverage our existing asset base and operational expertise.
- One strategy that was significantly impacted by the events of 2005 is our plan to return cash to our shareholders. With the unexpected drain on our liquidity, we were forced to halt our share repurchases and forego any increase in our dividend level. As we restore our financial flexibility, we will consider making

more aggressive changes – like a step increase in our dividend or accelerated share repurchases, for example – to make up the ground we lost in this area.

Even with the massive disruption we experienced last year, our long-term aspirations remain intact. As we move to make up lost ground, the choices we make will be guided by our long-term aspirations. For example, we will continue to make investments that improve our customer service and reliability, the safety of our operations, our impact on the environment, and our cost position.

THE MOST IMPORTANT WORDS OF ALL

All of us who survived the devastation of Hurricanes Katrina and Rita – whether young or old, rich or poor, strong or weak – have come to appreciate the significance of two simple words: “thank you.” You survive an event of this magnitude only through the help of others. At Entergy, we have many to thank.

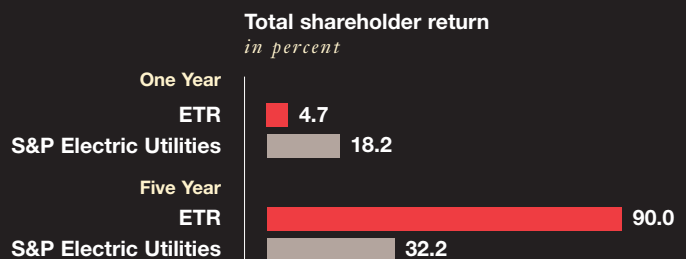
First, always first, we thank our employees for their courage and dedication under unbelievable hardship. Their individual stories were often a source of inspiration during some of the darkest moments. We are proud to serve with these people – our employees, our heroes.

We thank others in our industry for the massive assistance provided to restore power following the storms. We thank our suppliers and business partners for the support they generously gave.

We thank all of you for the time, goods, and money you donated following Katrina and Rita. Firefighters from around the country, volunteers in local shelters, churches that gathered needed goods, and the millions of Americans who gave to the relief efforts – your help made a tremendous difference.

We especially thank those who contributed to the Power of Hope Fund. With a \$1 million contribution from Entergy Corporation, we established the Power of Hope Fund in September 2005. Contributions to the Fund – whose purpose is to help disaster victims rebuild their lives following the storms – reached nearly \$4 million. By the

Extensive storm damage and restoration costs had a negative impact on total shareholder return in 2005. We are working hard to quickly regain the ground we lost so that we are once again a leader in creating value for our shareholders.



marks for its initial response.”

– *The New York Times*

end of 2005, \$1.8 million had been awarded to more than 2,200 individuals and families – including 293 Entergy employees – all thanks to your generous contributions.

TURNING LOSS INTO OPPORTUNITY

The costs of Katrina and Rita are too large to fully measure. Lives lost, families scattered, property damaged or destroyed – it’s difficult to truly comprehend the magnitude of the loss. Yet we – as a company and as individuals – have come through this experience stronger in many respects.

We learned ways to improve our safety practices and we will continue to relentlessly focus on safety until we can perform every job without accident or loss of life. We gained a greater appreciation for the improbable and will develop new strategies to mitigate risk throughout our organization. We learned much about how to respond to overlapping catastrophic events that we will incorporate in our future planning and preparations.

Most importantly, we came to appreciate that building a diverse culture where everyone is valued and feels appreciated is an investment that never fails. We will build on that culture with the limitless individual human potential to do better what we do best – safely generate clean, reliable, affordable power for our customers.

We can use the experiences of 2005 to build a stronger Entergy. And that is just what we are doing.

Robert v.d. Luft
Chairman

J. Wayne Leonard
Chief Executive Officer

A R E V I E W O F

< SAFETY >

SAFETY DEFINES OUR SUCCESS. PERIOD.

Of all the bad news we experienced last year, the worst was the loss of six lives – one Entergy employee and five fellow industry employees – in the service of our customers. Three of these fatalities occurred during storm restoration efforts. Nineteen of our employees and 35 contractors experienced a lost-time accident in 2005 – far too many. Again, a substantial number occurred during storm restoration, but that is no comfort or excuse.

Nothing good ever comes out of an accident unless it means future accidents or injuries are prevented. By the nature of our business, the margin for error can be very small. Yet we firmly believe that every accident is preventable. Since people make mistakes, accepting the idea that every accident is preventable means every person has a responsibility to look out for every other person. Our employees understand and accept that responsibility.

We have set a company-wide goal of an accident-free work environment and we are developing system-wide solutions to meet our goal. In 2006 and beyond, we will continue to re-examine our procedures and re-double our focus on safety.

267049173

expecting the unexpected

solving for



Taking the Test of a Lifetime

Our mission is to safely provide our customers with clean, affordable, and reliable power. We do this through our utilities and our nuclear business – both businesses where we believe we have the strategies, organization, and talent to be the best-in-class.

We use market knowledge and sophisticated analysis to develop fundamental points of view on the many issues that shape our industry. We operate our businesses in conformance with those points of view, adapting as conditions change. Each year we invest in our infrastructure and enhance our processes in order to improve our performance on key measures like customer service and reliability, operating efficiency, safety, and environmental impact.

Since we live in an imperfect world, we plan and prepare for contingencies and disasters. We run scenarios, conduct drills, and test response procedures. We are experienced in emergency restorations, having won either the Edison Electric Institute Emergency Assistance Award or Emergency Response Award for eight consecutive years – every year that the awards have been offered by the association. Entergy is the only utility in the nation to have done so.

All of this to say, our operations are well-run. Our infrastructure is well-maintained. Our people are talented and experienced. As a company, Entergy is prepared. Yet we learned in 2005 that nature has the power to test the very limits of even the most prepared among us.

KATRINA

It began on August 23rd with a tropical depression – the twelfth of the season – in the southeastern Bahamas that would become Hurricane Katrina.

As the storm later crossed southern Florida in just seven hours and gathered strength in the Gulf of Mexico, we began pre-staging crews and supplies to prepare for a hit on the Gulf Coast.

On Sunday morning, August 28th, Katrina reached maximum wind speeds of more than 170 mph – a massive Category 5 storm of unprecedented size that threatened much of Louisiana and Mississippi as well as surrounding states.

AUGUST 29

In the early morning, Katrina barreled ashore near Buras, Louisiana, about 60 miles southeast of New Orleans. It caused incredible destruction with 125 mph winds at its core and tropical storm force winds reaching along the coast from central Louisiana, across Mississippi and Alabama to western Florida. Roughly 90,000 square miles were affected by Katrina – an area approximately the size of Great Britain. Winds caused extensive damage to southeastern Louisiana and the Mississippi Gulf Coast. The city of New Orleans survived the initial hit with only moderate wind damage. Then came the storm surge.

With the third lowest barometric pressure ever recorded in a U.S. hurricane, Katrina brought a massive storm surge that caused extensive flooding. In New Orleans, the levee system that protects the city from Lake Pontchartrain and the Mississippi River was breached. Water from the lake drained into the city, flooding at least 80 percent of the greater New Orleans area, causing widespread devastation, and rendering the city and our headquarters offices uninhabitable. As of 4 p.m., 990,000 Entergy customers were without power, by far the largest number in the company's history.

Even before the storm hit, our storm restoration team began to implement its plan of action. More than 4,000 line workers were standing by to begin the arduous work of assessing and repairing damage. Led by Randy Helmick, our “storm boss” and vice president of transmission, the team remained in constant contact with other utilities and contractors to call in additional assistance as needed. Restoration work began later that night and power was restored to customers in areas not severely damaged by Katrina.

AUGUST 30

At 5 a.m. customer outages peaked at nearly 1.1 million customers spread across Louisiana and Mississippi – more than quadruple our previous record of customer outages.

Electric companies from West Virginia to Michigan rushed to provide crews. Support teams worked to set up staging areas to accommodate the thousands of workers that would eventually help restore power. Workers would be fed, lodged, and provided the necessary equipment, vehicles, fuel, and medical care if needed.

In all areas that were not flooded, restoration work began. Following a well-tested plan, crews began restoring power to essential customers first, like hospitals, police, fire, communications, water, sanitary services, and transportation providers. Employees from all parts of our company staffed the phones to answer calls and we maintained frequent contact with the news media to keep our customers as informed as possible.

Areas in southeastern Louisiana remained flooded with several feet of water, especially New Orleans. Entergy crews did whatever they could to help the situation in spite of floodwaters and



“Entergy workers made their first foray into New Orleans...”

security threats. Restoring power to the City’s Command Center in the Hyatt Hotel and the Port of New Orleans was top priority but would take days to accomplish.

SEPTEMBER 1

Assessments of the transmission system were largely complete and revealed extensive damage. In total, 263 substations, 3,000 miles of transmission lines, 28,500 miles of distribution circuits, and 17,400 utility poles were damaged.

More than 9,000 line and support workers were committed to power restoration efforts. As of 4 p.m. service had been restored to more than 275,000 customers.

We announced the formation of our Business Continuity Team to get our company back on its feet. The team moved quickly – getting vital systems like payroll back online, establishing support resources for displaced employees and their families, and determining housing and workplace facility needs. One of their biggest tasks was finding housing, schooling, and day care options for employees and their families from the Greater New Orleans area. Within days, the team had secured temporary headquarters facilities in Clinton, Mississippi.

The decision was made to suspend all disconnect procedures and notices and work out payment plans with individuals with high past-due balances. These policies would later be recognized by national consumer groups as model policies for assisting low-income customers during times of crises.

SEPTEMBER 3

With a \$1 million contribution, Entergy established The Power of Hope Fund at the Foundation for the Mid South to help disaster victims restore their lives. The much-needed assistance would be available for Entergy employees, families, and others impacted by Hurricane Katrina.

SEPTEMBER 4

The halfway point. We had restored power to more than 541,000 homes and businesses, more than half of the nearly 1.1 million customers left without power after Katrina. Approximately 550,000 outages remained – mostly in Louisiana. Large areas of New Orleans remained underwater, making damage assessment difficult and full restoration impossible.

SEPTEMBER 7

Entergy Gas Operations continued the dirty and dangerous work of assessing and repairing the gas system in New Orleans. While crews worked in the French Quarter, Algiers, and Uptown, other areas remained flooded and inaccessible. Since landfall, crews had worked diligently to preserve gas flow to the New Orleans Sewerage and Water Board to enable power generation for the drainage pumps needed to pump water out of flooded areas in the city.

SEPTEMBER 20

Power was restored to more than 874,000 customers, thanks to the relentless effort of thousands of workers. All customers in Mississippi had power and all other customers who could accept power were expected to be restored within two weeks.

While much of the restoration effort was complete, massive work remained in New Orleans, involving reconstruction of the system. Some 123,000

a glimmer of encouragement in the vista of despair.”

– *The New Orleans Times-Picayune*

customers in the most devastated areas in and around New Orleans remained unable to accept electric or gas service.

Meanwhile, near the Florida Keys, Tropical Storm Rita reached hurricane strength and moved westward into the Gulf of Mexico.

SEPTEMBER 21

Wind speeds of 175 mph made Hurricane Rita the second Category 5 storm of the 2005 U.S. hurricane season – the first time that has happened in recorded history. Exhausted workers – both support teams and linemen – began preparations for Rita. Eventually, more than 4,000 people were recruited and committed for response and plans made for locating command centers and staging sites.

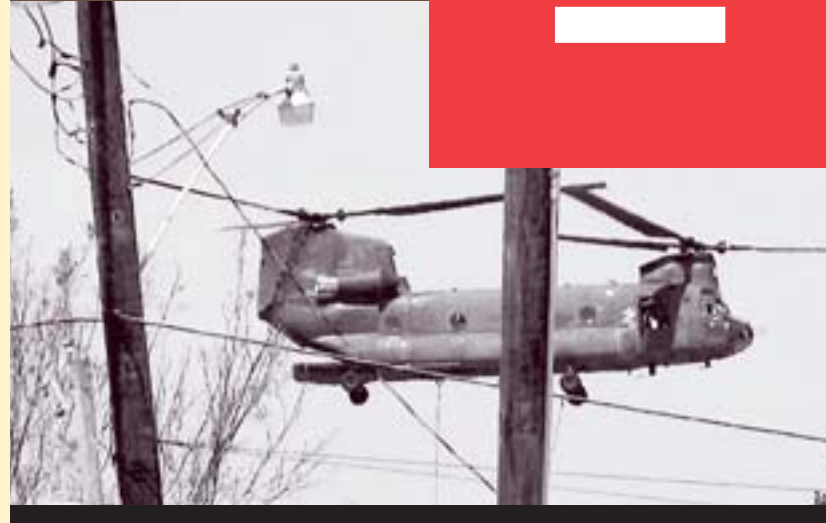
SEPTEMBER 23

Entergy New Orleans, Inc. filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. To ensure the restoration of New Orleans continued uninterrupted, a simultaneous motion was filed for approval of debtor-in-possession financing to be provided by Entergy Corporation to Entergy New Orleans to support its restoration and continuing operations. Entergy Corporation has been authorized by the court to make debtor-in-possession loans up to \$200 million to Entergy New Orleans for these purposes and it has to date loaned \$100 million.

In a letter of support, the City Council of New Orleans stated that any long-term solution that provides for a financially viable utility at Entergy New Orleans and protects customers from the massive restoration costs they can ill afford to pay, must involve a substantial federal financial commitment.

Continued on page 18

Determination



On September 2, a mounting fuel crisis prompted a high-priority mission to repair a transmission tie to a fuel depot in Collins, Mississippi. Located in Louisiana marshlands, repairs to the transmission facilities required cutting a two-mile road through dense forest and using a Chinook helicopter provided by the Mississippi National Guard to airlift three existing transmission structures from dry ground into the marsh. A team of 120 Entergy employees and contractors completed restoration on September 10 – resolving a fuel supply crisis that was hampering restoration efforts throughout Mississippi.



When do

30,000



function as

Continued from page 15

RITA

At 2:30 a.m. on September 24, Hurricane Rita hit the Gulf Coast, just east of Sabine Pass, Texas, near the Texas-Louisiana border, with wind speeds of 120 mph. Hurricane force winds were sustained more than 150 miles inland and tropical storm force winds were felt as far north as the Arkansas border. At landfall, the storm surge reached 15 feet, flooding coastal towns across the border region.

In New Orleans, the storm surge topped eight feet, breaching temporary repairs to levees damaged by Hurricane Katrina. Some flooding occurred in the city, though much less than that caused by Katrina.

As of 2 p.m., 611,000 customers in Louisiana, Texas, Arkansas, and Mississippi were without power due to Rita. More than 7,000 linemen and support workers began the restoration effort.

SEPTEMBER 25

Assessments revealed that Rita caused extensive damage to infrastructure in Texas and Louisiana. Fourteen generation units were damaged and taken off-line. More than 3,800 miles of transmission lines and 443 substations were knocked out of service. More than 43,800 miles of distribution circuits were out and nearly 11,500 distribution poles were down. All transmission connections from Lafayette, Louisiana west to Conroe, Texas were severed.

At peak outages, more than 800,000 customers were without power due to Rita. Three days of rolling blackouts began for 142,000 customers in Texas.

Restoration efforts grew to include approximately 13,000 tool workers from 33 states and 4,500 support personnel. Temporary solutions were implemented that took great ingenuity and skill. For example, for 23 days, a 119 MW load was served from the ERCOT grid for the first time ever.

WEEK OF OCTOBER 3

Transmission paths were established to seven of the ten refineries Entergy serves in the Beaumont/Port Arthur, Lake Charles, and New Orleans areas. Power outages at these refineries – whose aggregate capacity is more than 2.2 million barrels per day – caused a major disruption in U.S. fuel supplies. In a high priority effort, the restoration team remained in constant contact with each of these customers, ready to provide power to meet site-specific start-up schedules. Service was also restored to two Department of Energy Strategic Petroleum Reserve sites.

OCTOBER 15

Forty-seven days and two hurricanes later, restoration of service was completed. All customers who were able to accept power had power. In total, more than 30,000 linemen and support workers had been deployed in one of the largest hurricane restoration efforts in U.S. history.

As out-of-state workers headed home, many Entergy employees realized fully for the first time that they had no home left. After nearly two months of exhausting, non-stop emergency response, our company and our employees began the work of rebuilding our business and our lives.

RECOVERY: A COMPLEX EQUATION

While additional restoration work remained, particularly in the hard-hit areas of New Orleans, efforts shifted at the end of 2005 to recovery. Entergy came through the storms intact and in many respects stronger than before. Yet there were lives to be rebuilt, costs to recover, and financial reserves to restore.

Together, Hurricanes Katrina and Rita caused power outages across approximately 120,000 square miles in Louisiana, Mississippi, and Texas, impacting our entire service territory.

Service territory outages
in thousands of square miles



REBUILDING LIVES

Our employees took a huge personal hit when Katrina and Rita struck. Homes were lost and families split apart. Life, as many employees knew it, simply no longer existed. Instead, people found themselves working in unfamiliar locations and living in temporary housing. Even those with homes to go back to faced extensive repairs and extended wait times for building supplies and contractor services. Our employees were confronted with conditions that were at the very least difficult and distracting and, at worst, debilitating.

As a company, we stepped up to help. The Power of Hope Fund, established with a \$1 million contribution from Entergy shortly after Katrina struck, received nearly \$4 million in contributions in 2005. By year-end, the fund had awarded \$1.8 million to more than 2,200 individuals and families who suffered losses in Katrina and Rita. Among the recipients were 293 Entergy employees.

We also launched Operation ReStore Hope in the midst of the restoration effort. At centers in Jackson, Little Rock, Beaumont, and Baton Rouge, and through an online store, employees received donated goods ranging from clothes to bedding, furniture, toiletries, and baby items. The donations were generously made by other employees and retirees. In addition, employees could search the Operation ReStore Hope web site for critical information such as the location and availability of emergency or temporary shelters.

More than anything, we realize that rebuilding lives will take time and energy. We are committed to supporting our employees with the resources and understanding they need, as they continue their personal recoveries from the storms.



“Entergy is doing a fantastic job

RECOVERING PRUDENTLY INCURRED COSTS

Costs associated with the storm restoration efforts total approximately \$1.5 billion. These estimated costs do not include other storm effects such as estimated lost net revenue, uncollectible utility customer receivables, and the longer-term accelerated replacement of the gas distribution system in New Orleans. Even as our restoration teams were working to get the power back on for every customer possible, others were pursuing multiple cost recovery initiatives in order to minimize the storms’ impact on our customers’ electric bills.

Insurance is one avenue for cost recovery. Coverage is generally not available for transmission and distribution assets – wires and poles. However, we do expect to recover some costs through coverage of our generation and gas system assets. Repairs to these types of assets represent nearly 20 percent of our total restoration costs. We expect partial payments from our insurers to begin in early 2006.

We are also pursuing cost recovery on the federal front. We have met repeatedly with members of Congress and the Bush administration to create opportunities for federal support. Given that our service territory covers some of the poorest parishes and counties in the U.S., making our customers pay the full cost of this natural disaster is, we believe, both unrealistic and inappropriate.

In late 2005, several opportunities emerged on the federal front for cost recovery. Congress passed and the President signed into law the Gulf Opportunity or GO Zone legislation which permits public utilities to accelerate the realization of tax benefits for Hurricane Katrina casualty losses and repair costs. Congress also passed and the President signed into law the Katrina Relief Bill – providing \$11.5 billion of Community Development Block Grants for states affected by Hurricanes Katrina,

Rita, and Wilma. Language in the bill permits funding for infrastructure restoration – funding that we intend to pursue in Louisiana, Mississippi, and Texas.

We continue to work at the federal level to create additional opportunities to recover our storm costs. We believe federal assistance is warranted to ensure our customers receive the service they deserve at rate levels that are both affordable and supportive of continued development and restoration.

At the state level, we can pursue cost recovery through special provisions in the formula rate plans that are currently in effect in Louisiana, Mississippi, and New Orleans. Our rate plans allow for the recovery of unusual but prudently incurred costs, such as the costs incurred in the restoration of power following catastrophic events like Katrina and Rita, outside the normal rate mechanism. We have made filings to request interim recovery of nearly \$600 million of storm costs in Louisiana and Mississippi. And in Texas, the Public Utility Commission has initiated a project to review exceptional storm damage costs caused by Hurricane Rita. We will use rate relief to bridge the gap between what we are able to recover through insurance and legislated relief, and our actual storm restoration costs.

In addition, we are pursuing the possibility of securitization with regulators in Louisiana, Mississippi, and Texas. Securitization minimizes the rate impact on customers by spreading the restoration costs over an extended time period. While the costs are recovered from customers over 5 to 15 years, Entergy would recover its costs on a timely basis by securing low-cost financing through the capital markets. We expect timely action by our regulators and legislators on our request for securitization.

under incredible circumstances...”

– Daniel Yergin, Pulitzer Prize-winning energy historian

After we aggressively pursue these initiatives throughout 2006, we expect our cost recovery mechanisms to be in place by the end of the year. We are confident that the plans we executed and the actions we took to restore power following Katrina and Rita were not only prudent, they were exceptional. Our customers deserve nothing less and we are confident that federal, state, and local authorities will agree.

RESTORING OUR FINANCIAL FLEXIBILITY
With \$1.5 billion in restoration costs, just over half of which was paid in 2005, and recovery initiatives yet to fund, combined with other demands on our liquidity from rapid, substantial increases in natural gas prices, our financial and liquidity position following the storms was strained. While we have one of the strongest balance sheets in the industry and a fairly conservative risk philosophy, we recognized that we needed additional financing capacity. Hence, we implemented a comprehensive financing plan to meet current, as well as unexpected calls on our cash position, to protect and solidify our credit ratings, and to provide the flexibility to get back on the path we were on prior to the storms.

In fourth quarter 2005, we completed a new \$1.5 billion corporate revolver for our parent company, issued \$500 million of operating company debt, and marketed \$500 million of equity units. In addition, we infused \$300 million of equity into Entergy Gulf States – our subsidiary with the highest overall restoration costs – enabling it to maintain its liquidity and investment grade credit rating in anticipation of obtaining some form of cost recovery.

We will be relentless in our efforts to recover our storm costs. As we receive funding for those

Continued on page 24

Teamwork

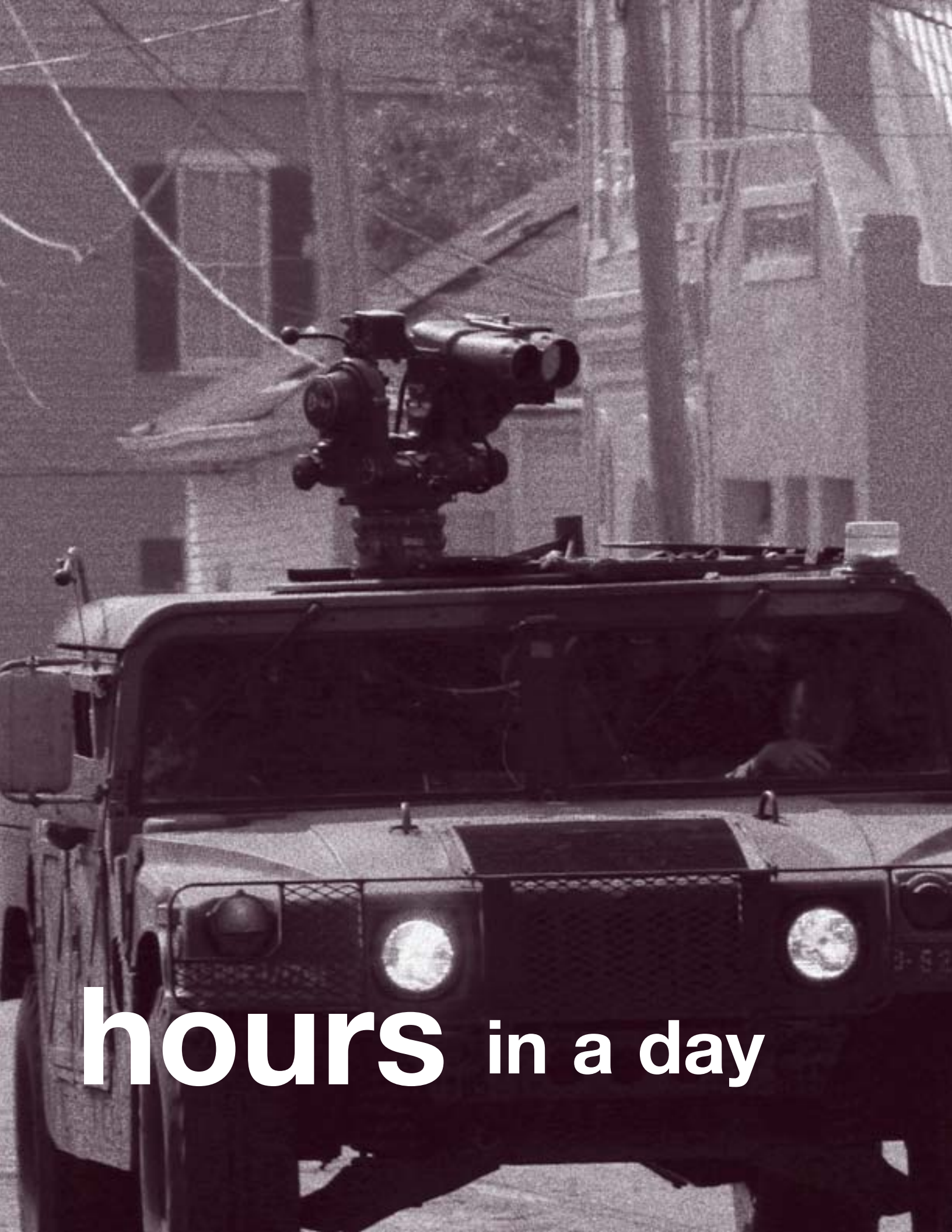


The army of more than 23,000 tool workers that was mobilized to restore power required food, water, sleeping accommodations, transportation, restrooms, soap, trash pickup, laundry, and countless other necessities. A small army of logistics workers housed crews in school gyms, church camps, warehouses, and in “Tent Cities” – one that housed 750 workers on the grounds of our Waterford 3 plant. Our logistics crews also met extraordinary challenges presented by supply shortages, civil unrest, and environmental hazards. Heroes could be found at every level of our restoration effort – from the front lines to the supply lines.



When are there

25



hours in a day

Continued from page 21

costs, we believe that unwinding our financing plan could be effected easily and at a reasonable cost. In the near term, combining our cost recovery efforts with a comprehensive financing plan is highly consistent with aspirations we have previously laid out to deliver top-quartile total shareholder return while keeping the overall risk profile of the company on sound footing.

TURNING ONE STEP BACK INTO TWO STEPS FORWARD

The hit we took from Hurricanes Katrina and Rita set us back, there's no question about it. Prior to August 29, we had generated a great deal of positive momentum in 2005.

UTILITIES: MOMENTUM ON HOLD

From a regulatory perspective, the first half of the year brought unprecedented success to our utility business with the resolution of regulatory issues in almost every jurisdiction.

- The Louisiana Public Service Commission approved the global settlement resolving 12 open dockets covering a range of issues for Entergy Louisiana and Entergy Gulf States. Formula rate plans were approved for both companies that allow them to earn an ROE of just over 11 percent before sharing with customers. The Perryville plant acquisition was rolled into Entergy Louisiana and Entergy Gulf States rates following the transaction close on June 30.
- Entergy Mississippi filed for rate recovery of the Attala Plant acquisition that we announced pursuant to our Generation Supply Plan. Like Perryville, the Attala Plant is a highly efficient, load-following addition to our generation portfolio. In fourth quarter 2005, the Mississippi Public Service Commission approved interim

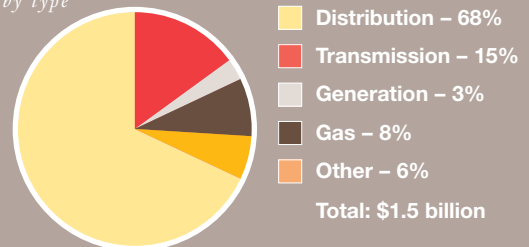
recovery of the Attala acquisition, paving the way for the January 2006 sale closing.

- In Texas, the Governor signed legislation that extends our base rate freeze until 2008 but at the same time, allows for the recovery of certain costs in the near-term. Subsequently, two new riders were approved that, first, allow us to collect \$18 million of annual capacity costs beginning December 2005 and, second, allow for interim recovery of \$18 million per year of transition to competition costs beginning March 2006 while our case is pending. In addition, the legislation provides considerable direction to the Public Utility Commission of Texas for moving Entergy Gulf States Texas to retail open access if and when it becomes part of a certified power region.
- The Federal Energy Regulatory Commission decided a long-awaited System Agreement case in June 2005 and essentially reaffirmed that decision in December 2005, with a ruling that we believe supports our Generation Supply Plan as a means toward achieving rough production cost equalization.
- The federal Administrative Law Judge acted on our affiliate Power Purchase Agreement case and found all eight contracts to be just and reasonable. The ALJ also noted our RFP process and Generation Supply Plan work well in driving benefits for customers.
- We withdrew from FERC our request for renewal of market base rate authority. As a capacity-short company operating in an overbuilt market, we believe that possessing market base rate authority in our service area has an insignificant effect on our operations.

The constructive resolution of a majority of the regulatory issues we faced created substantial positive momentum in 2005. Katrina and Rita essentially put our momentum on hold for the

Restoring power after the two storms cost approximately \$1.5 billion. More than 80 percent of those costs are for repairs to above-ground transmission and distribution lines, poles, towers, and the devices attached to them – assets that are generally uninsurable.

Estimated restoration costs*
in percent by type



**Does not include other storm effects such as estimated lost net revenue, uncollectible utility customer receivables, and the longer-term accelerated replacement of the gas distribution system in New Orleans*

short term. Now we are focused on recovering costs and returning our utility business to the path it was on before the storms by 2007. However, in the long term, the success we experienced in 2005 relative to our regulatory position will serve Entergy and its stakeholders well for years to come.

A NUCLEAR POWERHOUSE

While not unaffected by the storms, our nuclear business remained focused, efficient, and turned in outstanding results for 2005. Market conditions, the hard work of our nuclear team, and new federal policies all combined to produce a year of significant milestones and excellent performance.

Rising market prices for natural gas created opportunity for our Northeast fleet. As the fundamentals driving gas pricing became clear, we adjusted our hedging strategy to take measured market risks – selling forward less of our capacity to take advantage of market pricing. We entered 2006 with a nine percent open position and, in the future, that could potentially go higher if market conditions warrant. While contract pricing in 2005 averaged \$42 per megawatt-hour, a three percent increase over 2004, we were able to enter into new contracts with attractive pricing with both existing and new customers, resulting in average prices per MWh of \$41, \$45, and \$49, for the years 2006, 2007, and 2008 respectively. As market conditions change, we will continue to adjust our contract terms and hedging strategy.

Our experienced nuclear team continues to improve the productivity of both our regulated and Northeast fleets. In 2005, our nuclear production costs for our regulated fleet were \$16.3 per MWh. Production costs for our Northeast fleet were \$19.4 per MWh in 2005, a four percent decrease versus 2004. Our regulated fleet costs are below



“In some respects, Entergy

NUCLEAR WEATHERS THE STORM: SAFE AND SECURE.

On August 27, when a hurricane warning was issued in St. Charles Parish, Louisiana, the Waterford 3 nuclear team was ready. Core personnel were onsite. Supplies were on hand to enable staff to live and work at the plant for several days. Following NRC guidelines, our nuclear team declared an unusual event, notifying the Commission that the unit would shut down, which it did the next day.

Waterford 3 was undamaged by the storm, but lost offsite power and land-line communications. Emergency generators powered critical safety systems and contact with the NRC was maintained via satellite telephones. A week later, communications and offsite power were restored. Offsite evacuation routes were open and emergency sirens operational. Following regulatory approval, Waterford 3 would be ready to generate power.

Two nearby Entergy nuclear units – Grand Gulf near Vicksburg, Mississippi, and River Bend near Baton Rouge, Louisiana – were unaffected by Katrina. They subsequently operated at reduced power due to extensive damage to the area's transmission and distribution infrastructure.

The safe and secure operation of our nuclear plants throughout the upheaval caused by Hurricane Katrina is a testimony to our exceptional employees. They stand ready to safely generate clean and affordable power for our customers, rain or shine.

the industry median while we continue to set the median cost as an aggressive target for our Northeast fleet. We are pursuing a variety of productivity initiatives under our multi-year improvement plan to continue to drive cost savings and higher generation across our nuclear business. In spite of increases in security, fuel, and benefit costs, we still see opportunities to lower nuclear production costs in the future.

With the skill and experience of our nuclear team, we are confident we can be the best-in-class at generating clean, safe, and affordable nuclear power. That's one reason we are very pleased by the passage of the Energy Policy Act of 2005. The Act contains significant incentives for the construction and operation of new nuclear sites. We believe it offers substantial opportunities for Entergy.

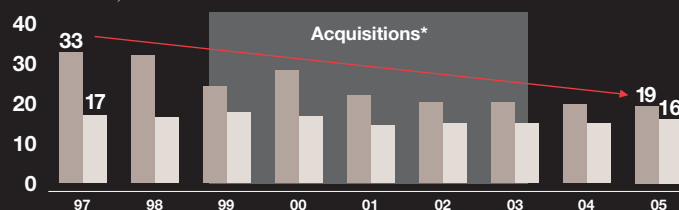
In September 2005, NuStart – a consortium of 12 industry leaders including Entergy – announced it had selected Grand Gulf to be one of two sites to pursue a Construction and Operating License, or COL, under the Energy Policy Act. At the same time, we announced that we will also pursue a COL for our River Bend site as well as an Early Site Permit, or ESP, for Grand Gulf. We look for COLs to be issued in 2007 and construction could begin in 2010 if we decide to pursue building a new plant. COL and ESP efforts preserve Entergy's opportunity to participate in the next generation of nuclear development.

In the near term, we continue to evaluate opportunities to broaden our nuclear business portfolio such as asset acquisitions, operating agreements, and other service contracts. We are strong believers in the future of nuclear power and when we see opportunities with strong potential that are fairly priced, we will act.

We continue to see opportunities to lower production costs in our nuclear fleet and are pursuing productivity improvements through our multi-year improvement plan.

■ Northeast Fleet
■ Southern Fleet

Nuclear production costs
97-05; \$/MWh



* Entergy Nuclear's northeast fleet production costs prior to the acquisition date based upon published reports

has never performed better.”

– *The New York Times*

NEW OPPORTUNITIES

While 2005 was not a year any of us would choose to relive, we believe we can build on the experiences of last year to create opportunities in the future. We continue to have the same mission – to safely generate clean, reliable, and affordable power for our customers. We continue to have the same long-term aspirations in the areas of safety, environmental impact, social responsibility, and shareholder return. None of that has changed and yet our company has changed.

We have a greater appreciation for what's possible. If we had known in early 2005 that we would have to respond in a four-week period to two of the most destructive hurricanes in U.S. history, we might have said it couldn't be done. We certainly would have had our doubts.

Now we know that it can be done and it can be done well. We know that our employees are capable of incredible acts of courage and skill. We know that our organization is resilient and adaptable. We know we have greater potential than we ever imagined. Going forward, we will put that potential to use to create new opportunities in all of our businesses.

In the year ahead, we will work with our government, regulators, and rating agencies to resolve remaining storm-related issues. By demonstrating our ability to work productively with all of our constituents, we believe we can continue to achieve great things for our customers, our employees, and our shareholders. We enter 2006 with renewed hope and confidence that the future will bring new opportunities – opportunities that may once again test our limits but will ultimately find us ready for the challenge.

Dedication



Following Katrina, Entergy retirees began reporting to work again. Across Louisiana and Mississippi, retirees worked long hours and filled critical positions in customer service and outage response. Some acted as scouts – covering hundreds of miles to assess damage and identify repair locations. Others collected information from the scouting teams and coordinated the deployment of restoration crews in the field. With incredible dedication, our retirees brought much needed skills and experience that helped our company meet the challenges presented by the largest restoration effort ever in our history.

<BY THE NUMBERS>

By any measure, the test presented by Hurricanes Katrina and Rita was of enormous proportions. Here are a few of the major challenges presented by these monster storms and a few of the inspirational milestones our employees achieved under the most trying conditions imaginable.

1.5 billion	The estimated number of dollars Entergy will spend to restore power and rebuild its system following the storms. Estimate does not include other storm effects such as estimated lost net revenue, uncollectible utility customer receivables, and the longer-term accelerated replacement of the gas distribution system in New Orleans.	>2,200	The number of individuals and families who received grants from The Power of Hope Fund to assist them in rebuilding their lives.
1.1 million	The peak number of customers without power following Hurricane Katrina. Another 800,000 customers would lose power four weeks later following Hurricane Rita.	706	The total number of transmission substations out at the peak in both storms.
249,000	The number of meals served to restoration workers in the two weeks following Hurricane Rita.	47	The number of days it took following Katrina's landfall to restore power to all customers who could accept power, including customers impacted by Hurricane Rita.
>30,000	The number of line, vegetation, logistics, and support workers mobilized to restore power following Hurricanes Katrina and Rita.	10	The number of refineries served by Entergy that were impacted by the hurricanes – presenting a nationwide fuel supply issue and a high-priority restoration effort.
28,900	The total number of distribution poles destroyed in both storms.	0	The number of times during the storm recovery that we wavered in our commitment to safely generate clean, reliable, affordable power for our customers.
>4,000	The number of workers recruited and committed for response before each of the storms hit to ensure the quickest, most effective response possible.		

Proving the Value

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< FINANCIAL REVIEW >

FORWARD-LOOKING INFORMATION

In this filing and from time to time, Entergy makes statements concerning its expectations, beliefs, plans, objectives, goals, strategies, and future events or performance. Such statements are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Although Entergy believes that these forward-looking statements and the underlying assumptions are reasonable, it cannot provide assurance that they will prove correct. Except to the extent required by the federal securities laws, Entergy undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Forward-looking statements involve a number of risks and uncertainties, and there are factors that could cause actual results to differ materially from those expressed or implied in the statements. Some of those factors (in addition to others described elsewhere in this report and in subsequent securities filings) include:

- resolution of pending and future rate cases and negotiations, including various performance-based rate discussions and implementation of new Texas legislation, and other regulatory proceedings, including those related to Entergy’s System Agreement and Entergy’s utility supply plan, recovery of storm costs, and recovery of fuel and purchased power costs
- Entergy’s ability to manage its operation and maintenance costs
- the performance of Entergy’s generating plants, and particularly the capacity factors at its nuclear generating facilities
- prices for power generated by Entergy’s unregulated generating facilities, the ability to hedge, sell power forward or otherwise reduce the market price risk associated with those facilities, including the Non-Utility Nuclear plants, and the prices and availability of fuel and power Entergy must purchase for its utility customers, and Entergy’s ability to meet credit support requirements for fuel and power supply contracts
- Entergy’s ability to develop and execute on a point of view regarding prices of electricity, natural gas, and other energy-related commodities
- changes in the financial markets, particularly those affecting the availability of capital and Entergy’s ability to refinance existing debt, execute its share repurchase program, and fund investments and acquisitions
- actions of rating agencies, including changes in the ratings of debt and preferred stock, changes in general corporate ratings, and changes in the rating agencies’ ratings criteria
- changes in inflation, interest rates, and foreign currency exchange rates
- Entergy’s ability to purchase and sell assets at attractive prices and on other attractive terms
- volatility and changes in markets for electricity, natural gas, uranium, and other energy-related commodities
- changes in utility regulation, including the beginning or end of retail and wholesale competition, the ability to recover net utility assets and other potential stranded costs, the establishment of a regional transmission organization that includes Entergy’s utility service territory, and the application of market power criteria by the FERC
- changes in regulation of nuclear generating facilities and nuclear materials and fuel, including possible shutdown of nuclear generating facilities, particularly those in the northeastern United States
- uncertainty regarding the establishment of interim or permanent sites for spent nuclear fuel storage and disposal
- resolution of pending or future applications for license extensions or modifications of nuclear generating facilities
- changes in law resulting from the new federal energy legislation, including the effects of PUHCA repeal
- changes in environmental, tax, and other laws, including requirements for reduced emissions of sulfur, nitrogen, carbon, mercury, and other substances
- the economic climate, and particularly growth in Entergy’s service territory
- variations in weather and the occurrence of hurricanes and other storms and disasters, including uncertainties associated with efforts to remediate the effects of Hurricanes Katrina and Rita and recovery of costs associated with restoration including Entergy’s ability to obtain financial assistance from governmental authorities in connection with these storms
- the outcome of the Chapter 11 bankruptcy proceeding of Entergy New Orleans, and the impact of this proceeding on other Entergy companies
- advances in technology
- the potential effects of threatened or actual terrorism and war
- the effects of Entergy’s strategies to reduce tax payments
- the effects of litigation and government investigations
- changes in accounting standards, corporate governance, and securities law requirements
- Entergy’s ability to attract and retain talented management and directors

GAAP TO NON-GAAP RECONCILIATION

Earnings Per Share	2005	2004
As-Reported	\$4.19	\$ 3.93
Special Items	\$0.21	\$(0.13)
Operational	\$4.40	\$ 3.80

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL AND OPERATING DATA

In thousands, except percentages and per share amounts	2005	2004	2003	2002	2001
SELECTED FINANCIAL DATA:					
Operating revenues	\$10,106,247	\$ 9,685,521	\$ 9,032,714	\$ 8,299,052	\$ 9,620,561
Income from continuing operations before cumulative effect of accounting changes	\$ 968,552	\$ 933,090	\$ 827,797	\$ 633,627	\$ 739,062
Earnings per share from continuing operations before cumulative effect of accounting changes					
Basic	\$ 4.49	\$ 4.01	\$ 3.55	\$ 2.73	\$ 3.24
Diluted	\$ 4.40	\$ 3.93	\$ 3.48	\$ 2.68	\$ 3.18
Dividends declared per share	\$ 2.16	\$ 1.89	\$ 1.60	\$ 1.34	\$ 1.28
Book value per share, year-end	\$ 37.31	\$ 38.25	\$ 38.02	\$ 35.24	\$ 33.78
Common shares outstanding:					
At year-end	207,529	216,829	228,898	222,422	220,733
Weighted average – basic	210,142	226,864	226,804	223,047	220,944
Weighted average – diluted	214,441	231,194	231,146	227,303	224,734
Total assets	\$30,851,269	\$28,310,777	\$28,527,388	\$27,504,366	\$25,910,311
Long-term obligations ^(a)	\$ 9,013,448	\$ 7,180,291	\$ 7,497,690	\$ 7,488,919	\$ 7,743,298
Preferred stock	\$ 459,924	\$ 382,756	\$ 355,189	\$ 358,664	\$ 360,522
Long-term debt (excluding currently maturing debt)	\$ 8,824,493	\$ 7,016,831	\$ 7,322,940	\$ 7,308,649	\$ 7,321,028
Return on average common equity	11.20%	10.70%	11.21%	7.85%	10.04%
Net cash flow provided by operating activities	\$ 1,467,808	\$ 2,929,319	\$ 2,005,820	\$ 2,181,703	\$ 2,215,548
DOMESTIC UTILITY ELECTRIC REVENUES:					
Residential	\$ 2,911,119	\$ 2,841,517	\$ 2,682,802	\$ 2,439,590	\$ 2,612,889
Commercial	2,041,038	2,045,382	1,882,060	1,672,964	1,860,040
Industrial	2,419,465	2,311,185	2,081,781	1,850,476	2,298,825
Governmental	140,395	199,631	194,998	179,508	205,054
Total retail	7,512,017	7,397,715	6,841,641	6,142,538	6,976,808
Sales for resale ^(b)	656,287	388,899	371,646	330,010	395,353
Other ^(c)	278,526	145,963	183,888	173,866	(127,334)
Total	\$8,446,830	\$7,932,577	\$7,397,175	\$ 6,646,414	\$7,244,827
DOMESTIC UTILITY ELECTRIC SALES (GWh):					
Residential	31,569	32,897	32,817	32,581	31,080
Commercial	24,401	26,468	25,863	25,354	24,706
Industrial	37,615	40,293	38,637	41,018	41,577
Governmental	1,568	2,568	2,651	2,678	2,593
Total retail	95,153	102,226	99,968	101,631	99,956
Sales for resale ^(b)	5,730	8,623	9,248	9,828	8,896
Total	100,883	110,849	109,216	111,459	108,852

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

(b) Includes sales to Entergy New Orleans, which was deconsolidated in 2005. See Note 16 to the consolidated financial statements.

(c) 2001 includes the effect of a reserve for rate refund at System Energy.

MANAGEMENT'S FINANCIAL DISCUSSION *and* ANALYSIS

Entergy operates primarily through two business segments: U.S. Utility and Non-Utility Nuclear.

- U.S. UTILITY generates, transmits, distributes, and sells electric power in a four-state service territory that includes portions of Arkansas, Mississippi, Texas, and Louisiana, including the City of New Orleans; and operates a small natural gas distribution business.
- NON-UTILITY NUCLEAR owns and operates five nuclear power plants located in the northeastern United States and sells the electric power produced by those plants primarily to wholesale customers. This business also provides services to other nuclear power plant owners.

In addition to its two primary, reportable, operating segments, Entergy also operates the Energy Commodity Services segment and the Competitive Retail Services business. Energy Commodity Services includes Entergy-Koch, L.P. and Entergy's non-nuclear wholesale assets business. Entergy-Koch, L.P. engaged in two major businesses: energy commodity marketing and trading through Entergy-Koch Trading, and gas transportation and storage through Gulf South Pipeline. Entergy-Koch sold both of these businesses in the fourth quarter of 2004, and Entergy-Koch is no longer an operating entity. The non-nuclear wholesale assets business sells to wholesale customers the electric power produced by power plants that it owns while it focuses on improving performance and exploring sales or restructuring opportunities for its power plants. Such opportunities are evaluated consistent with Entergy's market-based point-of-view. The Competitive Retail Services business markets and sells electricity, thermal energy, and related services in competitive markets, primarily in the ERCOT region in Texas. Entergy has decided to divest the retail electric portion of the Competitive Retail Services business operating in the ERCOT region of Texas, and now reports this portion of the business as a discontinued operation. Entergy reports Energy Commodity Services and Competitive Retail Services as part of All Other in its segment disclosures.

Following are the percentages of Entergy's consolidated revenues and net income generated by its operating segments and the percentage of total assets held by them:

Segment	% of Revenue		
	2005	2004	2003
U.S. Utility	84	81	82
Non-Utility Nuclear	14	13	14
Parent Company & Other Business Segments	2	6	4

Segment	% of Net Income		
	2005	2004	2003
U.S. Utility	74	72	52
Non-Utility Nuclear	30	26	32
Parent Company & Other Business Segments	(4)	2	16

Segment	% of Total Assets		
	2005	2004	2003
U.S. Utility	82	80	79
Non-Utility Nuclear	16	16	15
Parent Company & Other Business Segments	2	4	6

HURRICANE KATRINA AND HURRICANE RITA

In August and September 2005, Hurricanes Katrina and Rita caused catastrophic damage to large portions of the U.S. Utility's service territory in Louisiana, Mississippi, and Texas, including the effect of extensive flooding that resulted from levee breaks in and around the greater New Orleans area. The storms and flooding resulted in widespread power outages, significant damage to electric distribution, transmission, and generation and gas infrastructure, and the loss of sales and customers due to mandatory evacuations and the destruction of homes and businesses. Total restoration costs for the repair and/or replacement of the U.S. Utility's electric and gas facilities damaged by Hurricanes Katrina and Rita and business

continuity costs are estimated to be \$1.5 billion, including \$835.2 million in construction expenditures and \$664.8 million recorded as regulatory assets. The cost estimates do not include other potential incremental losses, such as the inability to recover fixed costs scheduled for recovery through base rates, which base rate revenue was not recovered due to a loss of anticipated sales. For instance, at Entergy New Orleans, the domestic utility company that continues to have significant lost revenue caused by Hurricane Katrina, Entergy estimates that lost net revenue due to Hurricane Katrina will total approximately \$320 million through 2007. In addition, Entergy estimates that the hurricanes caused \$32 million of uncollectible U.S. Utility customer receivables.

The estimated storm restoration costs also do not include the longer-term accelerated replacement of the gas distribution system in New Orleans that Entergy New Orleans expects will be necessary due to the massive salt water intrusion into the system caused by the flooding in New Orleans. The salt water intrusion is expected to shorten the life of the gas distribution system, making it necessary to replace that system over time. Entergy New Orleans currently expects the cost of the gas system replacement to be \$355 million, with the project beginning in 2008 and extending for many years thereafter.

Entergy has recorded accruals for the portion of the estimated \$1.5 billion of storm restoration costs not yet paid. In accordance with its accounting policies, and based on historic treatment of such costs in the U.S. Utility's service territories and communications with local regulators, Entergy recorded assets because management believes that recovery of these prudently incurred costs through some form of regulatory mechanism is probable. In December 2005, Entergy Gulf States' Louisiana jurisdiction, Entergy Louisiana, and Entergy Mississippi filed with their respective retail regulators for recovery of storm restoration costs. The filings are discussed in Note 2 to the consolidated financial statements. Because Entergy has not gone through the regulatory process regarding these storm costs, however, there is an element of risk, and Entergy is unable to predict with certainty the degree of success it may have in its recovery initiatives, the amount of restoration costs and incremental losses it may ultimately recover, or the timing of such recovery.

The temporary power outages associated with the hurricanes in the affected service territory caused Entergy Louisiana's and Entergy New Orleans' sales volume and receivable collections to be lower than normal beginning in September 2005. Revenues are expected to continue to be affected for a period of time that cannot be estimated as a result of customers at Entergy New Orleans and Entergy Louisiana that are unable to accept electric and gas service and as a result of changes in load patterns that could occur, including the effect of residential customers who can accept electric and gas service not permanently returning to their homes. Restoration for many of the customers who are unable to accept service will follow major repairs or reconstruction of customer facilities, and will be contingent on validation by local authorities of habitability and electrical safety of customers' structures. Entergy estimates that lost non-fuel revenues in 2006 caused by the hurricanes will be approximately \$123 million for Entergy New Orleans and \$39 million for Entergy Louisiana. Entergy's estimate of the revenue impact is subject to change, however, because of a range of uncertainties, in particular the timing of when individual customers will recommence taking service.

Entergy is pursuing a broad range of initiatives to recover storm restoration and business continuity costs and incremental losses. Initiatives include obtaining reimbursement of certain costs covered by insurance, obtaining assistance through federal legislation for damage caused by Hurricanes Katrina and Rita, and, as noted above, pursuing recovery through existing or new rate mechanisms regulated by the Federal Energy Regulatory Commission (FERC) and local regulatory bodies.

Entergy's non-nuclear property insurance program provides coverage up to \$400 million on an Entergy system-wide basis, subject to a \$20 million per occurrence self-insured retention, for all risks coverage for direct physical loss or damage, including boiler and machinery breakdown. Covered property generally includes power

MANAGEMENT'S FINANCIAL DISCUSSION and ANALYSIS *continued*

plants, substations, facilities, inventories, and gas distribution-related properties. Excluded property generally includes above-ground transmission and distribution lines, poles, and towers. The primary property program (excess of the deductible) is placed through Oil Insurance Limited (\$250 million layer) with the excess program (\$150 million layer) placed on a quota share basis through Underwriters at Lloyds (50%) and Hartford Steam Boiler Inspection and Insurance Company (50%). Coverage is in place for Entergy Corporation, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans. There is an aggregation limit of \$1 billion for all parties insured by OIL for any one occurrence, and Entergy has been notified by OIL that it expects claims for Hurricane Katrina to materially exceed this limit. Entergy is currently evaluating the amount of the covered losses for each of the affected domestic utility companies, working with insurance adjusters, and preparing proofs of loss for Hurricanes Katrina and Rita. Entergy currently estimates that its net insurance recoveries for the losses caused by the hurricanes, including the effect of the OIL aggregation limit being exceeded, will be approximately \$382 million.

In December 2005, the U.S. Congress passed and the President signed the Katrina Relief Bill, a hurricane aid package that includes \$11.5 billion in Community Development Block Grants (for the states affected by Hurricanes Katrina, Rita, and Wilma) that allows state and local leaders to fund individual recovery priorities. The bill includes language that permits funding for infrastructure restoration. It is uncertain how much funding, if any, will be designated for utility reconstruction and the timing of such decisions is also uncertain. Entergy is currently preparing applications to seek Community Development Block Grant funding.

ENTERGY NEW ORLEANS BANKRUPTCY

Because of the effects of Hurricane Katrina, on September 23, 2005, Entergy New Orleans filed a voluntary petition in the United States Bankruptcy Court for the Eastern District of Louisiana seeking reorganization relief under the provisions of Chapter 11 of the United States Bankruptcy Code (Case No. 05-17697). Entergy Corporation owns 100 percent of the common stock of Entergy New Orleans, has continued to supply general and administrative services, and has provided debtor-in-possession financing to Entergy New Orleans. Uncertainties surrounding the nature, timing, and specifics of the bankruptcy proceedings, however, have caused Entergy to deconsolidate Entergy New Orleans and reflect Entergy New Orleans' financial results under the equity method of accounting retroactive to January 1, 2005. Because Entergy owns all of the common stock of Entergy New Orleans, this change did not affect the amount of net income Entergy records resulting from Entergy New Orleans' operations for any current or prior period, but did result in Entergy New Orleans' net income for 2005 being presented as "Equity in earnings (loss) of unconsolidated equity affiliates" rather than its results being included in each individual income statement line item, as is the case for periods prior to 2005. Entergy reviewed the carrying value of its equity investment in Entergy New Orleans (\$149.9 million as of December 31, 2005) to determine if an impairment had occurred as a result of the storm, the flood, the power outages, restoration costs, and changes in customer load. Entergy determined that as of December 31, 2005, no impairment had occurred because, as discussed above, management believes that recovery is probable. In addition to Entergy's equity investment in Entergy New Orleans, as of December 31, 2005, Entergy New Orleans owed Entergy and its subsidiaries a total of approximately \$47 million in prepetition accounts payable. Entergy will continue to assess the carrying value of its investment in Entergy New Orleans as developments occur in Entergy New Orleans' recovery efforts.

Entergy continues to work with the federal, state, and local authorities to resolve the bankruptcy in a manner that allows Entergy New Orleans' customers to be served by a financially viable

entity as required by law. Key factors that will influence the timing and outcome of the Entergy New Orleans bankruptcy include:

- The amount of insurance recovery, if any, and the timing of receipt of proceeds;
- The amount of assistance funding, if any, from the federal and state government, and the timing of that funding, including Entergy's intended application for Community Development Block Grant funding;
- The level of economic recovery of New Orleans;
- The number of customers that return to New Orleans, and the timing of their return; and
- The amount and timing of any regulatory recovery approved by the Council of the City of New Orleans (Council or City Council).

The exclusivity period for filing a final plan of reorganization by Entergy New Orleans is currently scheduled to end on April 21, 2006, with solicitation of acceptances of the plan scheduled to be complete by June 20, 2006. If a party to the bankruptcy proceeding, including Entergy New Orleans, requests it, the bankruptcy court has the authority to extend these deadlines. In addition, the bankruptcy judge has set a date of April 19, 2006 by which creditors with prepetition claims against Entergy New Orleans must, with certain exceptions, file their proofs of claim in the bankruptcy case.

The deconsolidation of Entergy New Orleans is retroactive to January 1, 2005, and its 2005 results of operations are presented as a component of "Equity in earnings (loss) of unconsolidated equity affiliates." Transactions in 2005 between Entergy New Orleans and other Entergy subsidiaries are not eliminated in consolidation as they were in periods prior to 2005. The variance explanations for 2005 compared to 2004 in "Results of Operations" below reflect the 2004 results of operations of Entergy New Orleans as if it were deconsolidated in 2004, consistent with the 2005 presentation as "Equity in earnings (loss) of unconsolidated equity affiliates." The variance explanations for 2004 compared to 2003 are based on as-reported amounts. Entergy's as-reported consolidated results for 2004 and the amounts included in those consolidated results for Entergy New Orleans, which exclude inter-company items, are set forth in the table below (in thousands):

	For the Year Ended December 31, 2004	
	Entergy Corporation and Subsidiaries (as-reported)	Amounts required to deconsolidate Entergy New Orleans in 2004*
Operating Revenues	\$9,685,521	\$(435,194)
Operating Expenses:		
Fuel, fuel-related expenses, and gas purchased		
for resale and purchased power	4,189,818	(206,240)
Other operation and maintenance	2,268,332	(102,451)
Taxes other than income taxes	403,635	(43,577)
Depreciation and amortization	893,574	(29,657)
Other regulatory credits – net	(90,611)	4,670
Other operating expenses	370,601	–
Total operating expenses	8,035,349	(377,255)
Other Income	125,999	(2,044)
Interest and Other Charges	477,776	(15,043)
Income from Continuing Operations		
Before Income Taxes and Cumulative		
Effect of Accounting Changes	1,298,395	(17,833)
Income Taxes	365,305	(16,868)
Consolidated Net Income	\$ 933,049	\$ (965)
Preferred Dividend Requirements		
and Other	\$ 23,525	\$ (965)

* Reflects the entry necessary to deconsolidate Entergy New Orleans for 2004. The column includes intercompany eliminations.

MANAGEMENT'S FINANCIAL DISCUSSION *and* ANALYSIS *continued*

RESULTS OF OPERATIONS

Earnings applicable to common stock for the years ended December 31, 2005, 2004, and 2003 by operating segment are as follows (in thousands):

Operating Segment	2005	2004	2003
U.S. Utility	\$659,760	\$643,408	\$469,050
Non-Utility Nuclear	282,623	245,029	300,799
Parent Company & Other Business Segments	(44,052)	21,087	157,094
Total	\$898,331	\$909,524	\$926,943

Following is a discussion of Entergy's income before taxes according to the business segments listed above. Earnings for 2005 were negatively affected by \$44.8 million net-of-tax of discontinued operations due to the planned sale of the retail electric portion of Entergy's Competitive Retail Services business operating in the ERCOT region of Texas. This amount includes a net charge of \$25.8 million, net-of-tax, related to the impairment reserve for the remaining net book value of the Competitive Retail Services business' information technology systems.

Earnings for 2004 include a \$97 million tax benefit that resulted from the sale of preferred stock and less than 1% of the common stock in a subsidiary in the non-nuclear wholesale assets business; and a \$36 million net-of-tax impairment charge in the non-nuclear wholesale assets business, both of which are discussed below.

Earnings for 2003 include the \$137.1 million net-of-tax cumulative effect of changes in accounting principle that increased earnings in the first quarter of 2003, almost entirely resulting from the implementation of Statement of Financial Accounting Standards (SFAS) 143. Earnings were negatively affected in the fourth quarter of 2003 by voluntary severance program expenses of \$122.8 million net-of-tax. As part of an initiative to achieve productivity improvements with a goal of reducing costs, primarily in the Non-Utility Nuclear and U.S. Utility businesses, in the second half of 2003 Entergy offered a voluntary severance program to employees in various departments. Approximately 1,100 employees, including 650 employees in nuclear operations from the Non-Utility Nuclear and U.S. Utility businesses, accepted the offers.

U.S. UTILITY

The increase in earnings for the U.S. Utility from \$643 million in 2004 to \$660 million in 2005 was primarily due to higher net revenue and lower depreciation and amortization expenses, partially offset by lower other income, including equity in earnings of unconsolidated equity affiliates related to Entergy New Orleans, and higher taxes other than income taxes.

The increase in earnings for the U.S. Utility from \$469 million in 2003 to \$643 million in 2004 was primarily due to the following:

- the \$107.7 million (\$65.6 million net-of-tax) accrual in 2003 of the loss that would be associated with a final, non-appealable decision disallowing abeyed River Bend plant costs. Refer to Note 2 to the consolidated financial statements for more details regarding the River Bend abeyed plant costs;
- lower other operation and maintenance expenses primarily due to \$99.8 million (\$70.1 million net-of-tax) of charges recorded in 2003 in connection with the voluntary severance program;
- the \$21.3 million net-of-tax cumulative effect of a change in accounting principle that reduced earnings at Entergy Gulf States in the first quarter of 2003 upon implementation of SFAS 143. See "Critical Accounting Estimates – Nuclear Decommissioning Costs" below for discussion of the implementation of SFAS 143;

- miscellaneous other income of \$27.7 million (pre-tax) in 2004 resulting from a revision of the decommissioning liability for River Bend, as discussed in Note 8 to the consolidated financial statements;
- higher net revenue; and
- lower interest charges.

Net Revenue

2005 Compared to 2004

Net revenue, which is Entergy's measure of gross margin, consists of operating revenues net of: 1) fuel, fuel-related expenses and gas purchased for resale, 2) purchased power expenses, and 3) other regulatory credits. Following is an analysis of the change in net revenue comparing 2005 to 2004 (in millions):

2004 net revenue	\$4,010.3
Price applied to unbilled sales	40.8
Rate refund provisions	36.4
Volume/weather	3.6
2004 deferrals	(15.2)
Other	(0.5)
2005 net revenue	\$4,075.4

The price applied to unbilled sales variance resulted from an increase in the fuel cost component included in the price applied to unbilled sales. The increase in the fuel cost component is attributable to an increase in the market prices of natural gas and purchased power. See "Critical Accounting Estimates – Unbilled Revenue" and Note 1 to the consolidated financial statements for further discussion of the accounting for unbilled revenues.

The rate refund provisions variance is due primarily to accruals recorded in 2004 for potential rate action at Entergy Gulf States and Entergy Louisiana.

The volume/weather variance includes the effect of more favorable weather in 2005 compared to 2004, substantially offset by a decrease in weather-adjusted usage and a decrease in usage during the unbilled sales period, both due to the effects of Hurricanes Katrina and Rita. See "Critical Accounting Estimates – Unbilled Revenue" and Note 1 to the consolidated financial statements for further discussion of the accounting for unbilled revenues.

The 2004 deferrals variance is due to the deferrals related to Entergy's voluntary severance program, in accordance with a stipulation with the Louisiana Public Service Commission (LPSC) staff. The deferrals are being amortized over a four-year period effective January 2004.

Gross operating revenues, fuel and purchased power expenses, and other regulatory credits – Gross operating revenues include an increase in fuel cost recovery revenues of \$586.3 million resulting from increases in the market prices of purchased power and natural gas. As such, this revenue increase is offset by increased fuel and purchased power expenses. The price applied to unbilled sales and the rate refund provisions variances, discussed above, and an increase in gross wholesale revenue also contributed to the increase in gross operating revenues. Gross wholesale revenues increased \$84.2 million primarily due to an increase in the average price of energy available for resale.

MANAGEMENT’S FINANCIAL DISCUSSION *and* ANALYSIS *continued*

Other regulatory charges (credits) have no material effect on net income due to recovery and/or refund of such expenses. Other regulatory credits decreased primarily due to the following:

- \$32.4 million due to the over-recovery of costs through the power management recovery rider at Entergy Mississippi as a result of gains recorded on gas hedging contracts; and
- \$22.6 million due to the over-recovery of Grand Gulf costs through Grand Gulf riders at Entergy Arkansas and Entergy Mississippi.

The decrease is partially offset by \$24.8 million of higher deferrals of capacity charges that are not currently recovered through base rates but are expected to be recovered in the future. See Note 2 to the consolidated financial statements for a discussion of the formula rate plan filings that will be effective in 2006 for the 2005 test year for Entergy Louisiana and the Louisiana jurisdiction of Entergy Gulf States.

2004 Compared to 2003

Net revenue, which is Entergy’s measure of gross margin, consists of operating revenues net of: 1) fuel, fuel-related expenses and gas purchased for resale, 2) purchased power expenses, and 3) other regulatory credits. Following is an analysis of the change in net revenue comparing 2004 to 2003 (in millions):

2003 net revenue	\$4,214.5
Volume/weather	68.3
Summer capacity charges	17.4
Base rates	10.6
Deferred fuel cost revisions	(46.3)
Price applied to unbilled sales	(19.3)
Other	(1.2)
2004 net revenue	\$4,244.0

The volume/weather variance resulted primarily from increased usage, partially offset by the effect of milder weather on sales during 2004 compared to 2003. Billed usage increased a total of 2,261 GWh in the industrial and commercial sectors.

The summer capacity charges variance was due to the amortization in 2003 at Entergy Gulf States and Entergy Louisiana of deferred capacity charges for the summer of 2001. Entergy Gulf States’ amortization began in June 2002 and ended in May 2003. Entergy Louisiana’s amortization began in August 2002 and ended in July 2003.

Base rates increased net revenue due to a base rate increase at Entergy New Orleans that became effective in June 2003.

The deferred fuel cost revisions variance resulted primarily from a revision in 2003 to an unbilled sales pricing estimate to more closely align the fuel component of that pricing with expected recoverable fuel costs at Entergy Louisiana. Deferred fuel cost revisions also decreased net revenue due to a revision in 2004 to the estimate of fuel costs filed for recovery at Entergy Arkansas in the March 2004 energy cost recovery rider.

The price applied to unbilled sales variance resulted from a decrease in fuel price in 2004 caused primarily by the effect of nuclear plant outages in 2003 on average fuel costs. See “Critical Accounting Estimates – Unbilled Revenue” and Note 1 to the consolidated financial statements for further discussion of the accounting for unbilled revenues.

Gross operating revenues, fuel and purchased power expenses, and other regulatory credits – Gross operating revenues include an increase in fuel cost recovery revenues of \$475 million and \$18 million in electric and gas sales, respectively, primarily due to higher fuel rates in 2004 resulting from increases in the market prices of purchased power and natural gas. As such, this revenue increase is offset by increased fuel and purchased power expenses.

Other regulatory charges (credits) have no material effect on net income due to recovery and/or refund of such expenses. Other regulatory credits increased primarily due to the following:

- cessation of the Grand Gulf Accelerated Recovery Tariff that was suspended in July 2003;
- the amortization in 2003 of deferred capacity charges for summer 2001 power purchases at Entergy Gulf States and Entergy Louisiana;
- the deferral in 2004 of \$14.3 million of capacity charges related to generation resource planning as allowed by the LPSC;
- the deferral in 2004 by Entergy Louisiana of \$11.4 million related to the voluntary severance program, in accordance with a proposed stipulation entered into with the LPSC staff; and
- the deferral in August 2004 of \$7.5 million of fossil plant maintenance and voluntary severance program costs at Entergy New Orleans as a result of a stipulation approved by the City Council.

Other Income Statement Variances

2005 Compared to 2004

Other operation and maintenance expenses increased slightly from \$1.467 billion in 2004 to \$1.471 billion in 2005. The variance includes the following:

- an increase of \$9.5 million in nuclear expenses for contract and material costs associated with maintenance outages and nuclear refueling outage pre-work;
- an increase of \$9.5 million in miscellaneous regulatory reserves;
- an increase of \$7.6 million in storm reserves (unrelated to Hurricanes Katrina and Rita);
- an increase of \$5.1 million in estimated loss provisions recorded for the bankruptcy of CashPoint, which managed a network of payment agents for the domestic utility companies;
- an increase of \$4.7 million in payroll and benefits costs which includes higher pension and post-retirement benefit costs, substantially offset by incentive compensation true-ups;
- a decrease of \$18.2 million due to a shift in labor and material costs from normal maintenance work to storm restoration work; and
- a decrease of \$15.7 million related to proceeds received from the radwaste settlement, which is discussed further in “Significant Factors and Known Trends – Central States Compact Claim.”

Taxes other than income taxes increased from \$300.7 million in 2004 to \$321.9 million in 2005 primarily due to higher employment taxes and higher assessed values for ad valorem tax purposes in 2005.

Depreciation and amortization expenses decreased from \$794.1 million in 2004 to \$783.8 million in 2005 primarily due to a change in the depreciation rate for Waterford 3 as approved by the LPSC effective April 2005.

MANAGEMENT'S FINANCIAL DISCUSSION and ANALYSIS *continued*

Other income decreased from \$134 million in 2004 to \$111.2 million in 2005 primarily due to:

- a revision in 2004 to the estimated decommissioning cost liability for River Bend in accordance with a new decommissioning cost study that reflected a life extension for the plant. For the portion of River Bend not subject to cost-based ratemaking, the revised estimate resulted in the elimination of the asset retirement cost that had been recorded at the time of adoption of SFAS 143 with the remainder recorded as miscellaneous income of \$27.7 million;
- a decrease of \$26.3 million in Entergy New Orleans earnings, which is now reported as an unconsolidated equity affiliate for 2005 in the "Equity in earnings (loss) of unconsolidated equity affiliates" line on the Income Statement. The decrease in Entergy New Orleans earnings is primarily a result of lower net revenue and higher depreciation and amortization expenses, partially offset by lower other operation and maintenance expenses and lower interest charges; and
- a decrease of \$10.1 million at Entergy Gulf States due to a reduction in 2004 in the loss provision for an environmental clean-up site.

The decrease was partially offset by an increase of \$35.3 million in interest and dividend income due to both the proceeds from the radwaste settlement, which is discussed further in "Significant Factors and Known Trends – Central States Compact Claim," and increased interest on temporary cash investments.

< The increase in earnings for Non-Utility Nuclear to \$282.6 million in 2005 was due primarily to higher revenues resulting from higher contract pricing and increased generation. >

2004 Compared to 2003

Other operation and maintenance expenses decreased from \$1.613 billion in 2003 to \$1.569 billion in 2004 primarily due to voluntary severance program accruals of \$99.8 million in 2003, partially offset by an increase of \$30.5 million as a result of higher customer service support costs in 2004 and an increase of approximately \$33 million as a result of higher benefits costs in 2004. See "Critical Accounting Estimates – Pension and Other Retirement Benefits" and Note 10 to the consolidated financial statements for further discussion of benefit costs.

Depreciation and amortization expenses increased from \$797.6 million in 2003 to \$823.7 million in 2004 primarily due to higher depreciation of Grand Gulf due to a higher scheduled sale-leaseback principal payment in addition to an increase in plant in service.

Other income (deductions) changed from (\$36.0 million) in 2003 to \$108.9 million in 2004 primarily due to the following:

- the \$107.7 million accrual in the second quarter of 2003 for the loss that would be associated with a final, non-appealable decision disallowing abeyed River Bend plant costs. See Note 2 to the consolidated financial statements for more details regarding the River Bend abeyed plant costs;
- a reduction in the decommissioning liability for River Bend in 2004, as discussed in Note 8 to the consolidated financial statements; and
- a \$10 million reduction in the loss provision for an Entergy Gulf States environmental clean-up site.

Interest on long-term debt decreased from \$433.5 million in 2003 to \$390.7 million in 2004 primarily due to the net retirement and refinancing of long-term debt in 2003 and the first six months of 2004. See Note 5 to the consolidated financial statements for details on long-term debt.

NON-UTILITY NUCLEAR

Following are key performance measures for Non-Utility Nuclear:

	2005	2004	2003
Net MW in operation at December 31	4,105	4,058	4,001
Average realized price per MWh	\$42.39	\$41.26	\$39.38
Generation in GWh for the year	33,539	32,524	32,379
Capacity factor for the year	93%	92%	92%

Results of Operations

2005 Compared to 2004

The increase in earnings for Non-Utility Nuclear from \$245 million in 2004 to \$282.6 million in 2005 was primarily due to the following:

- higher revenues, which increased from \$1.342 billion in 2004 to \$1.422 billion in 2005, primarily resulting from higher pricing in its contracts to sell power. Also contributing to the increase in revenues was increased generation in 2005 due to power uprates at several plants completed in 2004 and 2005 and fewer planned and unplanned outages in 2005; and
- miscellaneous income of \$15.8 million net-of-tax resulting from a reduction in the decommissioning liability for a plant in 2005, as discussed in Note 8 to the consolidated financial statements.

The increase in earnings was partially offset by the following:

- higher fuel and purchased power expenses, which increased from \$125.7 million in 2004 to \$147.9 million in 2005; and
- miscellaneous income of \$11.9 million net-of-tax resulting from a reduction in the decommissioning liability for a plant in 2004, as discussed in Note 8 to the consolidated financial statements.

2004 Compared to 2003

The decrease in earnings for Non-Utility Nuclear from \$300.8 million in 2003 to \$245 million in 2004 was primarily due to the \$154.5 million net-of-tax cumulative effect of a change in accounting principle that increased earnings in the first quarter of 2003 upon implementation of SFAS 143. See "Critical Accounting Estimates – Nuclear Decommissioning Costs" below for discussion of the implementation of SFAS 143. Earnings before the cumulative effect of accounting change increased by \$98.7 million primarily due to the following:

- lower operation and maintenance expenses, which decreased from \$681.8 million in 2003 to \$595.7 million in 2004, primarily resulting from charges recorded in 2003 in connection with the voluntary severance program;
- higher revenues, which increased from \$1.275 billion in 2003 to \$1.342 billion in 2004, primarily resulting from higher contract pricing. The addition of a support services contract for the Cooper Nuclear Station and increased generation in 2004 due to power uprates completed in 2003 and fewer planned and unplanned outages in 2004 also contributed to the higher revenues; and
- miscellaneous income of \$11.9 million net-of-tax resulting from a reduction in the decommissioning liability for a plant, as discussed in Note 8 to the consolidated financial statements.

Partially offsetting this increase were the following:

- higher income taxes, which increased from \$88.6 million in 2003 to \$142.6 million in 2004; and
- higher depreciation expense, which increased from \$34.3 million in 2003 to \$48.9 million in 2004, due to additions to plant in service.

MANAGEMENT'S FINANCIAL DISCUSSION *and* ANALYSIS *continued*

PARENT COMPANY & OTHER BUSINESS SEGMENTS

Sales of Entergy-Koch Businesses

In the fourth quarter of 2004, Entergy-Koch sold its energy trading and pipeline businesses to third parties. Entergy-Koch will continue in existence pending final receipt of the purchase price. In 2004, Entergy received \$862 million of the sales proceeds in the form of a cash distribution by Entergy-Koch. Entergy ultimately expects to receive total net cash distributions exceeding \$1 billion. Entergy expects to record an approximate \$60 million net-of-tax gain when the remainder of the proceeds are received in 2006.

Entergy Corporation has guaranteed up to 50% of Entergy-Koch's indemnification obligations to the purchasers. However, Entergy does not expect any material claims under these indemnification obligations.

Results of Operations

2005 Compared to 2004

The decrease in earnings for Parent Company & Other Business Segments from \$21.1 million in earnings to a \$44.1 million loss was primarily due to the following:

- a tax benefit resulting from the sale in December 2004 of preferred stock and less than 1% of the common stock of Entergy Asset Management, an Entergy subsidiary. An Entergy subsidiary sold the stock to a third party for \$29.75 million. The sale resulted in a capital loss for tax purposes of \$370 million, producing a net tax benefit of \$97 million that Entergy recorded in the fourth quarter of 2004; and
- a loss from discontinued operations of \$44.8 million net-of-tax due to the planned divestiture of Entergy's Competitive Retail Services retail electric business in the ERCOT region of Texas. This amount includes a net charge of \$39.8 million (\$25.8 million net-of-tax) related to the impairment reserve for the remaining net book value of the Competitive Retail Services business' information technology systems.

These decreases were partially offset by the following:

- a charge recorded in 2004 of approximately \$55 million (\$36 million net-of-tax) as a result of an impairment of the value of the Warren Power plant, which is owned in the non-nuclear wholesale assets business. Entergy concluded that the plant is impaired based on valuation studies prepared in connection with the Entergy Asset Management stock sale discussed above;
- a loss of \$46.4 million in 2004 from Entergy's investment in Entergy-Koch, primarily resulting from Entergy-Koch's trading business reporting a loss from its operations in 2004; and
- miscellaneous income from proceeds of \$18.9 million from the sale of SO₂ allowances.

2004 Compared to 2003

The decrease in earnings for Parent Company & Other Business Segments from \$157.1 million to \$21.1 million was primarily due to:

- earnings from Entergy's investment in Entergy-Koch were \$254 million lower in 2004, primarily as a result of Entergy-Koch's trading business reporting a loss from its operations in 2004; and
- a charge recorded in 2004 of approximately \$55 million (\$36 million net-of-tax) as a result of an impairment of the value of the Warren Power plant, which is owned in the non-nuclear wholesale assets business. Entergy concluded that the plant is impaired based on valuation studies prepared in connection with the Entergy Asset Management stock sale discussed below.

Partially offsetting the decrease in earnings were the following:

- a tax benefit resulting from the sale of preferred stock and less than 1% of the common stock of Entergy Asset Management, an Entergy subsidiary. In December 2004, an Entergy subsidiary sold the stock to a third party for \$29.75 million. The sale resulted in a capital loss for tax purposes of \$370 million, producing a net tax benefit of \$97 million that Entergy recorded in the fourth quarter of 2004;
- realization of \$16.7 million of tax benefits related to the Entergy-Koch investment; and
- a loss from discontinued operations of \$14.4 million net-of-tax in 2003 from Entergy's Competitive Retail Services business.

INCOME TAXES

The effective income tax rates for 2005, 2004, and 2003 were 36.7%, 28.2%, and 37.9%, respectively. See Note 3 to the consolidated financial statements for a reconciliation of the federal statutory rate of 35.0% to the effective income tax rates. The lower effective income tax rate in 2004 is primarily due to the tax benefits resulting from the Entergy Asset Management stock sale discussed above.

LIQUIDITY AND CAPITAL RESOURCES

This section discusses Entergy's capital structure, capital spending plans and other uses of capital, sources of capital, and the cash flow activity presented in the cash flow statement.

LIQUIDITY EFFECTS OF HURRICANE KATRINA AND HURRICANE RITA

As discussed above, Hurricanes Katrina and Rita impacted Entergy's service territory. In addition to the direct costs caused by the storms, Hurricanes Katrina and Rita have had other impacts that have affected the U.S. Utility's liquidity position. The Entergy New Orleans bankruptcy caused fuel and power suppliers to increase their scrutiny of the remaining domestic utility companies with the concern that one of them could suffer similar impacts, particularly after Hurricane Rita. As a result, some suppliers began requiring accelerated payments and decreased credit lines. In addition, the hurricanes damaged certain gas supply lines, thereby decreasing the number of potential suppliers. The hurricanes also exacerbated a market run-up in natural gas and power prices, thereby increasing the U.S. Utility's ongoing costs, which consumed available credit lines more quickly and in some instances required the posting of additional collateral. The U.S. Utility managed through these events thus far, adequately supplied the Entergy System with fuel and power, and as a result of steps taken by it regarding its storm costs, expects to have adequate liquidity and credit to continue supplying the Entergy System with fuel and power. The Non-Utility Nuclear business also has had to post increased collateral (principally in the form of Entergy Corporation guarantees) due to rising fuel and power prices, and it has had adequate liquidity to meet that demand.

After the hurricanes, Entergy implemented a new financing plan that sourced \$2.5 billion through a combination of debt and equity units intended to provide adequate liquidity and capital resources to Entergy and its subsidiaries while storm restoration cost recovery is pursued. In addition, the plan is intended to provide adequate liquidity and capital resources to support Non-Utility Nuclear and the Competitive Retail Services business. The plan, which Entergy accomplished primarily in the fourth quarter 2005, included 1) increasing Entergy's credit revolver capacity by establishing a new \$1.5 billion Entergy Corporation facility; 2) issuing \$0.5 billion of equity units; 3) issuing approximately \$0.5 billion of new debt at various utility operating companies; and 4) providing capital in the amount of \$300 million from Entergy Corporation to Entergy Gulf States.

MANAGEMENT'S FINANCIAL DISCUSSION *and* ANALYSIS *continued*

DEBTOR-IN-POSSESSION CREDIT AGREEMENT

On September 26, 2005, Entergy New Orleans, as borrower, and Entergy Corporation, as lender, entered into the Debtor-in-Possession (DIP) credit agreement, a debtor-in-possession credit facility to provide funding to Entergy New Orleans during its business restoration efforts. On December 9, 2005, the bankruptcy court issued its final order approving the DIP Credit Agreement. The indenture trustee of Entergy New Orleans' first mortgage bonds appealed the final order, and that appeal is pending. Subsequent to the indenture trustee filing its notice of appeal, Entergy New Orleans, Entergy Corporation, and the indenture trustee filed with the bankruptcy court a motion to approve a settlement among the parties. The settlement would result in the dismissal of the indenture trustee's appeal. The settlement is set for hearing in the bankruptcy court on March 22, 2006.

The credit facility provides for up to \$200 million in loans. These funds were requested to enable Entergy New Orleans to meet its liquidity needs, including employee wages and benefits and payments under power purchase and gas supply agreements, and to continue its efforts to repair and restore the facilities needed to serve its electric and gas customers. The facility enables Entergy New Orleans to request funding from Entergy Corporation, but the decision to lend money is at the sole discretion of Entergy Corporation. As of December 31, 2005, Entergy New Orleans had \$90 million of outstanding borrowings under the DIP credit agreement. Management currently expects the bankruptcy court-authorized funding level to be sufficient to fund Entergy New Orleans' expected level of operations through 2006.

Borrowings under the DIP credit agreement are due in full, and the agreement will terminate, at the earliest of (i) August 23, 2006, or such later date as Entergy Corporation shall agree to in its sole discretion, (ii) the acceleration of the loans and the termination of the DIP credit agreement in accordance with its terms, (iii) the date of the closing of a sale of all or substantially all of Entergy New Orleans' assets pursuant to section 363 of the United States Bankruptcy Code or a confirmed plan of reorganization, or (iv) the effective date of a plan of reorganization in Entergy New Orleans' bankruptcy case.

As security for Entergy Corporation as the lender, the terms of the December 9, 2005 bankruptcy court order provide that all borrowings by Entergy New Orleans under the DIP Credit Agreement are: (i) entitled to superpriority administrative claim status pursuant to section 364(c)(1) of the Bankruptcy Code; (ii) secured by a perfected first priority lien on all property of Entergy New Orleans pursuant to sections 364(c)(2) and 364(d) of the Bankruptcy Code, except on any property of Entergy New Orleans subject to valid, perfected, and non-avoidable liens of the lender on Entergy New Orleans' \$15 million credit facility; and (iii) secured by a perfected junior lien pursuant to section 364(c)(3) of the Bankruptcy Code on all property of Entergy New Orleans subject to valid, perfected, and non-avoidable liens in favor of the lender on Entergy New Orleans' \$15 million credit facility that existed as of the date Entergy New Orleans filed its bankruptcy petition.

The interest rate on borrowings under the DIP credit agreement will be the average interest rate of borrowings outstanding under Entergy Corporation's \$2 billion revolving credit facility, which was approximately 4.7% per annum at December 31, 2005.

CAPITAL STRUCTURE

Entergy's capitalization is balanced between equity and debt, as shown in the following table. The increase in the debt to capital percentage from 2004 to 2005 is the result of increased debt outstanding due to additional borrowings on Entergy Corporation's \$2 billion revolving credit facility, additional debt issuances, including Entergy Corporation's equity units issuance, along with a decrease in shareholders' equity, primarily due to repurchases of common stock.

	2005	2004	2003
Net debt to net capital at the end of the year	51.5%	45.3%	45.9%
Effect of subtracting cash from debt	1.6%	2.1%	1.6%
Debt to capital at the end of the year	53.1%	47.4%	47.5%

Net debt consists of debt less cash and cash equivalents. Debt consists of notes payable, capital lease obligations, preferred stock with sinking fund, and long-term debt, including the currently maturing portion. Capital consists of debt, shareholders' equity, and preferred stock without sinking fund. Net capital consists of capital less cash and cash equivalents. Entergy uses the net debt to net capital ratio in analyzing its financial condition and believes it provides useful information to its investors and creditors in evaluating Entergy's financial condition.

Long-term debt, including the currently maturing portion, makes up substantially all of Entergy's total debt outstanding. Following are Entergy's long-term debt principal maturities as of December 31, 2005 by operating segment. The figures below include principal payments on the Entergy Louisiana and System Energy sale-lease-back transactions, which are included in long-term debt on the balance sheet (in millions):

Long-term Debt Maturities	2006	2007	2008	2009-2010	After 2010
U.S. Utility	\$ 23	\$ 93	\$ 802	\$ 746	\$4,705
Non-Utility Nuclear	81	80	20	42	151
Parent Company & Other Business Segments	-	-	272	1,327	586
Total	\$104	\$173	\$1,094	\$2,115	\$5,442

Note 5 to the consolidated financial statements provides more detail concerning long-term debt.

In May 2005, Entergy Corporation terminated its two separate, revolving credit facilities, a \$500 million five-year credit facility and a \$965 million three-year credit facility. At that time, Entergy Corporation entered into a \$2 billion five-year revolving credit facility, which expires in May 2010. As of December 31, 2005, \$785 million in borrowings were outstanding on this facility.

In December 2005, Entergy Corporation entered into a \$1.5 billion three-year revolving credit facility, which expires in December 2008. As of December 31, 2005, no borrowings were outstanding on this facility.

Entergy also has the ability to issue letters of credit against the total borrowing capacity of both the three-year and the five-year credit facilities, and \$239.5 million of letters of credit had been issued against the five-year facility at December 31, 2005.

Following is a summary of the borrowings outstanding and capacity available under these facilities as of December 31, 2005 (in millions):

Facility	Capacity	Borrowings	Letters of Credit	Capacity Available
5-Year Facility	\$2,000	\$785	\$240	\$ 975
3-Year Facility	\$1,500	\$ -	\$ -	\$1,500

MANAGEMENT'S FINANCIAL DISCUSSION and ANALYSIS continued

Entergy Corporation's credit facilities require it to maintain a consolidated debt ratio of 65% or less of its total capitalization. If Entergy fails to meet this debt ratio, or if Entergy or the domestic utility companies (other than Entergy New Orleans) default on other indebtedness or are in bankruptcy or insolvency proceedings, an acceleration of the credit facilities' maturity dates may occur.

Capital lease obligations, including nuclear fuel leases, are a minimal part of Entergy's overall capital structure, and are discussed further in Note 9 to the consolidated financial statements. Following are Entergy's payment obligations under those leases (in millions):

	2006	2007	2008	2009- 2010	After 2010
Capital lease payments, including nuclear fuel leases	\$133	\$171	\$1	\$-	\$2

Notes payable includes borrowings outstanding on credit facilities with original maturities of less than one year. Entergy Arkansas, Entergy Louisiana, and Entergy Mississippi each have 364-day credit facilities available as follows:

Company	Expiration Date	Amount of Facility	Amount Drawn as of Dec. 31, 2005
Entergy Arkansas	April 2006	\$85 million ^(a)	-
Entergy Louisiana	April 2006	\$85 million ^(a)	\$40 million
Entergy Louisiana	May 2006	\$15 million ^(b)	-
Entergy Mississippi	May 2006	\$25 million	-

(a) The combined amount borrowed by Entergy Arkansas and Entergy Louisiana under these facilities at any one time cannot exceed \$85 million. Entergy Louisiana granted a security interest in its receivables to secure its \$85 million facility.

(b) The combined amount borrowed by Entergy Louisiana under its \$15 million facility and by Entergy New Orleans under a \$15 million facility that it has with the same lender cannot exceed \$15 million at any one time. Because Entergy New Orleans' facility is fully drawn, no capacity is currently available on Entergy Louisiana's facility.

Operating Lease Obligations and Guarantees of Unconsolidated Obligations

Entergy has a minimal amount of operating lease obligations and guarantees in support of unconsolidated obligations. Entergy's guarantees in support of unconsolidated obligations are not likely to have a material effect on Entergy's financial condition or results of operations. Following are Entergy's payment obligations as of December 31, 2005 on non-cancelable operating leases with a term over one year (in millions):

	2006	2007	2008	2009- 2010	After 2010
Operating lease payments	\$95	\$77	\$63	\$88	\$196

The operating leases are discussed more thoroughly in Note 9 to the consolidated financial statements.

Summary of Contractual Obligations of Consolidated Entities (in millions):

Contractual Obligations	2006	2007- 2008	2009- 2010	After 2010	Total
Long-term debt ⁽¹⁾	\$ 104	\$1,267	\$2,115	\$5,442	\$8,928
Capital lease payments ⁽²⁾	\$ 133	\$ 172	\$ -	\$ 2	\$ 307
Operating leases ⁽²⁾	\$ 95	\$ 140	\$ 88	\$ 196	\$ 519
Purchase obligations ⁽³⁾	\$1,012	\$1,507	\$1,109	\$ 643	\$4,271

- (1) Long-term debt is discussed in Note 5 to the consolidated financial statements.
- (2) Capital lease payments include nuclear fuel leases. Lease obligations are discussed in Note 9 to the consolidated financial statements.
- (3) Purchase obligations represent the minimum purchase obligation or cancellation charge for contractual obligations to purchase goods or services. Approximately 99% of the total pertains to fuel and purchased power obligations that are recovered in the normal course of business through various fuel cost recovery mechanisms in the U.S. Utility business.

In addition to these contractual obligations, Entergy expects to contribute \$349 million to its pension plans and \$65 million to other postretirement plans in 2006. \$109 million of the pension plan contribution was made in January 2006. \$107 million of this contribution was originally planned for 2005; however, it was delayed as a result of the Katrina Emergency Tax Relief Act.

Capital Funds Agreement

Pursuant to an agreement with certain creditors, Entergy Corporation has agreed to supply System Energy with sufficient capital to:

- maintain System Energy's equity capital at a minimum of 35% of its total capitalization (excluding short-term debt);
- permit the continued commercial operation of Grand Gulf;
- pay in full all System Energy indebtedness for borrowed money when due; and
- enable System Energy to make payments on specific System Energy debt, under supplements to the agreement assigning System Energy's rights in the agreement as security for the specific debt.

CAPITAL EXPENDITURE PLANS AND OTHER USES OF CAPITAL

Following are the amounts of Entergy's planned construction and other capital investments by operating segment for 2006 through 2008, excluding Entergy New Orleans (in millions):

Planned construction and capital investments	2006	2007	2008
Maintenance Capital:			
U.S. Utility	\$ 604	\$ 713	\$ 719
Non-Utility Nuclear	62	64	50
Parent and Other	2	2	2
	668	779	771
Capital Commitments:			
U.S. Utility	277	203	301
Non-Utility Nuclear	143	96	86
Parent and Other	6	6	5
	426	305	392
Total	\$1,094	\$1,084	\$1,163

In addition to the planned spending in the table above, the U.S. Utility, excluding Entergy New Orleans, also expects to pay for \$310 million of capital investments in 2006 related to Hurricane Katrina and Rita restoration work that have been accrued as of December 31, 2005. Entergy New Orleans' planned capital expenditures for the years 2006-2008 total \$93 million, and Entergy New Orleans expects to pay for \$46 million of capital investments in 2006 related to Hurricane Katrina and Rita restoration work that have been accrued as of December 31, 2005.

Maintenance Capital refers to amounts Entergy plans to spend on routine capital projects that are necessary to support reliability of its service, equipment, or systems and to support normal customer growth.

Capital Commitments refers to non-routine capital investments for which Entergy is either contractually obligated, has Board-approval, or is otherwise required to make pursuant to a regulatory agreement or existing rule or law. Amounts reflected in this category include the following:

- Transmission expansion designed to address immediate load growth needs and to provide improved transmission flexibility for the southeastern Louisiana and Texas regions of Entergy's service territory.

MANAGEMENT'S FINANCIAL DISCUSSION *and* ANALYSIS *continued*

- Purchase of additional generation supply sources within the U.S. Utility's service territory, including Entergy Mississippi's January 2006 purchase of the 480 MW, natural gas-fired Attala power plant.
- Nuclear site dry cask spent fuel storage and license renewals.

From time to time, Entergy considers other capital investments as potentially being necessary or desirable in the future, including additional nuclear plant power uprates, generation supply assets, various transmission upgrades, environmental compliance expenditures, or investments in new businesses or assets. Because no contractual obligation, commitment, or Board-approval exists to pursue these investments, they are not included in Entergy's planned construction and capital investments. These potential investments are also subject to evaluation and approval in accordance with Entergy's policies before amounts may be spent. In addition, Entergy's capital spending plans do not include spending for transmission upgrades requested by merchant generators, other than projects currently underway.

Estimated capital expenditures are subject to periodic review and modification and may vary based on the ongoing effects of business restructuring, regulatory constraints, environmental regulations, business opportunities, market volatility, economic trends, and the ability to access capital.

Dividends and Stock Repurchases

Declarations of dividends on Entergy's common stock are made at the discretion of the Board. Among other things, the Board evaluates the level of Entergy's common stock dividends based upon Entergy's earnings, financial strength, and future investment opportunities. At its January 2006 meeting, the Board declared a dividend of \$0.54 per share. In 2005, Entergy paid approximately \$453.5 million in cash dividends on its common stock.

In accordance with Entergy's stock-based compensation plan, Entergy periodically grants stock options to its employees, which may be exercised to obtain shares of Entergy's common stock. According to the plan, these shares can be newly issued shares, treasury stock, or shares purchased on the open market. Entergy's management has been authorized by the Board to repurchase on the open market shares up to an amount sufficient to fund the exercise of grants under the plans. In addition to this authority, the Board approved a program under which Entergy was authorized to repurchase up to \$1.5 billion of its common stock through 2006. The amount of repurchases under the program may vary as a result of material changes in business results or capital spending, or as a result of material new investment opportunities. As a result of Hurricanes Katrina and Rita, the \$1.5 billion share repurchase program was suspended, and the Board has extended authorization for completion of the plan through 2008. Entergy has \$400 million of authority remaining under the \$1.5 billion plan. In 2005, Entergy repurchased 12,280,500 shares of common stock under both programs for a total purchase price of \$878.2 million.

SOURCES OF CAPITAL

Entergy's sources to meet its capital requirements and to fund potential investments include:

- internally generated funds;
- cash on hand (\$582.8 million as of December 31, 2005);
- securities issuances;
- bank financing under new or existing facilities; and
- sales of assets.

The majority of Entergy's internally generated funds come from the U.S. Utility. Circumstances such as weather patterns, price fluctuations, and unanticipated expenses, including unscheduled plant outages and storms, could affect the level of internally generated funds in the future. In the following section, Entergy's cash flow activity for the previous three years is discussed.

Provisions within the Articles of Incorporation or pertinent indentures and various other agreements relating to the long-term debt and preferred stock of certain of Entergy Corporation's subsidiaries restrict the payment of cash dividends or other distributions on their common and preferred stock. As of December 31, 2005, Entergy Arkansas and Entergy Mississippi had restricted retained earnings unavailable for distribution to Entergy Corporation of \$396.4 million and \$68.5 million, respectively. All debt and common and preferred stock issuances by the domestic utility companies and System Energy require prior regulatory approval and their preferred stock and debt issuances are also subject to issuance tests set forth in corporate charters, bond indentures, and other agreements. The domestic utility companies and System Energy have sufficient capacity under these tests to meet foreseeable capital needs.

After the repeal of the Public Utility Holding Company Act of 1935 (PUHCA 1935), effective February 8, 2006, the FERC, under the Federal Power Act, and not the SEC, has jurisdiction over authorizing securities issuances by the domestic utility companies and System Energy (except securities with maturities longer than one year issued by (a) Entergy Arkansas which are subject to the jurisdiction of the Arkansas Public Service Commission (APSC) and (b) Entergy New Orleans which are currently subject to the jurisdiction of the bankruptcy court). Under the Public Utility Holding Company Act of 2005 (PUHCA 2005) and the Federal Power Act, no approvals are necessary for Entergy Corporation to issue securities. Under a savings provision in PUHCA 2005, each of the domestic utility companies and System Energy may rely on the financing authority in its existing PUHCA 1935 Securities and Exchange Commission (SEC) order or orders through December 31, 2007 or until the SEC authority is superceded by FERC authorization. The FERC has issued an order (FERC Short-Term Order) approving the short-term borrowing limits of the domestic utility companies (except Entergy New Orleans) and System Energy through March 31, 2008. Entergy New Orleans may rely on existing SEC PUHCA 1935 orders for its short-term financing authority, subject to bankruptcy court approval. In addition to borrowings from commercial banks, the FERC Short-Term Order authorized the domestic utility companies (except Entergy New Orleans which is authorized by an SEC PUHCA 1935 order) and System Energy to continue as participants in the Entergy System money pool through February 8, 2007. Entergy Gulf States and Entergy Louisiana, LLC have obtained long-term financing authorization from the FERC. The money pool is an inter-company borrowing arrangement designed to reduce Entergy's subsidiaries' dependence on external short-term borrowings. Borrowings from the money pool and external short-term borrowings combined may not exceed authorized limits. As of December 31, 2005, Entergy's subsidiaries' aggregate money pool and external short-term borrowings authorized limit was \$2.0 billion, the aggregate outstanding borrowing from the money pool was \$379.7 million, and Entergy's subsidiaries' outstanding short-term borrowing from external sources was \$40 million. To the extent that the domestic utility companies and System Energy wish to rely on SEC financing orders under PUHCA 1935 there are capitalization and investment grade ratings conditions that must be satisfied in connection with security issuances, other than money pool borrowings. See Note 4 to the consolidated financial statements for further discussion of Entergy's short-term borrowing limits.

MANAGEMENT'S FINANCIAL DISCUSSION *and* ANALYSIS *continued*

CASH FLOW ACTIVITY

As shown in Entergy's Statements of Cash Flows, cash flows for the years ended December 31, 2005, 2004, and 2003 were as follows (in millions):

	2005	2004	2003
Cash and cash equivalents at beginning of period	\$ 620	\$ 507	\$1,335
Effect of deconsolidating Entergy New Orleans in 2005	(8)	-	-
Cash flow provided by (used in):			
Operating activities	1,468	2,929	2,006
Investing activities	(1,992)	(1,143)	(1,968)
Financing activities	496	(1,672)	(869)
Effect of exchange rates on cash and cash equivalents	(1)	(1)	3
Net increase (decrease) in cash and cash equivalents	(29)	113	(828)
Cash and cash equivalents at end of period	\$ 583	\$ 620	\$ 507

Operating Cash Flow Activity

2005 Compared to 2004

Entergy's cash flow provided by operating activities decreased in 2005 primarily due to the following:

- The U.S. Utility provided \$964 million in cash from operating activities compared to providing \$2,208 million in 2004. The decrease resulted primarily from restoration spending and lost net revenue caused by Hurricanes Katrina and Rita. Changes in the timing of fuel cost recovery compared to the prior period due to higher natural gas prices, which caused an increase in deferred fuel cost balances, also contributed to the decrease in cash from operating activities. Also contributing to the decrease in the U.S. Utility segment were increases in income tax payments and in pension plan contributions, and a \$90 million refund to customers in the Louisiana jurisdiction made as a result of an LPSC-approved settlement.
- Entergy received dividends from Entergy-Koch of \$529 million in 2004 and did not receive any dividends from Entergy-Koch in 2005.
- Offsetting the decreases in those two businesses, the Non-Utility Nuclear business provided \$551 million in cash from operating activities compared to providing \$415 million in 2004. The increase resulted primarily from lower intercompany income tax payments and increases in generation and contract pricing that led to an increase in revenues.

2004 Compared to 2003

Entergy's cash flow provided by operating activities increased in 2004 primarily due to the following:

- The U.S. Utility provided \$2,208 million in cash from operating activities compared to providing \$1,675 million in 2003. The increase resulted primarily from the receipt of intercompany income tax refunds from the parent company, Entergy Corporation. Income tax refunds/payments contributed approximately \$400 million of the increase in cash from operating activities in 2004. Improved recovery of fuel costs and a reduction in interest paid also contributed to the increase in 2004.
- The Non-Utility Nuclear business provided \$415 million in cash from operating activities compared to providing \$183 million in 2003. The increase resulted primarily from lower intercompany income tax payments and increases in generation and contract pricing that led to an increase in revenues.

- Entergy's investment in Entergy-Koch, LP provided \$526 million in cash from operating activities compared to using \$41 million in 2003. Entergy received dividends from Entergy-Koch of \$529 million in 2004 compared to \$100 million in 2003. In addition, tax payments related to the investment were higher in 2003 because the investment had higher net income in 2003.
- The non-nuclear wholesale asset business used \$46 million in cash from operating activities compared to using \$70 million in 2003. The decrease in cash used resulted primarily from a one-time \$33 million payment in 2003 related to a generation contract in the non-nuclear wholesale assets business.
- The parent company, Entergy Corporation, used \$146 million in cash from operating activities in 2004 compared to providing \$209 million in 2003 primarily due to higher intercompany income tax payments.

In 2003, the domestic utility companies and System Energy filed, with the Internal Revenue Service (IRS), notification of a change in tax accounting method for their respective calculations of cost of goods sold. The adjustment implemented a simplified method of allocation of overhead to the production of electricity, which is provided under the IRS capitalization regulations. The cumulative adjustment placing these companies on the new methodology resulted in a \$2.8 billion deduction on Entergy's 2003 income tax return. There was no tax cash benefit from the method change in 2003. In addition, on a consolidated basis, no cash tax benefit was realized in 2004 or 2005. The IRS has issued new proposed regulations effective in 2005 that may preclude a significant portion of the benefit of this tax accounting method change. In 2005, the domestic utility companies and System Energy filed a notice with the IRS of a new tax accounting method for their respective calculations of cost of goods sold. This new method is also subject to IRS scrutiny.

In 2005, Non-Utility Nuclear changed its method of accounting for income tax purposes related to its wholesale electric power contracts. The adjustment placing these companies on the new mark-to-market methodology is expected to result in a \$3.8 billion deduction on Entergy's 2005 income tax return. The election did not reduce book income tax expense. This deduction is expected to reverse over the next four years. The timing of the reversal of this deduction depends on several variables, including the price of power. On a consolidated basis, it is estimated that there was a \$7 million cash tax benefit from the method change in 2005.

In August of 2005, the Energy Policy Act of 2005 was enacted. This Act contains provisions that enable the full accumulation of nuclear decommissioning funds on a tax deductible basis, shortens the depreciation recovery period for certain transmission capital expenditures, provides a production credit for electricity generated by new nuclear plants, and expands the net operating loss carryback period to five years for 2003, 2004, and 2005 losses to the extent of 20% of transmission capital expenditures incurred in 2005, 2006, and 2007.

In December of 2005, the Gulf Opportunity Zone Act of 2005 was enacted. The Act contains provisions that allow a public utility incurring a net operating loss as a result of Hurricane Katrina to carry back the casualty loss portion of the net operating loss ten years to offset previously taxed income. The Act also allows a five-year carryback of the portion of the net operating loss attributable to Hurricane Katrina repairs expense and first year depreciation deductions, including 50% bonus depreciation, on Hurricane Katrina capital expenditures.

Entergy expects the above provisions to generate 2006 income tax refunds of approximately \$300 million, including Entergy New Orleans.

MANAGEMENT'S FINANCIAL DISCUSSION *and* ANALYSIS *continued*

Investing Activities

2005 Compared to 2004

Net cash used in investing activities increased in 2005 primarily due to the following activity:

- Construction expenditures were \$47 million higher in 2005 than in 2004, including an increase of \$147 million in the U.S. Utility business and a decrease of \$82 million in the Non-Utility Nuclear business. U.S. Utility construction expenditures in 2005 include \$302 million caused by Hurricanes Katrina and Rita.
- The non-nuclear wholesale assets business realized \$75 million in net proceeds from sales of portions of three of its power plants in 2004.
- Entergy Louisiana purchased the 718 MW Perryville power plant in June 2005 for \$162 million.
- Entergy received net returns of invested capital from Entergy-Koch of \$49 million in 2005 compared to \$284 million in 2004 after the sale by Entergy-Koch of its trading and pipeline businesses. This activity is reported in the "Decrease in other investments" line in the cash flow statement.
- Approximately \$60 million of the cash collateral for a letter of credit that secured the installment obligations owed to the New York Power Authority (NYPA) for the acquisition of the FitzPatrick and Indian Point 3 nuclear power plants was released to Entergy in 2004.
- The U.S. Utility used \$390 million in 2005 and \$54 million in 2004 for other regulatory investments as a result of fuel cost under-recovery. See Note 1 to the consolidated financial statements for discussion of the accounting treatment of these fuel cost under-recoveries.

Offsetting these factors was the following:

- The non-nuclear wholesale assets business received a return of invested capital of \$34 million in 2005 from the Top Deer wind power joint venture after Top Deer obtained debt financing.

2004 Compared to 2003

Net cash used in investing activities decreased in 2004 primarily due to the following:

- Construction expenditures were \$158 million lower in 2004 than in 2003, including decreases of \$81 million in the U.S. Utility business, \$39 million in the Non-Utility Nuclear business, and \$42 million in the non-nuclear wholesale assets business.
- Entergy received net returns of invested capital from Entergy-Koch of \$284 million in 2004 after the sale by Entergy-Koch of its trading and pipeline businesses. This activity is reported in the "Decrease in other investments" line in the cash flow statement.
- Approximately \$60 million of the cash collateral for a letter of credit that secures the installment obligations owed to NYPA for the acquisition of the FitzPatrick and Indian Point 3 nuclear power plants was released to Entergy in 2004. Approximately \$172 million of this cash collateral was released to Entergy in 2003, and the letter of credit is no longer secured by cash collateral. This activity is reported in the "Decrease in other investments" line in the cash flow statement.
- The non-nuclear wholesale assets business realized \$75 million in net proceeds from sales of portions of three of its power plants in 2004.

- Entergy made temporary investments of \$50 million in 2003, and these investments matured in the first quarter of 2004.
- The U.S. Utility used \$156 million for other regulatory investments in 2003 as a result of fuel cost under-recovery. In 2004, the U.S. Utility used \$54 million for other regulatory investments related to fuel cost under-recovery.

Financing Activities

2005 Compared to 2004

Financing activities provided \$496 million of cash in 2005 compared to using \$1,672 million of cash in 2004 primarily due to the following activity:

- Net issuances of long-term debt by the U.S. Utility segment provided \$462 million of cash in 2005 compared to retirements of long-term debt net of issuances using \$345 million in 2004. See Note 5 to the consolidated financial statements for the details of long-term debt outstanding at December 31, 2005 and 2004.
- Entergy Corporation increased the net borrowings on its credit facility by \$735 million in 2005 compared to \$50 million during 2004. See Note 4 to the consolidated financial statements for a description of the Entergy Corporation credit facility.
- Entergy Corporation repurchased \$878 million of its common stock in 2005 compared to \$1,018 million in 2004, as discussed above in the "Capital Expenditure Plans and Other Uses of Capital" section.
- Entergy Corporation issued \$500 million of long-term notes in connection with its equity units offering in December 2005.
- Entergy Louisiana, LLC issued \$100 million of preferred membership interests in December 2005.

2004 Compared to 2003

Net cash used in financing activities increased in 2004 primarily due to the following:

- Entergy Corporation issued \$538 million of long-term notes in 2003.
- Entergy Corporation repurchased \$1.018 billion of its common stock in 2004, as discussed above in the "Capital Expenditure Plans and Other Uses of Capital" section.
- Entergy Corporation paid \$65 million more in common stock dividends in 2004 than in 2003.

Offsetting the factors that caused an increase in cash used in financing activities in 2004 were the following:

- Retirements of long-term debt net of issuances by the U.S. Utility segment used \$345 million in 2004 and used \$359 million in 2003. See Note 5 to the consolidated financial statements for the details of the long-term debt activity in 2004.
- In 2003, Entergy Corporation decreased the net borrowings on its credit facility by \$500 million, while in 2004, net borrowings on its credit facilities increased by \$50 million.
- The non-nuclear wholesale assets business retired the \$79 million Top of Iowa wind project debt at its maturity in January 2003.

MANAGEMENT'S FINANCIAL DISCUSSION *and* ANALYSIS *continued*

SIGNIFICANT FACTORS AND KNOWN TRENDS

Following are discussions of significant factors and known trends affecting Entergy's business, including rate regulation and fuel-cost recovery, federal regulation, market and credit risks, and nuclear matters.

STATE AND LOCAL RATE REGULATION AND FUEL-COST RECOVERY

The rates that the domestic utility companies and System Energy charge for their services are an important item influencing Entergy's financial position, results of operations, and liquidity. These companies are closely regulated and the rates charged to their customers are determined in regulatory proceedings, except for a portion of Entergy Gulf States' operations. Governmental agencies, including the APSC, the City Council, the LPSC, the Mississippi Public Service Commission (MPSC), the Public Utility Commission of Texas (PUCT), and the FERC, are primarily responsible for approval of the rates charged to customers. The status of material retail rate proceedings is summarized below and described in more detail in Note 2 to the consolidated financial statements.

Company	Authorized ROE	Pending Proceedings/Events
Entergy Arkansas	11.0%	<ul style="list-style-type: none"> ■ No base rate cases are pending. ■ Base rates have been in effect since 1998. The timing of its next general rate case will depend on, among other factors, the ultimate resolution of the System Agreement case at the FERC involving rough production cost equalization. ■ Entergy Arkansas completed recovery in January 2006 of transition to competition costs through an \$8.5 million transition cost recovery rider that has been in effect since October 2004.
Entergy Gulf States-Texas	10.95%	<ul style="list-style-type: none"> ■ Base rates are currently set at rates approved by the PUCT in June 1999. ■ In June 2005, a Texas law was enacted that provides for a base rate freeze until mid-2008, but allows Entergy Gulf States to seek before then recovery of certain incremental purchased power capacity costs and recover reasonable and necessary transition to competition costs. An \$18 million annual capacity rider was implemented effective December 31, 2005. A \$14.5 million annual transition cost recovery rider was implemented effective March 1, 2006, subject to finalization of a settlement among the parties and approval by the PUCT.
Entergy Gulf States-Louisiana	9.9%-11.4%	<ul style="list-style-type: none"> ■ A filing was made in December 2005 with the LPSC for interim recovery of \$141 million of storm costs. A hearing was held and the LPSC ordered recovery of up to \$6 million of storm costs through the fuel adjustment clause during the period March 2006 to September 2006. Beginning September 2006, Entergy Gulf States will recover \$0.85 million per month of interim storm costs through base rates. The filing included provisions for updating the surcharge to reflect actual costs incurred as well as the receipt of insurance or federal aid. ■ In March 2005, the LPSC approved a settlement proposal to resolve various dockets covering a range of issues. The settlement resulted in credits of \$76 million to retail electricity customers in Entergy Gulf States' Louisiana service territory. The credits were issued in connection with the April 2005 billings. ■ A three-year formula rate plan is in place with an ROE midpoint of 10.65% for the initial three-year term of the plan. Entergy Gulf States made its first formula rate plan filing in June 2005 for the test year ending December 31, 2004. ■ A base rate increase of \$37.2 million associated with the initial formula rate plan filing and the purchase of Perryville was effective in October 2005, subject to refund after consideration by the LPSC.
Entergy Louisiana	9.45%-11.05%	<ul style="list-style-type: none"> ■ A filing was made in December 2005 with the LPSC for interim recovery of \$355 million of storm costs. A hearing was held and the LPSC ordered recovery of up to \$14 million of storm costs through the fuel adjustment clause during the period March 2006 to September 2006. Beginning September 2006, Entergy Louisiana will recover \$2 million per month of interim storm costs through base rates. The filing included provisions for updating the surcharge to reflect actual costs incurred as well as the receipt of insurance or federal aid. ■ In March 2005, the LPSC approved a settlement proposal to resolve various dockets covering a range of issues. The settlement resulted in credits of \$14 million to retail electricity customers which were issued in connection with the April 2005 billings. ■ A three-year formula rate plan is in place with an ROE midpoint of 10.25% for the initial three-year term of the plan. The initial formula rate plan filing will be in May 2006 based on a 2005 test year with rates effective September 2006.
Entergy Mississippi	9.1%-11.9%	<ul style="list-style-type: none"> ■ In December 2005, Entergy Mississippi filed with the MPSC a Notice of Intent to change rates by implementing a Storm Damage Rider to recover storm damage restoration costs associated with Hurricanes Katrina and Rita totaling approximately \$84 million as of November 30, 2005. The notice proposes recovery of approximately \$14.7 million, including carrying charges, annually over a five-year period. A hearing on this matter is expected in April 2006. Entergy Mississippi plans to make a second filing in late spring of 2006 to recover additional restoration costs associated with the hurricanes incurred after November 30, 2005. ■ An annual formula rate plan is in place. Entergy Mississippi made its annual formula rate plan filing in March 2005 based on a 2004 test year. There was no change in rates based on an adjusted ROE midpoint of 10.50%.
Entergy New Orleans	9.75%-11.75% Electric; 10.25%-11.25% Gas	<ul style="list-style-type: none"> ■ Entergy New Orleans made a formula rate plan filing in April 2005. The midpoint ROE of the electric and gas plans is 10.75%. The City Council ordered a reduction in electric rates of \$2.5 million and no change in gas rates. The City Council approved the continuation of the formula rate plan for two more annual cycles, including a target equity component of the capital structure of 45%. The ROE midpoint for gas operations for the 2005 test year is 10.75% with a zero basis point bandwidth.
System Energy	10.94%	<ul style="list-style-type: none"> ■ ROE approved by July 2001 FERC order. No cases pending before FERC.

In addition to the regulatory scrutiny connected with base rate proceedings, the domestic utility companies' fuel and purchased power costs recovered from customers are subject to regulatory scrutiny. The domestic utility companies' significant fuel and purchased power cost proceedings are described in Note 2 to the consolidated financial statements.

MANAGEMENT’S FINANCIAL DISCUSSION *and* ANALYSIS *continued*

FEDERAL REGULATION

The FERC regulates wholesale rates (including Entergy intrasystem sales pursuant to the System Agreement) and interstate transmission of electricity, as well as rates for System Energy’s sales of capacity and energy from Grand Gulf to Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans pursuant to the Unit Power Sales Agreement.

System Agreement Proceedings

The domestic utility companies historically have engaged in the coordinated planning, construction, and operation of generating and bulk transmission facilities under the terms of the System Agreement, which is a rate schedule that has been approved by the FERC. The LPSC pursued litigation involving the System Agreement at the FERC. The proceeding includes challenges to the allocation of costs as defined by the System Agreement and raises questions of imprudence by the domestic utility companies in their execution of the System Agreement.

In June 2005, the FERC issued a decision in the System Agreement litigation, and essentially affirmed its decision in a December 2005 order on rehearing. The FERC decision concluded, among other things, that:

- The System Agreement no longer roughly equalizes total production costs among the domestic utility companies.
- In order to reach rough production cost equalization, the FERC will impose a bandwidth remedy by which each company’s total annual production costs would have to be within +/- 11% of Entergy System average total annual production costs.
- When calculating the production costs for this purpose, output from the Vidalia hydroelectric power plant will not reflect the actual Vidalia price for that year but will be priced at that year’s average price for the exchange of electric energy among the domestic utility companies under the System Agreement, thereby reducing the amount of Vidalia costs reflected in the comparison of the domestic utility companies’ total production costs.
- The remedy ordered by FERC calls for no refunds and would be effective based on the calendar year 2006 production costs with the first potential reallocation payments, if required, to be made in 2007.

The FERC’s decision would reallocate total production costs of the domestic utility companies whose relative total production costs expressed as a percentage of Entergy System average production costs are outside an upper or lower bandwidth. This would be accomplished by payments from domestic utility companies whose production costs are more than 11% below Entergy System average production costs to domestic utility companies whose production costs are more than 11% above Entergy System average production costs.

An assessment of the potential effects of the FERC’s decision requires assumptions regarding the future total production cost of each domestic utility company, which assumptions include the mix of solid fuel and gas-fired generation available to each company and the costs of natural gas and purchased power. Entergy Louisiana, Entergy Gulf States, and Entergy Mississippi are more dependent upon gas-fired generation sources than Entergy Arkansas or Entergy New Orleans. Of these, Entergy Arkansas is the least dependent upon gas-fired generation sources. Therefore, increases in natural gas prices likely will increase the amount by which Entergy

Arkansas’ total production costs are below the average total production costs of the domestic utility companies.

Considerable uncertainty exists regarding future gas prices. Annual average Henry Hub gas prices (daily midpoint prices sourced from Platts Gas Daily) have varied significantly over recent years, ranging from \$2.007/mmBtu to \$8.529/mmBtu for the 1996-2005 period, and averaging \$4.098/mmBtu during the ten-year period 1996-2005 and \$5.434/mmBtu during the five-year period 2001-2005. Recent market conditions have resulted in gas prices that averaged \$8.529/mmBtu for the twelve months ended December 2005. During the twelve-month period January 1, 2005 to December 31, 2005 forward gas contracts for each of the next four years based on daily NYMEX close averaged \$8.74/mmBtu (2006), \$7.95/mmBtu (2007), \$7.32/mmBtu (2008), and \$6.83/mmBtu (2009). If, after pending appeals, the FERC’s decision becomes final and if gas prices occur similar to the NYMEX average closing prices given, the following potential annual total production cost reallocations among the domestic utility companies could result (in millions):

	Range of Annual Payments or (Receipts)	Average Annual Payment or (Receipts)
Entergy Arkansas	\$ 293 to \$ 385	\$ 328
Entergy Gulf States	\$(264) to \$(196)	\$(230)
Entergy Louisiana	\$ (96) to \$ (51)	\$ (77)
Entergy Mississippi	\$ (31) to \$ (3)	\$ (21)
Entergy New Orleans	\$ 0	\$ 0

If natural gas prices deviate by \$1/mmBtu up or down from the NYMEX average closing prices given above, it is expected that Entergy Arkansas’ annual payments will change in the same direction by approximately \$70 to \$80 million.

< The FERC decision concluded, among other things, that the System Agreement no longer roughly equalizes total production costs among the domestic utility companies. >

The LPSC, APSC, MPSC, and the Arkansas Electric Energy Consumers (AEEC) have appealed the FERC decision to the Court of Appeals for the D.C. Circuit. Entergy has intervened in the LPSC appeal and intends to intervene in the other appeals. The City of New Orleans has also intervened in the LPSC appeal.

Entergy will be required to file with the FERC a compliance filing to implement the provisions of the FERC’s decision. Management believes that any changes in the allocation of production costs resulting from the FERC’s decision and related retail proceedings should result in similar rate changes for retail customers. The timing of recovery of these costs in rates could be the subject of additional proceedings before Entergy’s retail regulators. Although the outcome and timing of the FERC and other proceedings cannot be predicted at this time, Entergy does not believe that the ultimate resolution of these proceedings will have a material effect on its financial condition or results of operations.

MANAGEMENT'S FINANCIAL DISCUSSION *and* ANALYSIS *continued*

Citing its concerns that the benefits of its continued participation in the current form of the System Agreement have been seriously eroded, in December 2005, Entergy Arkansas submitted its notice that it will terminate its participation in the current System Agreement effective 96 months from December 19, 2005 or such earlier date as authorized by the FERC. Entergy Arkansas indicated, however, that a properly structured replacement agreement could be a viable alternative. In response to an Administrative Law Judge (ALJ) Initial Decision in the System Agreement proceeding in 2004, the APSC had previously commenced an investigation into whether Entergy Arkansas' continued participation in the System Agreement is in the best interest of its customers, and had also commenced investigations concerning Entergy Louisiana's Vidalia purchased power contract and Entergy Louisiana's then pending acquisition of the Perryville power plant.

Independent Coordinator of Transmission

In 2000, the FERC issued an order encouraging utilities to voluntarily place their transmission facilities under the control of independent RTOs (regional transmission organizations) by December 15, 2001. Delays in implementing the FERC order have occurred due to a variety of reasons, including the fact that utility companies, other stakeholders, and federal and state regulators continue to work to resolve various issues related to the establishment of such RTOs.

In April 2004, Entergy filed a proposal with the FERC to commit voluntarily to retain an independent entity (Independent Coordinator of Transmission or ICT) to oversee the granting of transmission or interconnection service on Entergy's transmission system, to implement a transmission pricing structure that ensures that Entergy's retail native load customers are required to pay for only those upgrades necessary to reliably serve their needs, and to have the ICT serve as the security coordinator for the Entergy region. The proposal was structured to not transfer control of Entergy's transmission system to the ICT, but rather to vest with the ICT broad oversight authority over transmission planning and operations.

After additional filings and subsequent declaratory orders issued by the FERC, on May 27, 2005, the domestic utility companies filed an enhanced ICT proposal with the FERC. Entergy believes that the filing is consistent with the FERC guidance received in the FERC's declaratory orders on the ICT. Among other things, the enhanced ICT filing states that the ICT will (1) grant or deny transmission service on the domestic utility companies' transmission system; (2) administer the domestic utility companies' OASIS node for purposes of processing and evaluating transmission service requests and ensuring compliance with the domestic utility companies' obligation to post transmission-related information; (3) develop a base plan for the domestic utility companies' transmission system that will result in the ICT making the determination on whether costs of transmission upgrades should be rolled into the domestic utility companies' transmission rates or directly assigned to the customer requesting or causing an upgrade to be constructed; (4) serve as the reliability coordinator for the Entergy transmission system; and (5) oversee the operation of the weekly procurement process. The enhanced ICT proposal clarifies the rights that customers receive when they fund a supplemental upgrade and also contains a detailed methodology describing the process by which the ICT will evaluate interconnection-related investments already made on the Entergy System for purposes of determining the future allocation of the uncredited portion of these investments.

On June 3, 2005, a group of generators filed with the FERC a request that the FERC schedule a technical conference on the enhanced ICT proposal in order for Entergy to provide additional information on the enhanced ICT proposal. In response, a stakeholder meeting was held in New Orleans on June 30, 2005. Interventions, protests, and comments were filed by interested parties on August 5, 2005. Entergy filed a response to the various pleadings on August 22, 2005. Entergy anticipates receiving a FERC order on the May 27, 2005 filing during the second quarter 2006.

As discussed below in "Available Flowgate Capacity Proceedings," on October 31, 2005, the domestic utility companies notified parties to the ICT proceeding of the potential loss of historical data related to Entergy's calculation of available transfer capability for its transmission system.

In March 2004, the APSC initiated a proceeding to review Entergy's proposal and compare the benefits of such a proposal to the alternative of Entergy joining the Southwest Power Pool RTO. The APSC sought comments from all interested parties on this issue. Various parties, including the APSC General Staff, filed comments opposing the ICT proposal. A public hearing has not been scheduled by the APSC at this time, although Entergy Arkansas has responded to various APSC data requests. In May 2004, Entergy Mississippi filed a petition for review with the MPSC requesting MPSC support for the ICT proposal. A hearing in that proceeding was held in August 2004. Entergy New Orleans appeared before the Utility Committee of the City Council in June 2005 to provide information on the ICT proposal. Entergy Louisiana and Entergy Gulf States have filed an application with the LPSC requesting that the LPSC find that the ICT proposal is a prudent and appropriate course of action. A hearing in the LPSC proceeding on the ICT proposal was held in October 2005, and Entergy Louisiana and Entergy Gulf States await the ALJ's initial decision.

Market-based Rate Authority

On May 5, 2005, the FERC instituted a proceeding under Section 206 of the Federal Power Act to investigate whether Entergy satisfies the FERC's transmission market power and affiliate abuse/reciprocal dealing standards for the granting of market-based rate authority, and established a refund effective date pursuant to the provisions of Section 206, for purposes of the additional issues set for hearing. However, the FERC decided to hold that investigation in abeyance pending the outcomes of the ICT proceeding and Entergy's affiliate purchased power agreements proceeding. On June 6, 2005, Entergy sought rehearing of the May 5 Order and that request for rehearing is pending.

On July 22, 2005, Entergy notified the FERC that it was withdrawing its request for market-based rate authority for sales within its control area. Instead, the domestic utility companies and their affiliates will transact at cost-based rates for wholesale sales within the Entergy control area. On November 1, 2005, Entergy submitted proposed cost-based rates for both the domestic utility companies and Entergy's non-regulated entities that sell at wholesale within the Entergy control area. Separately, the FERC accepted for filing Entergy Gulf States' proposed cost-based rates for wholesale sales to three separate municipalities. Additionally, Entergy reserves its right to request market-based rate authority for sales within its control area in the future. The relinquishment of market-based rates for sales within the Entergy control area is not expected to have a material effect on the financial results of Entergy.

MANAGEMENT'S FINANCIAL DISCUSSION *and* ANALYSIS *continued*

Available Flowgate Capacity Proceeding

On December 17, 2004, the FERC issued an order initiating a hearing and investigation concerning the justness and reasonableness of the Available Flowgate Capacity (AFC) methodology, the methodology used to evaluate short-term transmission service requests under the domestic utility companies' open access transmission tariff, and establishing a refund effective date. In its order, the FERC indicated that although it "appreciates that Entergy is attempting to explore ways to improve transmission access on its system," it believed that an investigation was warranted to gather more evidence in light of the concerns raised by certain transmission customers and certain issues raised in a FERC audit report finding errors and problems with the predecessor methodology used by Entergy for evaluating short-term transmission requests, the Generator Operating Limits methodology. The FERC order indicates that the investigation will include an examination of (i) Entergy's implementation of the AFC program, (ii) whether Entergy's implementation has complied with prior FERC orders and open access transmission tariff provisions addressing the AFC program, and (iii) whether Entergy's provision of access to short-term transmission on its transmission system was just, reasonable, and not unduly discriminatory.

On March 22, 2005, the FERC issued an order that holds the AFC hearing in abeyance pending action on Entergy's ICT filing. The order holding the hearing in abeyance further indicated that it would cancel the hearing when the ICT begins to perform its functions. On April 8, 2005, several intervenors filed Emergency Motions for Interim Relief and Expedited Commission Action requesting that, during the interim period before the implementation of the ICT, the FERC (1) institute an audit process to examine and modify Entergy's current AFC process; and (2) require the Southwest Power Pool (SPP) to become involved in the AFC stakeholder process and order certain modifications to Entergy's stakeholder process. The audit process being proposed by the intervenors would not involve an independent auditor, but instead would be an investigation performed by a representative from the intervenors, Entergy, and possibly SPP. On April 25, 2005, Entergy filed its response to the emergency motion urging the FERC to reject the intervenors' request for the "audit" because the type of investigation proposed by the intervenors would be neither independent nor fair and would only distract from the implementation of the ICT. Instead, Entergy has proposed that the ICT conduct an independent review of the AFC process and procedures as part of its transition to assuming the identified ICT responsibilities, including the calculation of the AFCs. Entergy subsequently retained SPP to conduct an audit of the AFC processes and procedures. The SPP released its audit report on the AFC processes in which the SPP, among other things, identified an issue concerning limited instances in which transmission service was granted when there was insufficient AFC available. In light of this, the SPP has recommended that the AFC process be further automated to ensure the correct processing of every transmission service request. Entergy has advised the FERC Staff of this issue.

On April 21, 2005, the intervenors filed a separate request for rehearing arguing that the FERC must allow the AFC hearing to proceed in parallel with the establishment of the ICT.

On October 31, 2005, the domestic utility companies notified participants in the ICT proceeding that certain historic data related to the hourly AFC models may have been inadvertently lost due to errors in the implementation of a data archiving process. The data at issue is certain hourly AFC data for the nine-month period April 27, 2004 through January 31, 2005. Although Entergy

is continuing to pursue all avenues for recovery and retrieval of the historic hourly data, it is difficult to predict whether and to what extent these efforts will ultimately be successful. Since discovering the potential loss of data, the domestic utility companies have taken steps to ensure that these errors cannot recur and to ensure that the current AFC hourly data, including the hourly data from February 1, 2005 forward, is adequately protected and retained. Entergy self-reported the event to the FERC's Office of Market Oversight and Investigations and is providing information to the investigation staff concerning this event. Additionally, Entergy will request that the ICT review the current process for retaining AFC-related data as part of its independent review discussed above.

Interconnection Orders

The domestic utility companies (except Entergy New Orleans) are currently defendants to several complaints and rehearing requests before the FERC in which independent generation entities (GenCos) are seeking a refund of monies that the GenCos had previously paid to the Entergy companies for facilities necessary to connect their generation facilities to Entergy's transmission system. The FERC has issued orders in response to three complaints and in certain other dockets ordering Entergy to refund approximately \$123 million in expenses and tax obligations previously paid by the GenCos, including \$42 million for Entergy Arkansas, \$28 million for Entergy Gulf States, \$24 million for Entergy Louisiana, and \$29 million for Entergy Mississippi. The refunds will be in the form of transmission credits that will be utilized over time as the GenCos take transmission service from Entergy. There are other complaints that have been filed with FERC in an approximate amount of \$43 million, including \$27 million for Entergy Arkansas, \$8 million for Entergy Gulf States, and \$8 million for Entergy Louisiana, in which the FERC has not taken action.

To the extent the Entergy companies are ordered to provide such refunds, these costs will qualify for inclusion in the Entergy companies' rates. The recovery of these costs is not automatic, however, especially at the retail level, where the majority of the cost recovery would occur. Entergy intends to pursue all regulatory and legal avenues available to it in order to have these orders reversed and have the affected interconnection agreements reinstated as agreed to originally by the generators.

ENERGY POLICY ACT OF 2005

The Energy Policy Act of 2005 became law in August 2005. The legislation contains electricity provisions that, among other things:

- Repealed PUHCA 1935, through enactment of PUHCA 2005, effective February 8, 2006; PUHCA 2005 and/or related amendments to Section 203(a) of the Federal Power Act (a) remove various limitations on Entergy Corporation as a registered holding company under PUHCA 1935; (b) require the maintenance and retention of books and records by certain holding company system companies for inspection by the FERC and state commissions, as appropriate; and (c) effectively leave to the jurisdiction of the FERC (or state or local regulatory bodies, as appropriate) (i) the issuance by an electric utility of securities; (ii) (A) the disposition of jurisdictional FERC electric facilities by an electric utility; (B) the acquisition by an electric utility of securities of an electric utility; (C) the acquisition by an electric utility of electric generating facilities (in each of the cases in (A), (B), and (C) only in transactions in excess of \$10 million); (iv) electric public utility mergers; and (v) the acquisition by an electric public utility holding company

MANAGEMENT'S FINANCIAL DISCUSSION *and* ANALYSIS *continued*

of securities of an electric public utility company or its holding company in excess of \$10 million or the merger of electric public utility holding company systems. PUHCA 2005 and the related FERC rule-making also provide a savings provision which permits continued reliance on certain PUHCA 1935 rules and orders after the repeal of PUHCA 1935.

- Codifies the concept of participant funding, a form of cost allocation for transmission interconnections and upgrades, and allows the FERC to apply participant funding in all regions of the country. Participant funding helps ensure that a utility's native load customers only bear the costs that are necessary to provide reliable transmission service to them and not bear costs required by generators who seek to deliver power to other regions.
- Provides financing benefits, including loan guarantees and production tax credits, for new nuclear plant construction, and reauthorizes the Price-Anderson Act, the law that provides an umbrella of insurance protection for the payment of public liability claims in the event of a major nuclear power plant incident.
- Revises current tax law treatment of nuclear decommissioning trust funds by allowing regulated and non-regulated taxpayers to make deductible contributions to fund the entire amount of estimated future decommissioning costs.
- Provides a more rapid tax depreciation schedule for transmission assets to encourage investment.

< The Energy Policy Act of 2005 became law in August 2005 and, among other things, provides financing benefits, including loan guarantees and production tax credits for new nuclear construction. >

- Creates mandatory electricity reliability guidelines with enforceable penalties to help ensure that the nation's power transmission grid is kept in good repair and that disruptions in the electricity system are minimized. Entergy already voluntarily complies with National Electricity Reliability Council standards, which are similar to the guidelines mandated by the Energy Policy Act of 2005.
- Establishes conditions for the elimination of the Public Utility Regulatory Policy Act's (PURPA) mandatory purchase obligation from qualifying facilities.
- Significantly increased the FERC's authorization to impose criminal and civil penalties for violations of the provisions of the Federal Power Act.

The Energy Policy Act requires several rulemakings by the FERC and other government agencies in order to implement its provisions and the FERC in its rulemakings has indicated it plans, by February 8, 2007, for further review of, and possible changes to, its implementation of PUHCA 2005 and the repeal of PUHCA 1935. Therefore, it will be a period of time before a full assessment of its effects on Entergy and the energy industry can be completed.

MARKET AND CREDIT RISKS

Market risk is the risk of changes in the value of commodity and financial instruments, or in future operating results or cash flows, in response to changing market conditions. Entergy is exposed to the following significant market risks:

- The commodity price risk associated with Entergy's Non-Utility Nuclear and Energy Commodity Services segments.
- The foreign currency exchange rate risk associated with certain of Entergy's contractual obligations.
- The interest rate and equity price risk associated with Entergy's investments in decommissioning trust funds, particularly in the Non-Utility Nuclear business.
- The interest rate risk associated with changes in interest rates as a result of Entergy's issuances of debt. Entergy manages its interest rate exposure by monitoring current interest rates and its debt outstanding in relation to total capitalization. See Notes 4 and 5 to the consolidated financial statements for the details of Entergy's debt outstanding.

Entergy is also exposed to credit risk. Credit risk is the risk of loss from nonperformance by suppliers, customers, or financial counterparties to a contract or agreement. Credit risk also includes potential demand on liquidity due to collateral requirements within supply or sales agreements. Where it is a significant consideration, counterparty credit risk is addressed in the discussions that follow.

Commodity Price Risk

Power Generation

The sale of electricity from the power generation plants owned by Entergy's Non-Utility Nuclear business and Energy Commodity Services, unless otherwise contracted, is subject to the fluctuation of market power prices. Entergy's Non-Utility Nuclear business has entered into purchased power agreements (PPAs) and other contracts to sell the power produced by its power plants at prices established in the PPAs. Entergy continues to pursue opportunities to extend the existing PPAs and to enter into new PPAs with other parties. Following is a summary of the amount of the Non-Utility Nuclear business' output that is currently sold forward under physical or financial contracts:

	2006	2007	2008	2009	2010
Percent of planned generation sold forward:					
Unit-contingent	34%	32%	25%	19%	12%
Unit-contingent with availability guarantees	53%	47%	32%	13%	5%
Firm liquidated damages	4%	2%	0%	0%	0%
Total	91%	81%	57%	32%	17%
Planned generation (TWh)	35	34	34	35	34
Average contracted price per MWh	\$41	\$45	\$49	\$54	\$45

The Vermont Yankee acquisition included a 10-year PPA under which the former owners will buy the power produced by the plant, which is through the expiration in 2012 of the current operating license for the plant. The PPA includes an adjustment clause under which the prices specified in the PPA will be adjusted downward monthly, beginning in November 2005, if power market prices drop below PPA prices.

A sale of power on a unit contingent basis coupled with an availability guarantee provides for the payment to the power purchaser of contract damages, if incurred, in the event the seller fails to deliver power as a result of the failure of the specified generation

MANAGEMENT'S FINANCIAL DISCUSSION and ANALYSIS *continued*

unit to generate power at or above a specified availability threshold. All of Entergy's outstanding availability guarantees provide for dollar limits on Entergy's maximum liability under such guarantees.

Non-Utility Nuclear's purchase of the Fitzpatrick and Indian Point 3 plants from NYPA included value sharing agreements with NYPA. Under the value sharing agreements, to the extent that the average annual price of the energy sales from each of the two plants exceeds specified strike prices, the Non-Utility Nuclear business will pay 50% of the amount exceeding the strike prices to NYPA. These payments, if required, will be recorded as adjustments to the purchase price of the plants. The annual energy sales subject to the value sharing agreements are limited to the lesser of actual generation or generation assuming an 85% capacity factor based on the plants' capacities at the time of the purchase. The value sharing agreements are effective through 2014. The strike prices for Fitzpatrick range from \$37.51/MWh in 2005 increasing by approximately 3.5% each year to \$51.30/MWh in 2014, and the strike prices for Indian Point 3 range from \$42.26/MWh in 2005 increasing by approximately 3.5% each year to \$57.77/MWh in 2014.

< The sale of electricity from the power generation plants owned by Entergy's Non-Utility Nuclear business and Energy Commodity Services, unless otherwise contracted, is subject to the fluctuation of market power prices. >

Some of the agreements to sell the power produced by Entergy's Non-Utility Nuclear power plants and the wholesale supply agreements entered into by Entergy's Competitive Retail business contain provisions that require an Entergy subsidiary to provide collateral to secure its obligations under the agreements. The Entergy subsidiary may be required to provide collateral based upon the difference between the current market and contracted power prices in the regions where the Non-Utility Nuclear and Competitive Retail businesses sell power. The primary form of the collateral to satisfy these requirements would be an Entergy Corporation guaranty. Cash and letters of credit are also acceptable forms of collateral. At December 31, 2005, based on power prices at that time, Entergy had in place as collateral \$1,630 million of Entergy Corporation guarantees for wholesale transactions, \$237 million of which support letters of credit. The assurance requirement associated with Non-Utility Nuclear is estimated to increase by an amount up to \$400 million if gas prices increase \$1 per MMBtu in both the short- and long-term markets. In the event of a decrease in Entergy Corporation's credit rating to below investment grade, Entergy may be required to replace Entergy Corporation guarantees with cash or letters of credit under some of the agreements.

In addition to selling the power produced by its plants, the Non-Utility Nuclear business sells installed capacity to load-serving distribution companies in order for those companies to meet requirements placed on them by the Independent System Operator (ISO) in their area. Following is a summary of the amount of the Non-Utility Nuclear business' installed capacity that is currently sold forward, and the blended amount of the Non-Utility Nuclear business' planned generation output and installed capacity that is currently sold forward:

	2006	2007	2008	2009	2010
Percent of capacity sold forward:					
Bundled capacity and energy contracts	12%	12%	12%	12%	12%
Capacity contracts	77%	46%	36%	24%	3%
Total	89%	58%	48%	36%	15%
Planned net MW in operation	4,184	4,200	4,200	4,200	4,200
Average capacity contract price per kW per month	\$1.0	\$1.1	\$1.1	\$1.0	\$0.9
Blended Capacity and Energy (based on revenues):					
% of planned generation and capacity sold forward	82%	71%	47%	27%	12%
Average contract revenue per MWh	\$42	\$46	\$50	\$55	\$46

As of December 31, 2005, approximately 96% of Non-Utility Nuclear's counterparty exposure from energy and capacity contracts is with counterparties with investment grade credit ratings.

Following is a summary of the amount of Energy Commodity Services' output and installed capacity that is currently sold forward under physical or financial contracts at fixed prices:

	2006	2007	2008	2009	2010
Capacity:					
Planned MW in operation	1,578	1,578	1,578	1,578	1,578
% of capacity sold forward	33%	29%	29%	19%	17%
Energy:					
Planned generation (TWh)	4	4	4	4	4
% of planned generation sold forward	47%	41%	43%	36%	36%
Blended Capacity and Energy (based on revenues):					
% of planned energy and capacity sold forward	25%	23%	26%	17%	17%
Average contract revenue per MWh	\$26	\$28	\$28	\$21	\$20

Entergy continually monitors industry trends in order to determine whether asset impairments or other losses could result from a decline in value, or cancellation, of merchant power projects, and records provisions for impairments and losses accordingly. As discussed in "Results of Operations" above, in 2004 Entergy determined that the value of the Warren Power plant owned by the non-nuclear wholesale assets business was impaired, and recorded the appropriate provision for the loss.

Foreign Currency Exchange Rate Risk

Entergy Gulf States, System Fuels, and Entergy's Non-Utility Nuclear business enter into foreign currency forward contracts to hedge the Euro-denominated payments due under certain purchase contracts. The notional amounts of the foreign currency forward contracts are 16.7 million Euro and the forward currency rates range from .96370 to 1.32540. The maturities of these forward contracts depend on the purchase contract payment dates and range in time from January 2006 to January 2007. The mark-to-market valuation of the forward contracts at December 31, 2005 was a net asset of \$3.5 million. The counterparty banks obligated on these agreements are rated by Standard & Poor's Rating Services at AA on their senior debt obligations as of December 31, 2005.

MANAGEMENT'S FINANCIAL DISCUSSION *and* ANALYSIS *continued*

Interest Rate and Equity Price Risk –
Decommissioning Trust Funds

Entergy's nuclear decommissioning trust funds are exposed to fluctuations in equity prices and interest rates. The Nuclear Regulatory Commission (NRC) requires Entergy to maintain trusts to fund the costs of decommissioning Arkansas Nuclear One Unit 1 (ANO 1), Arkansas Nuclear One Unit 2 (ANO 2), River Bend, Waterford 3, Grand Gulf, Pilgrim, Indian Point 1 and 2, and Vermont Yankee (NYPA currently retains the decommissioning trusts and liabilities for Indian Point 3 and FitzPatrick). The funds are invested primarily in equity securities; fixed-rate, fixed-income securities; and cash and cash equivalents. Management believes that exposure of the various funds to market fluctuations will not affect Entergy's financial results of operations as it relates to the ANO 1 and 2, River Bend, Grand Gulf, and Waterford 3 trust funds because of the application of regulatory accounting principles. The Pilgrim, Indian Point 1 and 2, and Vermont Yankee trust funds collectively hold approximately \$952 million of fixed-rate, fixed-income securities as of December 31, 2005. These securities have an average coupon rate of approximately 5.2%, an average duration of approximately 5.6 years, and an average maturity of approximately 9.2 years. The Pilgrim, Indian Point 1 and 2, and Vermont Yankee trust funds also collectively hold equity securities worth approximately \$519 million as of December 31, 2005. These securities are generally held in funds that are designed to approximate or somewhat exceed the return of the Standard & Poor's 500 Index, and a relatively small percentage of the securities are held in a fund intended to replicate the return of the Wilshire 4500 Index. The decommissioning trust funds are discussed more thoroughly in Notes 1, 8, and 15 to the consolidated financial statements.

CENTRAL STATES COMPACT CLAIM

The Low-Level Radioactive Waste Policy Act of 1980 holds each state responsible for disposal of low-level radioactive waste originating in that state, but allows states to participate in regional compacts to fulfill their responsibilities jointly. Arkansas and Louisiana participate in the Central Interstate Low-Level Radioactive Waste Compact (Central States Compact or Compact). Commencing in early 1988, Entergy Arkansas, Entergy Gulf States, and Entergy Louisiana made a series of contributions to the Central States Compact to fund the Central States Compact's development of a low-level radioactive waste disposal facility to be located in Boyd County, Nebraska. In December 1998, Nebraska, the host state for the proposed Central States Compact disposal facility, denied the compact's license application for the proposed disposal facility. Several parties, including the commission that governs the compact (the Compact Commission), filed a lawsuit against Nebraska seeking damages resulting from Nebraska's denial of the proposed facility's license. After a trial, the U.S. District Court concluded that Nebraska violated its good faith obligations regarding the proposed waste disposal facility and rendered a judgment against Nebraska in the amount of \$151 million. In August 2004, Nebraska agreed to pay the Compact \$141 million in settlement of the judgment. In July 2005, the Compact Commission decided to distribute a substantial portion of the proceeds from the settlement to the nuclear power generators that had contributed funding for the Boyd County facility, including Entergy Arkansas, Entergy Gulf States, and Entergy Louisiana. On August 1, 2005, Nebraska paid \$145 million, including interest, to the Compact, and the Compact distributed from the settlement proceeds \$23.6 million to Entergy Arkansas, \$19.9 million to Entergy Gulf States, and \$19.4 million to Entergy Louisiana. The proceeds caused an increase in pre-tax earnings of \$28.7 million.

CRITICAL ACCOUNTING ESTIMATES

The preparation of Entergy's financial statements in conformity with generally accepted accounting principles requires management to apply appropriate accounting policies and to make estimates and judgments that can have a significant effect on reported financial position, results of operations, and cash flows. Management has identified the following accounting policies and estimates as critical because they are based on assumptions and measurements that involve a high degree of uncertainty, and the potential for future changes in the assumptions and measurements that could produce estimates that would have a material effect on the presentation of Entergy's financial position or results of operations.

NUCLEAR DECOMMISSIONING COSTS

Entergy owns a significant number of nuclear generation facilities in both its U.S. Utility and Non-Utility Nuclear business units. Regulations require Entergy to decommission its nuclear power plants after each facility is taken out of service, and money is collected and deposited in trust funds during the facilities' operating lives in order to provide for this obligation. Entergy conducts periodic decommissioning cost studies (typically updated every three to five years) to estimate the costs that will be incurred to decommission the facilities. The following key assumptions have a significant effect on these estimates:

- **Cost Escalation Factors** – Entergy's decommissioning revenue requirement studies include an assumption that decommissioning costs will escalate over present cost levels by annual factors ranging from approximately CPI-U to 5.5%. A 50 basis point change in this assumption could change the ultimate cost of decommissioning a facility by as much as 11%.
- **Timing** – In projecting decommissioning costs, two assumptions must be made to estimate the timing of plant decommissioning. First, the date of the plant's retirement must be estimated. The expiration of the plant's operating license is typically used for this purpose, but more often the assumption is made that the plant will be relicensed and operate for some time beyond the original license term. Second, an assumption must be made whether decommissioning will begin immediately upon plant retirement, or whether the plant will be held in "safestore" status for later decommissioning, as permitted by applicable regulations. While the effect of these assumptions cannot be determined with precision, assuming either license extension or use of a "safestore" status can possibly change the present value of these obligations. As discussed in Note 8 to the consolidated financial statements, Entergy recorded revisions in 2004 and 2005 to its estimated decommissioning cost liability for certain of its nuclear power plants to reflect changes in assumptions regarding license renewal. Increases in the probability of decommissioning the plants at a date later than the original license expiration lowered the estimate of the decommissioning cost liability. Future revisions to appropriately reflect changes needed to the estimate of decommissioning costs will affect net income, only to the extent that the estimate of any reduction in the liability exceeds the amount of the undepreciated asset retirement cost at the date of the revision, for unregulated portions of Entergy's business. Any increases in the liability recorded due to such changes are capitalized and depreciated over the asset's remaining economic life in accordance with SFAS 143.
- **Spent Fuel Disposal** – Federal regulations require the U.S. Department of Energy (DOE) to provide a permanent repository for the storage of spent nuclear fuel, and legislation has been passed by Congress to develop this repository at Yucca

MANAGEMENT'S FINANCIAL DISCUSSION *and* ANALYSIS *continued*

Mountain, Nevada. Until this site is available, however, nuclear plant operators must provide for interim spent fuel storage on the nuclear plant site, which can require the construction and maintenance of dry cask storage sites or other facilities. The costs of developing and maintaining these facilities can have a significant effect (as much as 16% of estimated decommissioning costs). Entergy's decommissioning studies include cost estimates for spent fuel storage. However, these estimates could change in the future based on the timing of the opening of the Yucca Mountain facility, the schedule for shipments to that facility when it is opened, or other factors.

- **Technology and Regulation** – To date, there is limited practical experience in the United States with actual decommissioning of large nuclear facilities. As experience is gained and technology changes, cost estimates could also change. If regulations regarding nuclear decommissioning were to change, this could have a potentially significant effect on cost estimates. The effect of these potential changes is not presently determinable. Entergy's decommissioning cost studies assume current technologies and regulations.

SFAS 143

Entergy implemented SFAS 143, "Accounting for Asset Retirement Obligations," effective January 1, 2003. Nuclear decommissioning costs comprise substantially all of Entergy's asset retirement obligations. The following revisions were made to Entergy's estimated decommissioning cost liabilities in 2004 and 2005.

In the first quarter of 2004, Entergy Arkansas recorded a revision to its estimated decommissioning cost liability in accordance with a new decommissioning cost study for ANO 1 and 2 as a result of revised decommissioning costs and changes in assumptions regarding the timing of when the decommissioning of the plants will begin. The revised estimate resulted in a \$107.7 million reduction in its decommissioning liability, along with a \$19.5 million reduction in utility plant and an \$88.2 million reduction in the related regulatory asset.

In the third quarter of 2004, Entergy Gulf States recorded a revision to its estimated decommissioning cost liability in accordance with a new decommissioning cost study for River Bend that reflected an expected life extension for the plant. The revised estimate resulted in a \$116.8 million reduction in decommissioning liability, along with a \$31.3 million reduction in utility plant, a \$40.1 million reduction in the related regulatory asset, and a regulatory liability of \$17.7 million. For the portion of River Bend not subject to cost-based ratemaking, the revised estimate resulted in the elimination of the asset retirement cost that had been recorded at the time of adoption of SFAS 143 with the remainder recorded as miscellaneous income of \$27.7 million (\$17 million net-of-tax).

In the third quarter of 2004, Entergy's Non-Utility Nuclear business recorded a reduction of \$20.3 million in its decommissioning cost liability to reflect changes in assumptions regarding the timing of when the decommissioning of a plant will begin. Entergy considered the assumptions as part of recent studies evaluating the economic effect of the plant in its region. The revised estimate resulted in miscellaneous income of \$20.3 million (\$11.9 million net-of-tax).

In the first quarter of 2005, Entergy's Non-Utility Nuclear business recorded a reduction of \$26.0 million in its decommissioning cost liability in conjunction with a new decommissioning cost study as a result of revised decommissioning costs and changes in

assumptions regarding the timing of the decommissioning of a plant. The revised estimate resulted in miscellaneous income of \$26.0 million (\$15.8 million net-of-tax), reflecting the excess of the reduction in the liability over the amount of undepreciated assets.

In the second quarter of 2005, Entergy Louisiana recorded a revision to its estimated decommissioning cost liability in accordance with a new decommissioning cost study for Waterford 3 that reflected an expected life extension for the plant. The revised estimate resulted in a \$153.6 million reduction in its decommissioning liability, along with a \$49.2 million reduction in utility plant and a \$104.4 million reduction in the related regulatory asset.

In the third quarter of 2005, Entergy Arkansas recorded a revision to its estimated decommissioning cost liability for ANO 2 in accordance with the receipt of approval by the NRC of Entergy Arkansas' application for a life extension for the unit. The revised estimate resulted in an \$87.2 million reduction in its decommissioning liability, along with a corresponding reduction in the related regulatory asset.

In the third quarter of 2005, System Energy recorded a revision to its estimated decommissioning cost liability in accordance with a new decommissioning cost study for Grand Gulf. The revised estimate resulted in a \$41.4 million reduction in the decommissioning cost liability for Grand Gulf, along with a \$39.7 million reduction in utility plant and a \$1.7 million reduction in the related regulatory asset.

UNBILLED REVENUE

As discussed in Note 1 to the consolidated financial statements, Entergy records an estimate of the revenues earned for energy delivered since the latest customer billing. Each month the estimated unbilled revenue amounts are recorded as revenue and a receivable, and the prior month's estimate is reversed. The difference between the estimate of the unbilled receivable at the beginning of the period and the end of the period is the amount of unbilled revenue recognized during the period. The estimate recorded is primarily based upon an estimate of customer usage during the unbilled period and the billed price to customers in that month, including fuel price. Therefore, revenue recognized may be affected by the estimated price and usage at the beginning and end of each period and fuel price fluctuations, in addition to changes in certain components of the calculation including changes to estimates such as line loss, which affects the estimate of unbilled customer usage, and assumptions regarding price such as the fuel cost recovery mechanism.

IMPAIRMENT OF LONG-LIVED ASSETS

Entergy has significant investments in long-lived assets in all of its segments, and Entergy evaluates these assets against the market economics and under the accounting rules for impairment whenever there are indications that impairments may exist. This evaluation involves a significant degree of estimation and uncertainty, and these estimates are particularly important in Entergy's U.S. Utility and Energy Commodity Services segments. In the U.S. Utility segment, portions of River Bend and Grand Gulf are not included in rate base, which could reduce the revenue that would otherwise be recovered for the applicable portions of those units' generation. In the Energy Commodity Services segment, Entergy's investments in merchant generation assets are subject to impairment if adverse market conditions arise.

In order to determine if Entergy should recognize an impairment of a long-lived asset that is to be held and used, accounting standards

MANAGEMENT'S FINANCIAL DISCUSSION *and* ANALYSIS *continued*

require that the sum of the expected undiscounted future cash flows from the asset be compared to the asset's carrying value. If the expected undiscounted future cash flows exceed the carrying value, no impairment is recorded; if such cash flows are less than the carrying value, Entergy is required to record an impairment charge to write the asset down to its fair value. If an asset is held for sale, an impairment is required to be recognized if the fair value (less costs to sell) of the asset is less than its carrying value.

< Electricity and gas prices have been
very volatile in recent years, and
this volatility is expected to continue. >

These estimates are based on a number of key assumptions, including:

- **Future power and fuel prices** – Electricity and gas prices have been very volatile in recent years, and this volatility is expected to continue. This volatility necessarily increases the imprecision inherent in the long-term forecasts of commodity prices that are a key determinant of estimated future cash flows. There is currently an oversupply of electricity throughout the U.S., including much of Entergy's service territory, and it is necessary to project economic growth and other macroeconomic factors in order to project when this oversupply will cease and prices will rise. Similarly, gas prices have been volatile as a result of recent fluctuations in both supply and demand, and projecting future trends in these prices is difficult.
- **Market value of generation assets** – Valuing assets held for sale requires estimating the current market value of generation assets. While market transactions provide evidence for this valuation, the market for such assets is volatile and the value of individual assets is impacted by factors unique to those assets.
- **Future operating costs** – Entergy assumes relatively minor annual increases in operating costs. Technological or regulatory changes that have a significant impact on operations could cause a significant change in these assumptions.

In the fourth quarter of 2005, Entergy recorded a charge of \$39.8 million (\$25.8 million net-of-tax) as a result of the impairment of the Competitive Retail Services business' information technology systems. Entergy has decided to divest the retail electric portion of the Competitive Retail Services business operating in the ERCOT region of Texas and, in connection with that decision, management evaluated the carrying amount of the Competitive Retail Services business' information technology systems and determined that an impairment provision should be recorded.

In the fourth quarter of 2004, Entergy recorded a charge of approximately \$55 million (\$36 million net-of-tax) as a result of an impairment of the value of the Warren Power plant. Entergy concluded that the value of the plant, which is owned in the non-nuclear wholesale assets business, was impaired. Entergy reached this conclusion based on valuation studies prepared in connection with the Entergy Asset Management stock sale discussed above in "Results of Operations."

QUALIFIED PENSION AND OTHER
POSTRETIREMENT BENEFITS

Entergy sponsors qualified, defined benefit pension plans which cover substantially all employees. Additionally, Entergy currently provides postretirement health care and life insurance benefits for substantially all employees who reach retirement age while still working for Entergy. Entergy's reported costs of providing these benefits, as described in Note 10 to the consolidated financial statements, are impacted by numerous factors including the provisions of the plans, changing employee demographics, and various actuarial calculations, assumptions, and accounting mechanisms. Because of the complexity of these calculations, the long-term nature of these obligations, and the importance of the assumptions utilized, Entergy's estimate of these costs is a critical accounting estimate for the U.S. Utility and Non-Utility Nuclear segments.

Assumptions

Key actuarial assumptions utilized in determining these costs include:

- Discount rates used in determining the future benefit obligations;
- Projected health care cost trend rates;
- Expected long-term rate of return on plan assets; and
- Rate of increase in future compensation levels.

Entergy reviews these assumptions on an annual basis and adjusts them as necessary. The falling interest rate environment and worse-than-expected performance of the financial equity markets over the past several years have impacted Entergy's funding and reported costs for these benefits. In addition, these trends have caused Entergy to make a number of adjustments to its assumptions.

In selecting an assumed discount rate to calculate benefit obligations, Entergy reviews market yields on high-quality corporate debt and matches these rates with Entergy's projected stream of benefit payments. Based on recent market trends, Entergy reduced its discount rate used to calculate benefit obligations from 6.25% in 2003 to 6.00% in 2004 and to 5.90% in 2005. Entergy reviews actual recent cost trends and projected future trends in establishing health care cost trend rates. Based on this review, Entergy increased its health care cost trend rate assumption used in calculating the December 31, 2005 accumulated postretirement benefit obligation to a 12% increase in health care costs in 2006 gradually decreasing each successive year, until it reaches a 4.5% annual increase in health care costs in 2012 and beyond.

In determining its expected long-term rate of return on plan assets, Entergy reviews past long-term performance, asset allocations, and long-term inflation assumptions. Entergy targets an asset allocation for its pension plan assets of roughly 65% equity securities, 31% fixed-income securities and 4% other investments. The target allocation for Entergy's other postretirement benefit assets is 51% equity securities and 49% fixed-income securities. Based on recent market trends, Entergy reduced its expected long-term rate of return on plan assets used to calculate benefit obligations from 8.75% for 2003 to 8.5% in 2004 and 2005. The assumed rate of increase in future compensation levels used to calculate benefit obligations was 3.25% in 2003, 2004, and 2005.

MANAGEMENT'S FINANCIAL DISCUSSION *and* ANALYSIS *continued*

Cost Sensitivity

The following chart reflects the sensitivity of qualified pension cost to changes in certain actuarial assumptions (dollars in thousands):

Actuarial Assumption	Change in Assumption	Impact on	Impact on
		2005 Qualified Pension Cost	Qualified Projected Benefit Obligation
		Increase/(Decrease)	
Discount rate	(0.25%)	\$10,564	\$105,990
Rate of return on plan assets	(0.25%)	\$ 4,705	–
Rate of increase in compensation	0.25%	\$ 5,510	\$ 33,091

The following chart reflects the sensitivity of postretirement benefit cost to changes in certain actuarial assumptions (dollars in thousands):

Actuarial Assumption	Change in Assumption	Impact on 2005	Impact on
		Postretirement Benefit Cost	Accumulated Postretirement Benefit Obligation
		Increase/(Decrease)	
Health care cost trend	0.25%	\$4,511	\$24,536
Discount rate	(0.25%)	\$3,082	\$29,341

Each fluctuation above assumes that the other components of the calculation are held constant.

Accounting Mechanisms

In accordance with SFAS No. 87, "Employers' Accounting for Pensions," Entergy utilizes a number of accounting mechanisms that reduce the volatility of reported pension costs. Differences between actuarial assumptions and actual plan results are deferred and are amortized into cost only when the accumulated differences exceed 10% of the greater of the projected benefit obligation or the market-related value of plan assets. If necessary, the excess is amortized over the average remaining service period of active employees.

Additionally, Entergy accounts for the effect of asset performance on pension expense over a twenty-quarter phase-in period through a "market-related" value of assets calculation. Since the market-related value of assets recognizes investment gains or losses over a twenty-quarter period, the future value of assets will be impacted as previously deferred gains or losses are recognized. As a result, the losses that the pension plan assets experienced in 2002 may have an adverse impact on pension cost in future years depending on whether the actuarial losses at each measurement date exceed the 10% corridor in accordance with SFAS 87.

Costs and Funding

In 2005, Entergy's total qualified pension cost was \$118.3 million. Entergy anticipates 2006 qualified pension cost to increase to \$131.6 million due to a decrease in the discount rate (from 6.00% to 5.90%), actual return on plan assets less than 8.5%, and a plan amendment at Non-Utility Nuclear. Pension funding was \$131.8 million for 2005, and under current law, is projected to be \$349 million in 2006. This projection may change pending passage of pension reform legislation. In January 2006, \$109 million was funded. \$107 million of this contribution was originally planned for 2005; however, it was delayed as a result of the Katrina Emergency Tax Relief Act. The rise in pension funding requirements is due to declining interest rates and the phased-in effect of asset underperformance from 2000 to 2002, offset by the Pension Funding Equity Act relief passed in April 2004.

Entergy's qualified pension accumulated benefit obligation at December 31, 2005, 2004, and 2003 exceeded plan assets. As a result, Entergy was required to recognize an additional minimum pension liability as prescribed by SFAS 87. At December 31, 2005, Entergy increased its qualified pension plans' additional minimum pension liability to \$406 million (\$382 million net of related pension assets) from \$244 million (\$218 million net of related pension assets) at December 31, 2004. Other comprehensive income increased to \$15 million at December 31, 2005 from \$6.6 million at December 31, 2004, after reductions for the unrecognized prior service cost, amounts recoverable in rates, and taxes. Net income for 2005, 2004, and 2003 was not affected.

Total postretirement health care and life insurance benefit costs for Entergy in 2005 were \$83.7 million, including \$24.3 million in savings due to the estimated effect of future Medicare Part D subsidies. Entergy expects 2006 postretirement health care and life insurance benefit costs to approximate \$94.1 million, including a projected \$27.8 million in savings due to the estimated effect of future Medicare Part D subsidies. The increase in postretirement health care and life insurance benefit costs is due to the decrease in the discount rate (from 6.00% to 5.90%) and an increase in the health care cost trend rate used to calculate benefit obligations.

MANAGEMENT'S FINANCIAL DISCUSSION and ANALYSIS *concluded***OTHER CONTINGENCIES**

As a company with multi-state domestic utility operations and a history of international investments, Entergy is subject to a number of federal, state, and international laws and regulations and other factors and conditions in the areas in which it operates, which potentially subject it to environmental, litigation, and other risks. Entergy periodically evaluates its exposure for such risks and records a reserve for those matters which are considered probable and estimable in accordance with generally accepted accounting principles.

Environmental

Entergy must comply with environmental laws and regulations applicable to the handling and disposal of hazardous waste. Under these various laws and regulations, Entergy could incur substantial costs to restore properties consistent with the various standards. Entergy conducts studies to determine the extent of any required remediation and has recorded reserves based upon its evaluation of the likelihood of loss and expected dollar amount for each issue. Additional sites could be identified which require environmental remediation for which Entergy could be liable. The amounts of environmental reserves recorded can be significantly affected by the following external events or conditions:

- Changes to existing state or federal regulation by governmental authorities having jurisdiction over air quality, water quality, control of toxic substances and hazardous and solid wastes, and other environmental matters.
- The identification of additional sites or the filing of other complaints in which Entergy may be asserted to be a potentially responsible party.
- The resolution or progression of existing matters through the court system or resolution by the EPA.

Litigation

Entergy has been named as defendant in a number of lawsuits involving employment, ratepayer, and injuries and damages issues, among other matters. Entergy periodically reviews the cases in which it has been named as defendant and assesses the likelihood of loss in each case as probable, reasonably estimable, or remote and records reserves for cases which have a probable likelihood of loss and can be estimated. Notes 2 and 8 to the consolidated financial statements include more detail on ratepayer and other lawsuits and management's assessment of the adequacy of reserves recorded for these matters. Given the environment in which Entergy operates, and the unpredictable nature of many of the cases in which Entergy is named as a defendant, however, the ultimate outcome of the litigation Entergy is exposed to has the potential to materially affect the results of operations of Entergy, or its operating company subsidiaries.

Sales Warranty and Tax Reserves

Entergy's operations, including acquisitions and divestitures, require Entergy to evaluate risks such as the potential tax effects of a transaction, or warranties made in connection with such a transaction. Entergy believes that it has adequately assessed and provided for these types of risks, where applicable. Any reserves recorded for these types of issues, however, could be significantly affected by events such as claims made by third parties under warranties, additional transactions contemplated by Entergy, or completion of reviews of the tax treatment of certain transactions or issues by taxing authorities. Tax reserves not expected to reverse within the next year are reflected as non-current taxes accrued in the financial statements. Entergy does not expect a material adverse effect on earnings from these matters.

NEW ACCOUNTING PRONOUNCEMENTS

In December 2005, Entergy implemented Financial Accounting Standards Board (FASB) Interpretation 47, "Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143", (FIN 47), effective as of that date, which required the recognition of additional asset retirement obligations other than nuclear decommissioning which are conditional in nature. The obligations recognized upon implementation represent Entergy's obligation to remove and dispose of asbestos at many of its non-nuclear generating units if and when those units are retired from commercial service and dismantled. For the U.S. Utility business, the implementation of FIN 47 for the rate-regulated business of the domestic utility companies was recorded as regulatory assets, with no resulting effect on Entergy's net income. Entergy recorded these regulatory assets because existing rate mechanisms in each jurisdiction allow for the recovery in rates of the ultimate costs of asbestos removal, either through cost of service or in rate base, from current and future customers. As a result of this treatment, FIN 47 is expected to be earnings neutral to the rate-regulated business of the domestic utility companies. Upon implementation of FIN 47 in December 2005, assets increased by \$28.8 million and liabilities increased by \$30.3 million for the U.S. Utility segment as a result of recording the asset retirement obligations at their fair values of \$30.3 million as determined under FIN 47, increasing utility plant by \$2.7 million, increasing accumulated depreciation by \$1.8 million, and recording the related regulatory assets of \$27.9 million. The implementation of FIN 47 for the portion of Entergy Gulf States not subject to cost-based ratemaking decreased earnings by \$0.9 million net-of-tax.

REPORT OF MANAGEMENT

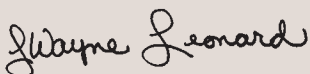
Management of Entergy Corporation and its subsidiaries has prepared and is responsible for the financial statements and related financial information included in this document. To meet this responsibility, management establishes and maintains a system of internal control designed to provide reasonable assurance regarding the preparation and fair presentation of financial statements in accordance with generally accepted accounting principles. This system includes communication through written policies and procedures, an employee Code of Entegrity, 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.

Entergy management assesses the effectiveness of its internal control over financial reporting on an annual basis. In making this assessment, management uses the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework. Management acknowledges, however, that all internal control systems, no matter how well designed, have inherent limitations and can provide only reasonable assurance with respect to financial statement preparation and presentation.

As a supplement to management’s assessment, Entergy’s independent auditors conduct an objective assessment of the degree to which management meets its responsibility for fairness of financial reporting and issue an attestation report on the adequacy of management’s assessment. They evaluate Entergy’s internal control over financial reporting and perform such tests and other procedures as they deem necessary to reach and express an opinion on the fairness of the financial statements.

In addition, the Audit Committee of the Board of Directors, composed solely of independent Directors, meets with the independent auditors, internal auditors, management, and internal accountants periodically to discuss internal controls, and auditing and financial reporting matters. The Audit Committee appoints the independent auditors annually, seeks shareholder ratification of the appointment, and reviews with the independent auditors the scope and results of the audit effort. The Committee also meets periodically with the independent auditors and the chief internal auditor without management present, providing free access to the Committee.

Based on management’s assessment of internal controls using the COSO criteria, management believes that Entergy maintained effective internal control over financial reporting as of December 31, 2005. Management further believes that this assessment, combined with the policies and procedures noted above provide reasonable assurance that Entergy’s financial statements are fairly and accurately presented in accordance with generally accepted accounting principles.



J. WAYNE LEONARD
Chief Executive Officer



LEO P. DENAULT
Executive Vice President
and Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Entergy Corporation:

We have audited the accompanying consolidated balance sheets of Entergy Corporation and Subsidiaries (the Corporation) as of December 31, 2005 and 2004, and the related consolidated statements of income; of retained earnings, comprehensive income, and paid-in capital; and of cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Corporation’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Entergy-Koch, LP, the Corporation’s investment in which is accounted for by the use of the equity method. The Corporation’s equity in earnings of unconsolidated equity affiliates for the year ended December 31, 2003 includes \$180,110,000 for Entergy Koch, LP, which earnings were audited by other auditors whose report (which as to 2003 included an explanatory paragraph concerning a change in accounting for inventory held for trading purposes and energy trading contracts not qualifying as derivatives) has been furnished to us, and our opinion for the year ended December 31, 2003, insofar as it relates to the amount audited by other auditors included for such company, is based solely on the report of such other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, such consolidated financial statements present fairly, in all material respects, the financial position of Entergy Corporation and Subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8 to the consolidated financial statements, in 2003 Entergy Corporation adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 143, Accounting for Asset Retirement Obligations.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Corporation’s internal control over financial reporting as of December 31, 2005, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 9, 2006 expressed an unqualified opinion on management’s assessment of the effectiveness of the Corporation’s internal control over financial reporting and an unqualified opinion on the effectiveness of the Corporation’s internal control over financial reporting.

Deloitte + Touche LLP
DELOITTE & TOUCHE LLP
New Orleans, Louisiana
March 9, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Entergy Corporation:

We have audited management’s assessment, included in the accompanying Controls and Procedures – Internal Control over Financial Reporting, that Entergy Corporation and Subsidiaries (the Corporation) maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Corporation’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management’s assessment and an opinion on the effectiveness of the Corporation’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management’s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial

statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management’s assessment that the Corporation maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2005 of the Corporation and our report dated March 9, 2006 expressed an unqualified opinion on those financial statements.

Deloitte + Touche LLP
 DELOITTE & TOUCHE LLP
 New Orleans, Louisiana
 March 9, 2006

INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Entergy Corporation is responsible for establishing and maintaining adequate internal control over financial reporting for Entergy. Entergy’s internal control system is designed to provide reasonable assurance regarding the preparation and fair presentation of its financial statements presented in accordance with generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Entergy management assessed the effectiveness of its internal control over financial reporting as of December 31, 2005. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework.

Based on management’s assessment and the criteria set forth by COSO, management believes that Entergy maintained effective internal control over financial reporting as of December 31, 2005.

Entergy’s registered public accounting firm has issued an attestation report on management’s assessment of its internal control over financial reporting.

CONSOLIDATED STATEMENTS OF INCOME

In thousands, except share data, for the years ended December 31,	2005	2004	2003
OPERATING REVENUES:			
Domestic electric	\$ 8,446,830	\$7,932,577	\$7,397,175
Natural gas	77,660	208,499	186,176
Competitive businesses	1,581,757	1,544,445	1,449,363
Total	10,106,247	9,685,521	9,032,714
OPERATING EXPENSES:			
Operating and Maintenance:			
Fuel, fuel-related expenses, and gas purchased for resale	2,176,015	2,488,208	1,987,217
Purchased power	2,521,247	1,701,610	1,579,057
Nuclear refueling outage expenses	162,653	166,072	159,995
Provision for asset impairments and restructuring charges	–	55,000	(7,743)
Other operation and maintenance	2,122,206	2,268,332	2,423,951
Decommissioning	143,121	149,529	146,100
Taxes other than income taxes	382,521	403,635	402,571
Depreciation and amortization	856,377	893,574	849,771
Other regulatory credits – net	(49,882)	(90,611)	(13,761)
Total	8,314,258	8,035,349	7,527,158
OPERATING INCOME	1,791,989	1,650,172	1,505,556
OTHER INCOME:			
Allowance for equity funds used during construction	45,736	39,582	42,710
Interest and dividend income	150,479	109,635	87,334
Equity in earnings (loss) of unconsolidated equity affiliates	985	(78,727)	271,647
Miscellaneous – net	14,251	55,509	(76,376)
Total	211,451	125,999	325,315
INTEREST AND OTHER CHARGES:			
Interest on long-term debt	440,334	463,384	485,964
Other interest – net	64,646	40,133	52,868
Allowance for borrowed funds used during construction	(29,376)	(25,741)	(33,191)
Total	475,604	477,776	505,641
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF ACCOUNTING CHANGES			
	1,527,836	1,298,395	1,325,230
Income taxes	559,284	365,305	497,433
INCOME FROM CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGES			
	968,552	933,090	827,797
LOSS FROM DISCONTINUED OPERATIONS (net of income tax expense (benefit) of \$(24,051), \$603, and \$(7,359), respectively)			
	(44,794)	(41)	(14,404)
CUMULATIVE EFFECT OF ACCOUNTING CHANGES (net of income tax expense of \$89,925)			
	–	–	137,074
CONSOLIDATED NET INCOME			
	923,758	933,049	950,467
Preferred dividend requirements and other	25,427	23,525	23,524
EARNINGS APPLICABLE TO COMMON STOCK			
	\$ 898,331	\$ 909,524	\$ 926,943
Basic earnings (loss) per average common share:			
Continuing operations	\$ 4.49	\$4.01	\$ 3.55
Discontinued operations	\$(0.21)	–	\$(0.06)
Cumulative effect of accounting changes	–	–	\$ 0.60
Basic earnings per average common share	\$ 4.27	\$4.01	\$ 4.09
Diluted earnings (loss) per average common share:			
Continuing operations	\$ 4.40	\$3.93	\$ 3.48
Discontinued operations	\$(0.21)	–	\$(0.06)
Cumulative effect of accounting changes	–	–	\$ 0.59
Diluted earnings per average common share	\$ 4.19	\$3.93	\$ 4.01
Dividends declared per common share	\$ 2.16	\$1.89	\$ 1.60
Basic average number of common shares outstanding	210,141,887	226,863,758	226,804,370
Diluted average number of common shares outstanding	214,441,362	231,193,686	231,146,040

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS, COMPREHENSIVE INCOME, AND PAID-IN CAPITAL

In thousands, for the years ended December 31,	2005		2004		2003	
RETAINED EARNINGS						
Retained Earnings – Beginning of period	\$4,984,302		\$4,502,508		\$3,938,693	
Add: Earnings applicable to common stock	898,331	\$ 898,331	909,524	\$ 909,524	\$ 926,943	\$926,943
Deduct:						
Dividends declared on common stock	453,657		427,740		362,941	
Capital stock and other expenses	569		(10)		187	
Total	454,226		427,730		363,128	
Retained Earnings – End of period	\$5,428,407		\$4,984,302		\$4,502,508	
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (NET OF TAXES):						
Balance at beginning of period:						
Accumulated derivative instrument fair value changes	\$ (141,411)		\$ (25,811)		\$ 17,313	
Other accumulated comprehensive income (loss) items	47,958		18,016		(39,673)	
Total	(93,453)		(7,795)		(22,360)	
Net derivative instrument fair value changes arising during the period (net of tax (benefit) of \$(159,236), \$(74,082), and \$(27,862))	(251,203)	(251,203)	(115,600)	(115,600)	(43,124)	(43,124)
Foreign currency translation (net of tax expense of \$211, \$659, and \$1,459)	602	602	1,882	1,882	4,169	4,169
Minimum pension liability (net of tax expense (benefit) of \$(9,176), \$1,875, and \$503)	(15,773)	(15,773)	2,762	2,762	1,153	1,153
Net unrealized investment gains (net of tax expense of \$10,573, \$16,599, and \$33,422)	16,008	16,008	25,298	25,298	52,367	52,367
Balance at end of period:						
Accumulated derivative instrument fair value changes	(392,614)		(141,411)		(25,811)	
Other accumulated comprehensive income items	48,795		47,958		18,016	
Total	\$ (343,819)		\$ (93,453)		\$ (7,795)	
Comprehensive Income		\$ 647,965		\$ 823,866		\$941,508
PAID-IN CAPITAL						
Paid-in Capital – Beginning of period	\$4,835,375		\$4,767,615		\$4,666,753	
Add (Deduct):						
Issuance of equity units	(39,904)		–		–	
Common stock issuances related to stock plans	22,166		67,760		100,862	
Paid-in Capital – End of period	\$4,817,637		\$4,835,375		\$4,767,615	

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

In thousands, as of December 31,	2005	2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents:		
Cash	\$ 221,773	\$ 79,136
Temporary cash investments – at cost, which approximates market	361,047	540,650
Total cash and cash equivalents	582,820	619,786
Other temporary investments	–	187,950
Note receivable – Entergy New Orleans DIP loan	90,000	–
Notes receivable	3,227	3,092
Accounts receivable:		
Customer	732,455	435,191
Allowance for doubtful accounts	(30,805)	(23,758)
Other	356,414	342,289
Accrued unbilled revenues	477,570	460,039
Total receivables	1,535,634	1,213,761
Deferred fuel costs	543,927	55,069
Accumulated deferred income taxes	–	76,899
Fuel inventory – at average cost	206,195	127,251
Materials and supplies – at average cost	610,932	569,407
Deferred nuclear refueling outage costs	157,764	107,782
Prepayments and other	325,795	116,279
Total	4,056,294	3,077,276
OTHER PROPERTY AND INVESTMENTS:		
Investment in affiliates – at equity	296,784	231,779
Decommissioning trust funds	2,606,765	2,453,406
Non-utility property – at cost (less accumulated depreciation)	228,833	219,717
Other	81,535	90,992
Total	3,213,917	2,995,894
PROPERTY, PLANT AND EQUIPMENT:		
Electric	29,161,027	29,053,340
Property under capital lease	727,565	738,554
Natural gas	86,794	262,787
Construction work in progress	1,524,085	1,197,551
Nuclear fuel under capital lease	271,615	262,469
Nuclear fuel	436,646	320,813
Total property, plant and equipment	32,207,732	31,835,514
Less – accumulated depreciation and amortization	13,010,687	13,139,883
Property, plant and equipment – net	19,197,045	18,695,631
DEFERRED DEBITS AND OTHER ASSETS:		
Regulatory assets:		
SFAS 109 regulatory asset – net	735,221	746,413
Other regulatory assets	2,133,724	1,429,261
Deferred fuel costs	120,489	30,842
Long-term receivables	25,572	39,417
Goodwill	377,172	377,172
Other	991,835	918,871
Total	4,384,013	3,541,976
TOTAL ASSETS	\$30,851,269	\$28,310,777

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

In thousands, as of December 31,	2005	2004
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Currently maturing long-term debt	\$ 103,517	\$ 492,564
Notes payable	40,041	193
Accounts payable	1,655,787	896,528
Customer deposits	222,206	222,320
Taxes accrued	188,159	224,011
Accumulated deferred income taxes	143,409	-
Nuclear refueling outage costs	15,548	-
Interest accrued	154,855	144,478
Obligations under capital leases	130,882	133,847
Other	473,510	218,442
Total	3,127,914	2,332,383
NON-CURRENT LIABILITIES:		
Accumulated deferred income taxes and taxes accrued	5,279,228	5,067,381
Accumulated deferred investment tax credits	376,550	399,228
Obligations under capital leases	175,005	146,060
Other regulatory liabilities	408,667	329,767
Decommissioning and retirement cost liabilities	1,923,971	2,066,277
Transition to competition	79,101	79,101
Regulatory reserves	18,624	103,061
Accumulated provisions	556,028	549,914
Long-term debt	8,824,493	7,016,831
Preferred stock with sinking fund	13,950	17,400
Other	1,879,017	1,541,331
Total	19,534,634	17,316,351
Commitments and Contingencies		
Preferred stock without sinking fund	445,974	365,356
SHAREHOLDERS' EQUITY:		
Common stock, \$.01 par value, authorized 500,000,000 shares; issued 248,174,087 shares in 2005 and in 2004	2,482	2,482
Paid-in capital	4,817,637	4,835,375
Retained earnings	5,428,407	4,984,302
Accumulated other comprehensive loss	(343,819)	(93,453)
Less – treasury stock, at cost (40,644,602 shares in 2005 and 31,345,028 shares in 2004)	2,161,960	1,432,019
Total	7,742,747	8,296,687
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$30,851,269	\$28,310,777

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands, for the years ended December 31,	2005	2004	2003
OPERATING ACTIVITIES:			
Consolidated net income	\$ 923,758	\$ 933,049	\$ 950,467
Adjustments to reconcile consolidated net income to net cash flow provided by operating activities:			
Reserve for regulatory adjustments	(82,033)	33,533	13,090
Other regulatory credits – net	(49,882)	(90,611)	(13,761)
Depreciation, amortization, and decommissioning	1,001,852	1,045,122	996,603
Deferred income taxes and investment tax credits	626,813	275,458	1,189,531
Cumulative effect of accounting changes	–	–	(137,074)
Equity in earnings (loss) of unconsolidated equity affiliates – net of dividends	4,315	608,141	(176,036)
Provision for asset impairments and restructuring charges	39,767	55,000	(7,743)
Changes in working capital:			
Receivables	(367,351)	(210,419)	(140,612)
Fuel inventory	(83,125)	(16,769)	(14,015)
Accounts payable	303,194	95,306	(60,164)
Taxes accrued	(172,315)	75,055	(882,446)
Interest accrued	15,133	5,269	(35,837)
Deferred fuel	(236,801)	213,627	(33,874)
Other working capital accounts	(45,653)	41,008	16,809
Provision for estimated losses and reserves	(3,704)	(18,041)	196,619
Changes in other regulatory assets	(311,934)	48,626	22,671
Other	(94,226)	(164,035)	121,592
Net cash flow provided by operating activities	1,467,808	2,929,319	2,005,820
INVESTING ACTIVITIES:			
Construction/capital expenditures	(1,458,086)	(1,410,610)	(1,568,943)
Allowance for equity funds used during construction	45,736	39,582	42,710
Nuclear fuel purchases	(314,414)	(238,170)	(224,308)
Proceeds from sale/leaseback of nuclear fuel	184,403	109,988	150,135
Proceeds from sale of assets and businesses	–	75,430	25,987
Payment for purchase of plant	(162,075)	–	–
Investment in non-utility properties	–	(6,420)	(71,438)
Decrease in other investments	9,905	383,498	172,187
Purchases of other temporary investments	(1,591,025)	(1,629,500)	(613,464)
Liquidation of other temporary investments	1,778,975	1,676,350	378,664
Proceeds from nuclear decommissioning trust fund sales	944,253	679,466	729,440
Investment in nuclear decommissioning trust funds	(1,039,824)	(769,273)	(820,958)
Other regulatory investments	(390,456)	(53,566)	(156,446)
Other	–	–	(11,496)
Net cash flow used in investing activities	(1,992,608)	(1,143,225)	(1,967,930)

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands, for the years ended December 31,	2005	2004	2003
FINANCING ACTIVITIES:			
Proceeds from the issuance of:			
Long-term debt	4,302,570	3,653,478	4,596,189
Preferred stock	127,995	–	–
Common stock and treasury stock	106,068	170,237	217,521
Retirement of long-term debt	(2,689,206)	(4,022,548)	(5,284,917)
Repurchase of common stock	(878,188)	(1,017,996)	(8,135)
Redemption of preferred stock	(33,719)	(3,450)	(3,450)
Changes in credit line borrowings – net	39,850	(154)	–
Dividends paid:			
Common stock	(453,508)	(427,901)	(362,814)
Preferred stock	(25,472)	(23,525)	(23,524)
Net cash flow provided by (used in) financing activities	496,390	(1,671,859)	(869,130)
Effect of exchange rates on cash and cash equivalents	(602)	(1,882)	3,345
Net increase (decrease) in cash and cash equivalents	(29,012)	112,353	(827,895)
Cash and cash equivalents at beginning of period	619,786	507,433	1,335,328
Effect of the deconsolidation of Entergy New Orleans on cash and cash equivalents	(7,954)	–	–
Cash and cash equivalents at end of period	\$ 582,820	\$ 619,786	\$ 507,433
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest – net of amount capitalized	\$ 461,345	\$ 477,768	\$ 552,017
Income taxes	\$ 116,072	\$ 28,241	\$ 188,709

See Notes to Consolidated Financial Statements.

NOTES to CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements include the accounts of Entergy Corporation and its direct and indirect subsidiaries. As required by generally accepted accounting principles, all significant intercompany transactions have been eliminated in the consolidated financial statements. The domestic utility companies and System Energy maintain accounts in accordance with Federal Energy Regulatory Commission (FERC) and other regulatory guidelines. Certain previously reported amounts have been reclassified to conform to current classifications, with no effect on net income or shareholders' equity.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of Entergy Corporation's consolidated financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Adjustments to the reported amounts of assets and liabilities may be necessary in the future to the extent that future estimates or actual results are different from the estimates used.

REVENUES AND FUEL COSTS

The domestic utility companies generate, transmit, and distribute electric power primarily to retail customers in Arkansas, Louisiana, including the City of New Orleans, Mississippi, and Texas. Entergy Gulf States distributes gas to retail customers in and around Baton Rouge, Louisiana and Entergy New Orleans distributes gas to retail customers in the City of New Orleans. Entergy's Non-Utility Nuclear and Energy Commodity Services segments derive almost all of their revenue from sales of electric power generated by plants owned by them.

Entergy recognizes revenue from electric power and gas sales when it delivers power or gas to its customers. To the extent that deliveries have occurred but a bill has not been issued, the domestic utility companies accrue an estimate of the revenues for energy delivered since the latest billings. Entergy calculates the estimate based upon several factors including billings through the last billing cycle in a month, actual generation in the month, historical line loss factors, and prices in effect in the domestic utility companies' various jurisdictions. Each month the estimated unbilled revenue amounts are recorded as revenue and a receivable, and the prior month's estimate is reversed. Therefore, changes in price and volume differences resulting from factors such as weather affect the calculation of unbilled revenues from one period to the next, and may result in variability in reported revenues from one period to the next as prior estimates are so recorded and reversed.

The domestic utility companies' rate schedules include either fuel adjustment clauses or fixed fuel factors, which allow either current recovery in billings to customers or deferral of fuel costs until the costs are billed to customers. Because the fuel adjustment clause mechanism allows monthly adjustments to recover fuel costs, Entergy Louisiana, Entergy New Orleans, and the Louisiana portion of Entergy Gulf States include a component of fuel cost recovery in their unbilled revenue calculations. Where the fuel component of revenues is billed based on a pre-determined fuel cost (fixed fuel factor), the fuel factor remains in effect until changed as part of a general rate case, fuel reconciliation, or fixed fuel factor filing. Entergy Mississippi's fuel factor includes an energy cost rider that is adjusted quarterly. As discussed in Note 2 to the consolidated financial statements, the Mississippi Public Service Commission (MPSC) approved Entergy Mississippi's deferral of the refund of over-recoveries for the third quarter of 2004 that would have been refunded in the first quarter of 2005. The deferred amount plus carrying charges was refunded in the second and third quarters of 2005. In the case of Entergy Arkansas and the Texas portion of Entergy Gulf States, their fuel under-recoveries are treated in the cash flow statements as regulatory investments because those companies are allowed by their regulatory jurisdictions to recover the fuel cost regulatory asset over longer than a twelve-month period, and the companies earn a carrying charge on the under-recovered balances.

System Energy's operating revenues are intended to recover from Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans operating expenses and capital costs attributable to Grand Gulf. The capital costs are computed by allowing a return on System Energy's common equity funds allocable to its net investment in Grand Gulf, plus System Energy's effective interest cost for its debt allocable to its investment in Grand Gulf.

PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment is stated at original cost. For the domestic utility companies and System Energy, the original cost of plant retired or removed, less salvage, is charged to accumulated depreciation. Normal maintenance, repairs, and minor replacement costs are charged to operating expenses. Substantially all of the domestic utility companies' and System Energy's plant is subject to mortgage liens.

Electric plant includes the portions of Grand Gulf and Waterford 3 that have been sold and leased back. For financial reporting purposes, these sale and leaseback arrangements are reflected as financing transactions.

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

Net property, plant, and equipment (including property under capital lease and accumulated amortization) by business segment and functional category, as of December 31, 2005 and 2004, is shown below (in millions):

2005	Entergy	U.S. Utility	Non-Utility Nuclear	All Other	2004	Entergy	U.S. Utility	Non-Utility Nuclear	All Other
Production					Production				
Nuclear	\$ 7,390	\$ 5,955	\$1,435	\$ –	Nuclear	\$ 7,308	\$ 5,987	\$1,321	\$ –
Other	1,590	1,321	–	269	Other	1,533	1,228	–	305
Transmission	2,394	2,394	–	–	Transmission	2,182	2,182	–	–
Distribution	4,599	4,599	–	–	Distribution	4,672	4,672	–	–
Other	992	989	–	3	Other	1,123	1,115	–	8
Construction work in progress	1,524	1,268	232	24	Construction work in progress	1,198	924	244	30
Nuclear fuel (leased and owned)	708	373	335	–	Nuclear fuel (leased and owned)	583	297	286	–
					Asset retirement obligation	97	97	–	–
Property, plant, and equipment – net	\$19,197	\$16,899	\$2,002	\$296	Property, plant, and equipment – net	\$18,696	\$16,502	\$1,851	\$343

Depreciation is computed on the straight-line basis at rates based on the estimated service lives of the various classes of property. Depreciation rates on average depreciable property approximated 2.7% in 2005 and 2.8% in 2004 and 2003. Included in these rates are the depreciation rates on average depreciable utility property of 2.6% in 2005, 2.7% in 2004, and 2.8% in 2003 and the depreciation rates on average depreciable non-utility property of 3.2% in 2005, 3.8% in 2004, and 3.3% in 2003.

Non-utility property – at cost (less accumulated depreciation) is reported net of accumulated depreciation of \$162.2 million and \$152.8 million as of December 31, 2005 and 2004, respectively.

JOINTLY-OWNED GENERATING STATIONS

Certain Entergy subsidiaries jointly own electric generating facilities with third parties. The investments and expenses associated with these generating stations are recorded by the Entergy subsidiaries to the extent of their respective undivided ownership interests. As of December 31, 2005, the subsidiaries' investment and accumulated depreciation in each of these generating stations were as follows (\$ in millions):

Generating Stations	Fuel-Type	Total Megawatt Capability ⁽¹⁾	Ownership	Investment	Accumulated Depreciation	
U.S. Utility:						
Grand Gulf	Unit 1	Nuclear	1,270	90.00% ⁽²⁾	\$3,680	\$1,890
Independence	Units 1 and 2	Coal	1,630	47.90%	\$ 466	\$ 260
White Bluff	Units 1 and 2	Coal	1,635	57.00%	\$ 430	\$ 277
Roy S. Nelson	Unit 6	Coal	550	70.00%	\$ 405	\$ 249
Big Cajun 2	Unit 3	Coal	575	42.00%	\$ 233	\$ 134
Energy Commodity Services:						
Harrison County		Gas	550	60.90%	\$ 179	\$ 10
Warren		Gas	300	75.00%	\$ 24	\$ 9

(1) "Total Megawatt Capability" is the dependable load carrying capability as demonstrated under actual operating conditions based on the primary fuel (assuming no curtailments) that each station was designed to utilize.

(2) Includes an 11.5% leasehold interest held by System Energy. System Energy's Grand Gulf lease obligations are discussed in Note 9 to the consolidated financial statements.

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

NUCLEAR REFUELING OUTAGE COSTS

Entergy records nuclear refueling outage costs in accordance with regulatory treatment and the matching principle. These refueling outage expenses are incurred to prepare the units to operate for the next operating cycle without having to be taken off line. Except for the River Bend plant, the costs are deferred during the outage and amortized over the period to the next outage. In accordance with the regulatory treatment of the River Bend plant, River Bend's costs are accrued in advance and included in the cost of service used to establish retail rates. Entergy Gulf States relieves the accrued liability when it incurs costs during the next River Bend outage.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC)

AFUDC represents the approximate net composite interest cost of borrowed funds and a reasonable return on the equity funds used for construction in the U.S. Utility segment. Although AFUDC increases both the plant balance and earnings, it is realized in cash through depreciation provisions included in rates.

INCOME TAXES

Entergy Corporation and the majority of its subsidiaries file a United States consolidated federal income tax return. Entergy Louisiana, LLC, formed December 31, 2005, is not a member of the consolidated group and files a separate federal income tax return. Income taxes are allocated to the subsidiaries in proportion to their contribution to consolidated taxable income. In accordance with Statement of Financial Accounting Standards (SFAS) 109, "Accounting for Income Taxes," deferred income taxes are recorded for all temporary differences between the book and tax basis of assets and liabilities, and for certain credits available for carryforward.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates in the period in which the tax or rate was enacted.

Investment tax credits are deferred and amortized based upon the average useful life of the related property, in accordance with ratemaking treatment.

EARNINGS PER SHARE

The following table presents Entergy's basic and diluted earnings per share (EPS) calculation included on the consolidated income statement (in millions, except per share data):

For the years ended December 31,	2005		2004		2003	
	\$/share		\$/share		\$/share	
Income from continuing operations before cumulative effect of accounting changes	\$943.1		\$909.6		\$804.3	
Average number of common shares outstanding – basic	210.1	\$4.49	226.9	\$4.01	226.8	\$3.55
Average dilutive effect of:						
Stock Options ⁽¹⁾	4.0	(0.085)	4.1	(0.071)	4.1	(0.063)
Deferred Units	0.3	(0.006)	0.2	(0.004)	0.2	(0.003)
Average number of common shares outstanding – diluted	214.4	\$4.40	231.2	\$3.93	231.1	\$3.48
Earnings applicable to common stock	\$898.3		\$909.5		\$926.9	
Average number of common shares outstanding – basic	210.1	\$4.27	226.9	\$4.01	226.8	\$4.09
Average dilutive effect of:						
Stock Options ⁽¹⁾	4.0	(0.081)	4.1	(0.071)	4.1	(0.073)
Deferred Units	0.3	(0.005)	0.2	(0.004)	0.2	(0.004)
Average number of common shares outstanding – diluted	214.4	\$4.19	231.2	\$3.93	231.1	\$4.01

(1) Options to purchase approximately 1,727,579 common stock shares in 2005, 3,319 common stock shares in 2004, and 15,231 common stock shares in 2003 at various prices were outstanding at the end of those years that were not included in the computation of diluted earnings per share because the exercise prices were greater than the common share average market price at the end of each of the years presented.

STOCK-BASED COMPENSATION PLANS

Entergy grants stock options to key employees of the Entergy subsidiaries, which is described more fully in Note 7 to the consolidated financial statements. Effective January 1, 2003, Entergy prospectively adopted the fair value based method of accounting for stock options prescribed by SFAS 123, "Accounting for Stock-Based Compensation." Awards under Entergy's plans vest over three years. Therefore, the cost related to stock-based employee compensation included in the determination of net income for 2004 and 2003 is less than that which would have been recognized if the fair value based method had been applied to all awards since the original effective date of SFAS 123. There is no pro forma effect for 2005 because all non-vested awards are accounted for at fair value. Stock-based compensation expense included in earnings applicable to common stock, net of related tax effects, for 2005 is \$7.8 million. The following table illustrates the effect on net income and earnings per share if Entergy would have historically applied the fair value based method of accounting to stock-based employee compensation (in thousands, except per share data):

For the years ended December 31,	2004	2003
Earnings applicable to common stock	\$909,524	\$926,943
Add back: Stock-based compensation expense included in earnings applicable to common stock, net of related tax effects	5,141	2,818
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	16,668	24,518
Pro forma earnings applicable to common stock	\$897,997	\$905,243
Earnings per average common share:		
Basic	\$4.01	\$4.09
Basic – pro forma	\$3.96	\$3.99
Diluted	\$3.93	\$4.01
Diluted – pro forma	\$3.88	\$3.92

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

APPLICATION OF SFAS 71

The domestic utility companies and System Energy currently account for the effects of regulation pursuant to SFAS 71, "Accounting for the Effects of Certain Types of Regulation." This statement applies to the financial statements of a rate-regulated enterprise that meets three criteria. The enterprise must have rates that (i) are approved by a body empowered to set rates that bind customers (its regulator); (ii) are cost-based; and (iii) can be charged to and collected from customers. These criteria may also be applied to separable portions of a utility's business, such as the generation or transmission functions, or to specific classes of customers. If an enterprise meets these criteria, it capitalizes costs that would otherwise be charged to expense if the rate actions of its regulator make it probable that those costs will be recovered in future revenue. Such capitalized costs are reflected as regulatory assets in the accompanying financial statements. A significant majority of Entergy's regulatory assets, net of related regulatory and deferred tax liabilities, earn a return on investment during their recovery periods, or Entergy expects that they will earn a return. SFAS 71 requires that rate-regulated enterprises assess the probability of recovering their regulatory assets. When an enterprise concludes that recovery of a regulatory asset is no longer probable, the regulatory asset must be removed from the entity's balance sheet.

SFAS 101, "Accounting for the Discontinuation of Application of Financial Accounting Standards Board (FASB) Statement No. 71," specifies how an enterprise that ceases to meet the criteria for application of SFAS 71 for all or part of its operations should report that event in its financial statements. In general, SFAS 101 requires that the enterprise report the discontinuation of the application of SFAS 71 by eliminating from its balance sheet all regulatory assets and liabilities related to the applicable segment. Additionally, if it is determined that a regulated enterprise is no longer recovering all of its costs and therefore no longer qualifies for SFAS 71 accounting, it is possible that an impairment may exist that could require further write-offs of plant assets.

Emerging Issues Task Force (EITF) 97-4: "Deregulation of the Pricing of Electricity – Issues Related to the Application of FASB Statements No. 71 and 101" specifies that SFAS 71 should be discontinued at a date no later than when the effects of a transition to competition plan for all or a portion of the entity subject to such plan are reasonably determinable. Additionally, EITF 97-4 promulgates that regulatory assets to be recovered through cash flows derived from another portion of the entity that continues to apply SFAS 71 should not be written off; rather, they should be considered regulatory assets of the segment that will continue to apply SFAS 71.

See Note 2 to the consolidated financial statements for discussion of transition to competition activity in the retail regulatory jurisdictions served by the domestic utility companies. Only Texas has a currently enacted retail open access law, but Entergy believes that significant issues remain to be addressed by regulators, and the enacted law does not provide sufficient detail to reasonably determine the impact on Entergy Gulf States' regulated operations.

CASH AND CASH EQUIVALENTS

Entergy considers all unrestricted highly liquid debt instruments with an original or remaining maturity of three months or less at date of purchase to be cash equivalents. Investments with original maturities of more than three months are classified as other temporary investments on the balance sheet.

OTHER TEMPORARY INVESTMENTS

The consolidated balance sheet as of December 31, 2004 reflects a reclassification from cash and cash equivalents to other temporary investments of \$188 million of instruments used in Entergy's cash management program. A corresponding change was made to the consolidated statement of cash flows for the years ended December 31, 2004 and 2003 resulting in reductions of \$188 million and \$185 million, respectively, in the amounts presented as cash and cash equivalents as of December 31, 2004 and December 31, 2003. This reclassification is to present certain highly-liquid auction rate securities as short-term investments rather than as cash equivalents due to the stated tenor of the maturities of these investments. Entergy actively invests its available cash balance in financial instruments, which prior to September 2005 included auction rate securities that have stated maturities of 20 years or more. The auction rate securities provided a high degree of liquidity through features such as 7 and 28 day auctions that allow for the redemption of the securities at their face amount plus earned interest. Because Entergy intended to sell these instruments within one year or less, typically within 28 days of the balance sheet date, they are classified as current assets. As of December 31, 2005, Entergy no longer holds any of these auction rate securities.

INVESTMENTS

Entergy applies the provisions of SFAS 115, "Accounting for Investments for Certain Debt and Equity Securities," in accounting for investments in decommissioning trust funds. As a result, Entergy records the decommissioning trust funds at their fair value on the consolidated balance sheet. Because of the ability of the domestic utility companies and System Energy to recover decommissioning costs in rates and in accordance with the regulatory treatment for decommissioning trust funds, the domestic utility companies and System Energy have recorded an offsetting amount of unrealized gains/(losses) on investment securities in other regulatory liabilities/assets. For the nonregulated portion of River Bend, Entergy Gulf States has recorded an offsetting amount of unrealized gains/(losses) in other deferred credits. Decommissioning trust funds for Pilgrim, Indian Point 2, and Vermont Yankee do not receive regulatory treatment. Accordingly, unrealized gains and losses recorded on the assets in these trust funds are recognized in the accumulated other comprehensive income component of shareholders' equity because these assets are classified as available for sale. See Note 15 to the consolidated financial statements for details on the decommissioning trust funds. Entergy records an impairment on investments when the fair market value is less than the carrying value of the asset and that condition is considered other than temporary.

EQUITY METHOD INVESTEEES

Entergy owns investments that are accounted for under the equity method of accounting because Entergy's ownership level results in significant influence, but not control, over the investee and its operations. Entergy records its share of earnings or losses of the investee based on the change during the period in the estimated liquidation value of the investment, assuming that the investee's assets were to be liquidated at book value. In accordance with this method, earnings are allocated to owners or members based on what each partner would receive from its capital account if, hypothetically, liquidation were to occur at the balance sheet date and amounts distributed were based on recorded book values. Entergy discontinues the recognition of losses on equity investments when its share of losses equals or exceeds its carrying amount of investee plus any advances made

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

or commitments to provide additional financial support. See Note 12 to the consolidated financial statements for additional information regarding Entergy's equity method investments.

DERIVATIVE FINANCIAL INSTRUMENTS
AND COMMODITY DERIVATIVES

SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," requires that all derivatives be recognized in the balance sheet, either as assets or liabilities, at fair value, unless they meet the normal purchase, normal sales criteria. The changes in the fair value of recognized derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction.

Contracts for commodities that will be delivered in quantities expected to be used or sold in the ordinary course of business, including certain purchases and sales of power and fuel, are not classified as derivatives. These contracts are exempted under the normal purchase, normal sales criteria of SFAS 133. Revenues and expenses from these contracts are reported on a gross basis in the appropriate revenue and expense categories as the commodities are received or delivered.

For other contracts for commodities in which Entergy is hedging the variability of cash flows related to a variable-rate asset, liability, or forecasted transactions that qualify as cash flow hedges, the changes in the fair value of such derivative instruments are reported in other comprehensive income. To qualify for hedge accounting, the relationship between the hedging instrument and the hedged item must be documented to include the risk management objective and strategy and, at inception and on an ongoing basis, the effectiveness of the hedge in offsetting the changes in the cash flows of the item being hedged. Gains or losses accumulated in other comprehensive income are reclassified as earnings in the periods in which earnings are affected by the variability of the cash flows of the hedged item. The ineffective portions of all hedges are recognized in current-period earnings.

IMPAIRMENT OF LONG-LIVED ASSETS

Entergy periodically reviews long-lived assets held in all of its business segments whenever events or changes in circumstances indicate that recoverability of these assets is uncertain. Generally, the determination of recoverability is based on the undiscounted net cash flows expected to result from such operations and assets. Projected net cash flows depend on the future operating costs associated with the assets, the efficiency and availability of the assets and generating units, and the future market and price for energy over the remaining life of the assets. See Note 11 to the consolidated financial statements for a discussion of asset impairments recognized by Entergy in 2005 and 2004.

RIVER BEND AFUDC

The River Bend AFUDC gross-up is a regulatory asset that represents the incremental difference imputed by the Louisiana Public Service Commission (LPSC) between the AFUDC actually recorded by Entergy Gulf States on a net-of-tax basis during the construction of River Bend and what the AFUDC would have been on a pre-tax basis. The imputed amount was only calculated on that portion of River Bend that the LPSC allowed in rate base and is being amortized over the estimated remaining economic life of River Bend.

TRANSITION TO COMPETITION LIABILITIES

In conjunction with electric utility industry restructuring activity in Texas, regulatory mechanisms were established to mitigate potential stranded costs. Texas restructuring legislation allowed depreciation on transmission and distribution assets to be directed toward generation assets. The liability recorded as a result of this mechanism is classified as "transition to competition" deferred credits on the balance sheet.

REACQUIRED DEBT

The premiums and costs associated with reacquired debt of the domestic utility companies and System Energy (except that portion allocable to the deregulated operations of Entergy Gulf States) are included in regulatory assets and are being amortized over the life of the related new issuances, in accordance with ratemaking treatment.

FOREIGN CURRENCY TRANSLATION

All assets and liabilities of Entergy's foreign subsidiaries are translated into U.S. dollars at the exchange rate in effect at the end of the period. Revenues and expenses are translated at average exchange rates prevailing during the period. The resulting translation adjustments are reflected in the comprehensive income component of shareholders' equity. Current exchange rates are used for U.S. dollar disclosures of future obligations denominated in foreign currencies.

NEW ACCOUNTING PRONOUNCEMENTS

SFAS 123R, "Share-Based Payment" was issued in December 2004 and is effective for Entergy in the first quarter of 2006. SFAS 123R requires all employers to account for share-based payments at fair value and also provides guidance on determining the assumptions to estimate fair value. SFAS 123R also provides guidance on how to account for differences in the amounts of deferred taxes initially recorded when the options are recorded as expense and the amount of expense deducted on a company's tax return when the options are actually exercised. Entergy began voluntarily expensing its stock options effective January 1, 2003 in accordance with SFAS 148, "Stock-Based Compensation – Transition and Disclosure." Entergy is in the process of finalizing its evaluation of the reporting and disclosure issues resulting from the adoption of SFAS 123R but does not expect the effect of the adoption of this standard to be material to Entergy's financial position or results of operations.

As discussed in Note 8 to the consolidated financial statements, Entergy adopted FIN 47, "Accounting for Conditional Asset Retirement Obligations" during the fourth quarter of 2005. FIN 47 requires that a liability be recorded currently for costs associated with a legal obligation to perform an asset retirement obligation activity for which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity but for which the obligation to perform the asset retirement activity is unconditional. FIN 47 requires that a liability be recognized for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated.

SFAS 151, "Inventory Costs – an amendment of ARB No. 43, Chapter 4" and SFAS 153, "Exchanges of Nonmonetary Assets", were issued during the fourth quarter of 2004 and are effective for Entergy in 2006 and 2005, respectively. SFAS 154, "Accounting Changes and Error Corrections" was issued in 2005 and is effective for Entergy in 2006. Entergy does not expect the impact of the issuance of these standards to be material to its financial position or results of operations.

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

NOTE 2. RATE AND REGULATORY MATTERS

REGULATORY ASSETS

Other Regulatory Assets

The domestic utility companies and System Energy are subject to the provisions of SFAS 71, "Accounting for the Effects of Certain Types of Regulation." Regulatory assets represent probable future revenues associated with certain costs that are expected to be recovered from customers through the ratemaking process. In addition to the regulatory assets that are specifically disclosed on the face of the balance sheets, the table below provides detail of "Other regulatory assets" that are included on the balance sheets as of December 31, 2005 and 2004 (in millions):

	2005	2004
Asset Retirement Obligation –		
recovery dependent upon		
timing of decommissioning (Note 8)	\$ 271.7	\$ 380.1
Deferred fuel – non-current –		
recovered through rate riders when rates		
are redetermined periodically (Note 2)	6.1	21.9
Depreciation re-direct –		
recovery begins at start of		
retail open access (Note 1)	79.1	79.1
U.S. Department of Energy (DOE)		
Decommissioning		
and Decontamination Fees –		
recovered through fuel rates		
until December 2006 (Note 8)	17.5	25.3
Low-level radwaste	–	19.4
Pension costs (Note 10)	396.1	207.3
Postretirement benefits –		
recovered through 2012 (Note 10)	16.8	19.1
Provision for storm damages –		
recovered through cost of service ^(a)	695.8	124.5
Removal costs –		
recovered through depreciation rates (Note 8)	140.4	53.2
Deferred capacity – recovery timing		
will be determined by the LPSC in the formula		
rate plan filings (Note 2)	93.8	25.4
River Bend AFUDC –		
recovered through August 2025 (Note 1)	35.6	37.5
Sale-leaseback deferral –		
recovered through June 2014 (Note 9)	121.4	127.3
Spindletop gas storage facility -		
recovered through December 2032	40.6	42.3
Unamortized loss on reacquired debt –		
recovered over term of debt	165.1	169.9
Other – various	53.7	97.0
Total	\$2,133.7	\$1,429.3

(a) As a result of Hurricane Katrina and Hurricane Rita that hit Entergy's service territory in August and September 2005, Entergy has recorded accruals for the estimated storm restoration costs. Entergy recorded some of these costs as regulatory assets because management believes that recovery of these prudently incurred costs through some form of regulatory mechanism is probable. Entergy is pursuing a broad range of initiatives to recover storm restoration costs. Initiatives include obtaining reimbursement of certain costs covered by insurance, obtaining assistance through federal legislation for Hurricanes Katrina and Rita, and pursuing recovery through existing or new rate mechanisms regulated by the FERC and local regulatory bodies.

In December 2005, Entergy Mississippi filed with the MPSC a Notice of Intent to change rates by implementing a Storm Damage Rider to recover storm damage restoration costs associated with Hurricanes Katrina and Rita totaling approximately \$84 million as of November 30, 2005. The notice proposes recovery of

approximately \$14.7 million, including carrying charges, annually over a five-year period. A hearing on this matter is expected in April 2006. Entergy Mississippi plans to make a second filing in late spring of 2006 to recover additional restoration costs associated with the hurricanes incurred after November 30, 2005 and to reflect receipt of insurance and federal aid.

In December 2005, Entergy Gulf States filed with the LPSC for interim recovery of \$141 million of storm costs. The filing proposes implementing an \$18.7 million annual interim surcharge, including carrying charges and subject to refund, effective March 2006 based on a ten-year recovery period. The filing includes provisions for updating the surcharge to reflect actual costs incurred as well as the receipt of insurance or federal aid. Hearings occurred in February 2006. The LPSC ordered that Entergy Gulf States recover \$850,000 per month as interim storm cost recovery. For the period March 2006 to September 2006, Entergy Gulf States' interim storm cost recovery shall be through its fuel adjustment clause, with the total recovery for that time period capped at \$6 million. The mechanism for the fuel adjustment clause recovery is a retention by Entergy Gulf States of 15% of the difference between the February 2006 fuel adjustment clause and the fuel adjustment clause in those successive months in which the fuel adjustment clause is lower than it was in the February 2006 fuel adjustment clause, until the \$6 million cap is reached. Beginning in September 2006, Entergy Gulf States' interim storm cost recovery of \$850,000 per month shall be through base rates. In addition, all excess earnings that Entergy Gulf States may earn under its 2005 formula rate plan, and any ensuing period in which interim relief is being collected, will be used as an offset to any prospective storm restoration recovery.

In December 2005, Entergy Louisiana filed with the LPSC for interim recovery of \$355 million of storm costs. The filing proposes implementing a \$41.8 million annual interim surcharge, including carrying charges and subject to refund, effective March 2006 based on a ten-year recovery period. The filing includes provisions for updating the surcharge to reflect actual costs incurred as well as the receipt of insurance or federal aid. Hearings occurred in February 2006. The LPSC ordered that Entergy Louisiana recover \$2 million per month as interim storm cost recovery. For the period March 2006 to September 2006, Entergy Louisiana's interim storm cost recovery shall be through its fuel adjustment clause, with the total recovery for that time period capped at \$14 million. The mechanism for the fuel adjustment clause recovery is a retention by Entergy Louisiana of 15% of the difference between the February 2006 fuel adjustment clause and the fuel adjustment clause in those successive months in which the fuel adjustment clause is lower than it was in the February 2006 fuel adjustment clause, until the \$14 million cap is reached. Beginning in September 2006, Entergy Louisiana's interim storm cost recovery of \$2 million per month shall be through base rates. In addition, all excess earnings that Entergy Louisiana may earn under its 2005 formula rate plan, and any ensuing period in which interim relief is being collected, will be used as an offset to any prospective storm restoration recovery.

Deferred Fuel Costs

The domestic utility companies are allowed to recover certain fuel and purchased power costs through fuel mechanisms included in electric and gas rates that are recorded as fuel cost recovery revenues. The difference between revenues collected and the current fuel and purchased power costs is recorded as "Deferred fuel costs" on the domestic utility companies' financial statements. The table below shows the amount of deferred fuel costs as of December 31, 2005 and 2004 that Entergy expects to recover or (refund) through

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

the fuel mechanisms of the domestic utility companies, subject to subsequent regulatory review (in millions):

	2005	2004
Entergy Arkansas	\$204.2	\$ 7.4
Entergy Gulf States	\$324.4	\$ 90.1
Entergy Louisiana	\$ 21.9	\$ 8.7
Entergy Mississippi	\$114.0	\$(22.8)
Entergy New Orleans	N/A ^(a)	\$ 2.6

(a) Not included due to the deconsolidation of Entergy New Orleans in 2005.

Entergy Arkansas

In March 2005, Entergy Arkansas filed with the Arkansas Public Service Commission (APSC) its energy cost recovery rider for the period April 2005 through March 2006. The filed energy cost rate, which accounts for 15 percent of a typical residential customer's bill using 1,000 kWh per month, increased 31 percent primarily attributable to a true-up adjustment for an under-recovery balance of \$11.2 million and a nuclear refueling adjustment resulting from outages scheduled in 2005 at Arkansas Nuclear One Units 1 and 2 (ANO 1 and 2) and Grand Gulf.

In September 2005, Entergy Arkansas filed with the APSC an interim energy cost rate per the energy cost recovery rider that provides for an interim adjustment should the cumulative over- or under-recovery for the energy period exceed 10 percent of the energy costs for that period. As of the end of July 2005, the cumulative under-recovery of fuel and purchased power expenses had exceeded the 10 percent threshold due to increases in purchased power expenditures resulting from higher natural gas prices. The interim rate became effective the first billing cycle in October 2005. In early October 2005, the APSC initiated an investigation into Entergy Arkansas' interim rate. The investigation is focused on Entergy Arkansas' 1) gas contracting, portfolio, and hedging practices; 2) wholesale purchases during the period; 3) management of the coal inventory at its coal generation plants; and 4) response to the contractual failure of the railroads to provide coal deliveries. The APSC established a procedural schedule with testimony from Entergy Arkansas, the APSC Staff, and intervenors culminating in a public hearing in May 2006.

Entergy Gulf States (Texas)

In the Texas jurisdiction, Entergy Gulf States' rate schedules include a fixed fuel factor to recover fuel and purchased power costs, including carrying charges, not recovered in base rates. Under the current methodology, semi-annual revisions of the fixed fuel factor may be made in March and September based on the market price of natural gas. Entergy Gulf States will likely continue to use this methodology until the start of retail open access, which has been delayed. The amounts collected under Entergy Gulf States' fixed fuel factor and any interim surcharge implemented until the date retail open access commences are subject to fuel reconciliation proceedings before the PUCT. In the Texas jurisdiction, Entergy Gulf States' deferred electric fuel costs are \$203.2 million as of December 31, 2005, which includes the following (in millions):

Under-recovered fuel costs for the period 8/04 – 7/05 to be recovered through an interim fuel surcharge over a twelve-month period beginning in January 2006	\$ 46.1
Under-recovered fuel costs for the period 8/05 – 12/05	\$101.0
Items to be addressed as part of unbundling	\$ 29.0
Other (includes imputed capacity charges)	\$ 27.1

The PUCT has ordered that the imputed capacity charges be excluded from fuel rates and therefore recovered through base rates. Entergy Gulf States filed with the PUCT in July 2005 a request for implementation of an incremental purchased capacity recovery rider, consistent with the recently passed Texas legislation discussed below under "Electric Industry Restructuring and the Continued Application of SFAS 71." The rider requested \$23.1 million annually in incremental revenues on a Texas retail basis which represents the incremental purchased capacity costs, including Entergy Gulf States' obligation to purchase power from Entergy Louisiana's recently acquired Perryville plant, over what is already in Entergy Gulf States' base rates. Entergy Gulf States reached an initial agreement with parties that the date upon which cost recovery and cost reconciliation would begin is September 1, 2005. A further non-unanimous settlement was reached with most of the parties that allows for the rider to be implemented effective December 1, 2005 and collect \$18 million annually. The settlement also provides for a fuel reconciliation to be filed by Entergy Gulf States by May 15, 2006 that will resolve the remaining issues in the case with the exception of the amount of purchased power in current base rates and the costs to which load growth is attributed, both of which were settled. The hearing with respect to the non-unanimous settlement, which was opposed by the Office of Public Utility Counsel, was conducted on October 19, 2005 before the Administrative Law Judge (ALJ), who issued a Proposal for Decision supporting the settlement. In December 2005, the PUCT approved the settlement. The amounts collected by the purchased capacity recovery rider are subject to reconciliation.

In September 2005, Entergy Gulf States filed an application with the PUCT to implement a net \$46.1 million interim fuel surcharge, including interest, to collect under-recovered fuel and purchased power expenses incurred from August 2004 through July 2005. The application was approved, and the surcharge will be collected over a twelve-month period beginning in January 2006. On March 1, 2006, Entergy Gulf States filed with the PUCT an application to implement an interim fuel surcharge in connection with the under-recovery of \$97 million including interest of eligible fuel costs for the period August 2005 through January 2006. This surcharge is in addition to the interim surcharge that went into effect in January 2006. Entergy Gulf States has requested that the interim surcharge requested in its March 2006 filing be implemented by June 1, 2006 and remain in effect for twelve months. Amounts collected through the interim fuel surcharges are subject to final reconciliation in a future fuel reconciliation proceeding.

In March 2004, Entergy Gulf States filed with the PUCT a fuel reconciliation case covering the period September 2000 through August 2003 reconciling \$1.43 billion of fuel and purchased power costs on a Texas retail basis. This amount includes \$8.6 million of under-recovered costs that Entergy Gulf States asked to reconcile and roll into its fuel over/under-recovery balance to be addressed in the next appropriate fuel proceeding. This case involves imputed capacity and River Bend payment issues similar to those decided adversely in the January 2001 proceeding, discussed below, which is now on appeal. On January 31, 2005, the ALJ issued a Proposal for Decision that recommends disallowing \$10.7 million (excluding interest) related to these two issues. In April 2005, the PUCT issued an order reversing in part the ALJ's Proposal for Decision and allowing Entergy Gulf States to recover a part of its request related to the imputed capacity and River Bend payment issues. The PUCT's order reduced the disallowance in the case to \$8.3 million. Both Entergy Gulf States and certain Cities served by Entergy Gulf

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

States filed motions for rehearing on these issues which were denied by the PUCT. Entergy Gulf States and certain Cities filed appeals to the Travis County District Court. The appeals are pending. Any disallowance will be netted against Entergy Gulf States' under-recovered costs and will be included in its deferred fuel costs balance.

In January 2001, Entergy Gulf States filed with the PUCT a fuel reconciliation case covering the period from March 1999 through August 2000. Entergy Gulf States was reconciling approximately \$583 million of fuel and purchased power costs. As part of this filing, Entergy Gulf States requested authority to collect \$28 million, plus interest, of under-recovered fuel and purchased power costs. In August 2002, the PUCT reduced Entergy Gulf States' request to approximately \$6.3 million, including interest through July 31, 2002. Approximately \$4.7 million of the total reduction to the requested surcharge relates to nuclear fuel costs that the PUCT deferred ruling on at that time. In October 2002, Entergy Gulf States appealed the PUCT's final order in Texas District Court. In its appeal, Entergy Gulf States is challenging the PUCT's disallowance of approximately \$4.2 million related to imputed capacity costs and its disallowance related to costs for energy delivered from the 30% non-regulated share of River Bend. The case was argued before the Travis County District Court in August 2003 and the Travis County District Court judge affirmed the PUCT's order. In October 2003, Entergy Gulf States appealed this decision to the Court of Appeals. Oral argument before the appellate court occurred in September 2004, and the Court denied Entergy Gulf States' appeal. In October 2005, Entergy Gulf States filed a petition for review by the Texas Supreme Court, and in December 2005, the Texas Supreme Court requested that responses be filed to Entergy Gulf States' petition as part of its ongoing consideration of whether to exercise its discretion to grant review of this matter. Those responses and Entergy Gulf States' reply to those responses were filed in January 2006.

Entergy Gulf States (Louisiana) and Entergy Louisiana

In Louisiana, Entergy Gulf States and Entergy Louisiana recover electric fuel and purchased power costs for the upcoming month based upon the level of such costs from the prior month. In Louisiana, Entergy Gulf States' purchased gas adjustments include estimates for the billing month adjusted by a surcharge or credit for deferred fuel expense arising from monthly reconciliations of actual fuel costs incurred with fuel cost revenues billed to customers.

In August 2000, the LPSC authorized its staff to initiate a proceeding to audit the fuel adjustment clause filings of Entergy Louisiana pursuant to a November 1997 LPSC general order. The time period that is the subject of the audit is January 1, 2000 through December 31, 2001. In September 2003, the LPSC staff issued its audit report and recommended a disallowance with regard to one item. The issue relates to the alleged failure to uprate Waterford 3 in a timely manner, a claim that also has been raised in the summer 2001, 2002, and 2003 purchased power proceedings. The global settlement approved by the LPSC in March 2005, discussed below in "Retail Rate Proceedings," resolves the uprate imprudence disallowance and is no longer at issue in this proceeding. Subsequent to the issuance of the audit report, the scope of this docket was expanded to include a review of annual reports on fuel and purchased power transactions with affiliates and a prudence review of transmission planning issues. Also, in July 2005, the LPSC expanded the audit to include the years 2002 through 2004.

A procedural schedule has been established and LPSC staff and intervenor testimony is due in April 2006.

In January 2003, the LPSC authorized its staff to initiate a proceeding to audit the fuel adjustment clause filings of Entergy Gulf States and its affiliates pursuant to a November 1997 LPSC general order. The audit will include a review of the reasonableness of charges flowed by Entergy Gulf States through its fuel adjustment clause in Louisiana for the period January 1, 1995 through December 31, 2002. Discovery is underway, but a detailed procedural schedule extending beyond the discovery stage has not yet been established, and the LPSC staff has not yet issued its audit report. In June 2005, the LPSC expanded the audit to include the years through 2004.

In November 2005, the LPSC authorized its staff to initiate an expedited proceeding to audit the fuel and power procurement activities of Entergy Louisiana and Entergy Gulf States for the period January 1, 2005 through October 31, 2005.

Entergy Mississippi

Entergy Mississippi's rate schedules include an energy cost recovery rider which is adjusted quarterly to reflect accumulated over- or under-recoveries from the second prior quarter. In January 2005, the MPSC approved a change in Entergy Mississippi's energy cost recovery rider. Entergy Mississippi's fuel over-recoveries for the third quarter of 2004 of \$21.3 million were deferred from the first quarter 2005 energy cost recovery rider adjustment calculation. The deferred amount of \$21.3 million plus carrying charges was refunded through the energy cost recovery rider in the second and third quarters of 2005.

In May 2003, Entergy Mississippi filed and the MPSC approved a change in Entergy Mississippi's energy cost recovery rider. Under the MPSC's order, Entergy Mississippi deferred until 2004 the collection of fuel under-recoveries for the first and second quarters of 2003 that would have been collected in the third and fourth quarters of 2003, respectively. The deferred amount of \$77.6 million plus carrying charges was collected through the energy cost recovery rider over a twelve-month period that began in January 2004.

RETAIL RATE PROCEEDINGS**Filings with the APSC*****Retail Rates***

No significant retail rate proceedings are pending in Arkansas at this time.

Filings with the PUCT and Texas Cities***Retail Rates***

Entergy Gulf States is operating in Texas under a base rate freeze that has remained in effect during the delay in the implementation of retail open access in Entergy Gulf States' Texas service territory. As discussed in "Electric Industry Restructuring and the Continued Application of SFAS 71" below, a Texas law was enacted in June 2005 which includes provisions in the Texas legislation regarding Entergy Gulf States' ability to file a general rate case and to file for recovery of transition to competition costs. As authorized by the legislation, in August 2005, Entergy Gulf States filed with the PUCT an application for recovery of its transition to competition costs. Entergy Gulf States requested recovery of \$189 million in transition to competition costs through implementation of a 15-year rider to be effective no later than March 1, 2006. The \$189 million

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

represents transition to competition costs Entergy Gulf States incurred from June 1, 1999 through June 17, 2005 in preparing for competition in its service area, including attendant AFUDC, and all carrying costs projected to be incurred on the transition to competition costs through February 28, 2006. The \$189 million is before any gross-up for taxes or carrying costs over the 15-year recovery period. Entergy Gulf States has reached a unanimous settlement agreement in principle on all issues with the active parties in the transition to competition cost recovery case. The agreement in principle allows Entergy Gulf States to recover \$14.5 million per year in transition to competition costs over a 15-year period. Entergy Gulf States implemented interim rates based on this revenue level on March 1, 2006, subject to refund. Entergy Gulf States expects that the PUCT will consider the formal settlement document, which is currently being developed, in the second quarter 2006.

The Texas law enacted also allowed Entergy Gulf States to file with the PUCT for recovery of certain incremental purchased capacity costs which was implemented effective December 1, 2005. This proceeding is discussed above under "Deferred Fuel Costs."

Recovery of River Bend Costs

In March 1998, the PUCT disallowed recovery of \$1.4 billion of company-wide abeyed River Bend plant costs, which have been held in abeyance since 1988. Entergy Gulf States appealed the PUCT's decision on this matter to the Travis County District Court in Texas. In April 2002, the Travis County District Court issued an order affirming the PUCT's order on remand disallowing recovery of the abeyed plant costs. Entergy Gulf States appealed this ruling to the Third District Court of Appeals. In July 2003, the Third District Court of Appeals unanimously affirmed the judgment of the Travis County District Court. After considering the progress of the proceeding in light of the decision of the Court of Appeals, Entergy Gulf States accrued for the loss that would be associated with a final, non-appealable decision disallowing the abeyed plant costs. The net carrying value of the abeyed plant costs was \$107.7 million at the time of the Court of Appeals decision. Accrual of the \$107.7 million loss was recorded in the second quarter of 2003 as miscellaneous other income (deductions) and reduced net income by \$65.6 million after-tax. In September 2004, the Texas Supreme Court denied Entergy Gulf States' petition for review, and Entergy Gulf States filed a motion for rehearing. In February 2005, the Texas Supreme Court denied the motion for rehearing, and the proceeding is now final.

Filings with the LPSC**Global Settlement including Entergy Gulf States and Entergy Louisiana**

In March 2005, the LPSC approved a settlement proposal to resolve various dockets covering a range of issues for Entergy Gulf States and Entergy Louisiana. The settlement resulted in credits totaling \$76 million for retail electricity customers in Entergy Gulf States' Louisiana service territory and credits totaling \$14 million for retail electricity customers of Entergy Louisiana. The net income effect of \$48.6 million for Entergy Gulf States and \$8.6 million for Entergy Louisiana was recognized primarily in 2004 when Entergy Gulf States and Entergy Louisiana recorded provisions for the expected outcome of the proceeding. The settlement dismissed Entergy Gulf States' fourth, fifth, sixth, seventh, and eighth annual earnings reviews, Entergy Gulf States' ninth post-merger earnings review and revenue requirement analysis, the continuation of a fuel review for Entergy Gulf States, dockets established to consider issues concerning power purchases for Entergy Gulf States and Entergy Louisiana for the summers of 2001, 2002, 2003, and 2004, all

prudence issues associated with decisions made through May 2005 related to the nuclear plant uprates at issue in these cases, and an LPSC docket concerning retail issues arising under the System Agreement. The settlement does not include the System Agreement case at FERC. In addition, Entergy Gulf States agreed not to seek recovery from customers of \$2 million of excess refund amounts associated with the fourth through the eighth annual earnings reviews and Entergy Louisiana agreed to forgo recovery of \$3.5 million of deferred 2003 capacity costs associated with certain power purchase agreements. The credits were issued in connection with April 2005 billings. Entergy Gulf States and Entergy Louisiana reserved for the approximate refund amounts.

The settlement includes the establishment of a three-year formula rate plan for Entergy Gulf States that, among other provisions, establishes an ROE midpoint of 10.65% for the initial three-year term of the plan and permits Entergy Gulf States to recover incremental capacity costs outside of a traditional base rate proceeding. Under the formula rate plan, over- and under-earnings outside an allowed range of 9.9% to 11.4% will be allocated 60% to customers and 40% to Entergy Gulf States. Entergy Gulf States made its initial formula rate plan filing in June 2005, as discussed below. In addition, there is the potential to extend the formula rate plan beyond the initial three-year effective period by mutual agreement of the LPSC and Entergy Gulf States.

Retail Rates – Electric (Entergy Louisiana)

Entergy Louisiana made a rate filing with the LPSC requesting a base rate increase in January 2004. In March 2005, the LPSC staff and Entergy Louisiana filed a proposed settlement that included an annual base rate increase of approximately \$18.3 million that was implemented, subject to refund, effective with May 2005 billings. In May 2005, the LPSC approved a modified settlement which, among other things, reduces depreciation and decommissioning expense due to assuming a life extension of Waterford 3 and results in no change in rates. Subsequently, in June 2005, Entergy Louisiana made a revised compliance filing with the LPSC supporting a revised depreciation rate for Waterford 3, which reflects the removal of interim additions, and a rate increase from the purchase of the Perryville power plant, which results in a net \$0.8 million annual rate reduction. Entergy Louisiana reduced rates effective with the first billing cycle in July 2005 and refunded excess revenue collected during May 2005, including interest, in August 2005.

The May 2005 rate settlement includes the adoption of a three-year formula rate plan, the terms of which include an ROE midpoint of 10.25% for the initial three-year term of the plan and permit Entergy Louisiana to recover incremental capacity costs outside of a traditional base rate proceeding. Under the formula rate plan, over- and under-earnings outside an allowed regulatory range of 9.45% to 11.05% will be allocated 60% to customers and 40% to Entergy Louisiana. The initial formula rate plan filing will be in May 2006 based on a 2005 test year with rates effective September 2006. In addition, there is the potential to extend the formula rate plan beyond the initial three-year effective period by mutual agreement of the LPSC and Entergy Louisiana.

(Entergy Gulf States)

In June 2005, Entergy Gulf States made its formula rate plan filing with the LPSC for the test year ending December 31, 2004. The filing shows a net revenue deficiency of \$2.58 million indicating that no refund liability exists. The filing also indicates that a prospective rate increase of \$23.8 million is required in order for Entergy Gulf States to earn the authorized ROE midpoint of 10.65%. A revision

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

to the filing was made in September 2005 resulting in a \$37.2 million base rate increase effective with the first billing cycle of October 2005, subject to refund. The base rate increase consists of two components. The first is a base rate increase of approximately \$21.1 million due to the formula rate plan 2004 test year revenue requirement. The second component of the increase is the recovery of the annual revenue requirement of \$16.1 million associated with the purchase of power from the Perryville generating station, which purchase was approved by the LPSC. A final order from the LPSC is expected by the second quarter of 2006.

Retail Rates – Gas (Entergy Gulf States)

In July 2004, Entergy Gulf States filed with the LPSC an application for a change in its rates and charges seeking an increase of \$9.1 million in gas base rates in order to allow Entergy Gulf States an opportunity to earn a fair and reasonable rate of return. In June 2005, the LPSC unanimously approved Entergy Gulf States' proposed settlement that includes a \$5.8 million gas base rate increase effective the first billing cycle of July 2005 and a rate stabilization plan with an ROE midpoint of 10.5%.

In January 2006, Entergy Gulf States filed with the LPSC its gas rate stabilization plan. The filing showed a revenue deficiency of \$4.1 million based on an ROE midpoint of 10.5%. Approval by the LPSC and implementation are not expected until the second quarter of 2006.

Filings with the MPSC

Formula Rate Plan Filings

Entergy Mississippi made its annual formula rate plan filing with the MPSC in March 2005 based on a 2004 test year. In May 2005, the MPSC approved a joint stipulation entered into between the Mississippi Public Utilities Staff and Entergy Mississippi that provides for no change in rates based on a performance-adjusted ROE midpoint of 10.50%, establishing an allowed regulatory earnings range of 9.1% to 11.9%.

Power Management Rider

The MPSC approved the purchase of the Attala power plant in November 2005. In December 2005, the MPSC issued an order approving the investment cost recovery through its power management rider and limited the recovery to a period that begins with the closing date of the purchase and ends the earlier of the date costs are incorporated into base rates or December 31, 2006. The MPSC order also provided that any reserve equalization benefits be credited to the annual ownership costs beginning with the date that Entergy Mississippi begins recovery of the Hurricane Katrina restoration costs or July 1, 2006, whichever is earlier. On December 9, 2005, Entergy Mississippi filed a compliance rider.

Filings with the City Council

Formula Rate Plans

In April 2005, Entergy New Orleans made its annual scheduled formula rate plan filings with the City Council. The filings showed that a decrease of \$0.2 million in electric revenues was warranted and an increase of \$3.9 million in gas revenues was warranted. In addition, in May 2005, Entergy New Orleans filed with the City Council a request for continuation of the formula rate plans and generation performance-based rate plan (GPBR) for an additional three years. In August 2005, Entergy New Orleans, the City Council advisors, and the intervenors entered into an agreement in principle which provided, among other things, for a reduction in the

Customer Care System investment of \$3.2 million and for a reduction in Entergy New Orleans' electric base rates of \$2.5 million and no change in Entergy New Orleans' gas base rates. The agreement provided for the continuation of the electric and gas formula rate plans for two more annual cycles, effective September 1, 2005, with a target equity ratio of 45% as well as a midpoint return on equity (ROE) of 10.75%. The ROE bandwidth is 100 basis points from the midpoint for electric operations. For gas operations, the ROE bandwidth is 50 basis points from the midpoint and zero basis points for the 2005 evaluation period. The agreement in principle also includes the continuation and modification of the GPBR by separating the operation of the GPBR from the formula rate plan so that the core business' electric rates are not set on a prospective basis by reference to GPBR earnings. The agreement in principle provided for a \$4.5 million cap on Entergy New Orleans' share of GPBR savings. The GPBR plan, however, has been temporarily suspended due to impacts from Hurricane Katrina. Entergy New Orleans will notify the City Council's advisors and the City Council at such time as it is reasonable to resume the operation of the GPBR.

In August 2005, prior to Hurricane Katrina, the Council Utility, Cable and Telecommunications Committee voted to recommend to the City Council a resolution approving this agreement in principle. The City Council was to consider this recommendation at its regularly scheduled meeting on September 1, 2005, but this meeting did not occur due to Hurricane Katrina. On August 31, 2005, the chairman of the Council Utility, Cable and Telecommunications Committee issued a letter authorizing Entergy New Orleans to implement the agreement in principle in accordance with the resolution previously considered by this Council committee, and advising Entergy New Orleans that the City Council would consider the ratification of this letter authorization at the first available opportunity. On September 27, 2005, the City Council ratified the August 31, 2005 letter, and deemed the resolution approving the agreement in principle to be effective as of September 1, 2005.

Fuel Adjustment Clause Litigation

In April 1999, a group of ratepayers filed a complaint against Entergy New Orleans, Entergy Corporation, Entergy Services, and Entergy Power in state court in Orleans Parish purportedly on behalf of all Entergy New Orleans' ratepayers. The plaintiffs seek treble damages for alleged injuries arising from the defendants' alleged violations of Louisiana's antitrust laws in connection with certain costs passed on to ratepayers in Entergy New Orleans' fuel adjustment filings with the City Council. In particular, plaintiffs allege that Entergy New Orleans improperly included certain costs in the calculation of fuel charges and that Entergy New Orleans imprudently purchased high-cost fuel from other Entergy affiliates. Plaintiffs allege that Entergy New Orleans and the other defendant Entergy companies conspired to make these purchases to the detriment of Entergy New Orleans' ratepayers and to the benefit of Entergy's shareholders, in violation of Louisiana's antitrust laws. Plaintiffs also seek to recover interest and attorneys' fees. Entergy filed exceptions to the plaintiffs' allegations, asserting, among other things, that jurisdiction over these issues rests with the City Council and FERC. In March 2004, the plaintiffs supplemented and amended their petition. If necessary, at the appropriate time, Entergy will also raise its defenses to the antitrust claims. The suit in state court has been stayed by stipulation of the parties pending review of the decision by the City Council in the proceeding discussed in the next paragraph.

Plaintiffs also filed a corresponding complaint with the City Council in order to initiate a review by the City Council of the plaintiffs' allegations and to force restitution to ratepayers of all costs

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they allege were improperly and imprudently included in the fuel adjustment filings. Testimony was filed on behalf of the plaintiffs in this proceeding asserting, among other things, that Entergy New Orleans and other defendants have engaged in fuel procurement and power purchasing practices and included costs in Entergy New Orleans' fuel adjustment that could have resulted in Entergy New Orleans customers being overcharged by more than \$100 million over a period of years. Hearings were held in February and March 2002. In February 2004, the City Council approved a resolution that resulted in a refund to customers of \$11.3 million, including interest, during the months of June through September 2004. The resolution concludes, among other things, that the record does not support an allegation that Entergy New Orleans' actions or inactions, either alone or in concert with Entergy or any of its affiliates, constituted a misrepresentation or a suppression of the truth made in order to obtain an unjust advantage of Entergy New Orleans, or to cause loss, inconvenience or harm to its ratepayers. Management believes that it has adequately provided for the liability associated with this proceeding. The plaintiffs appealed the City Council resolution to the state courts. On May 26, 2005, the Civil District Court for the Parish of Orleans affirmed the City Council resolution that resulted in a refund to customers of \$11.3 million, including interest, during the months of June through September 2004, finding no support for the plaintiffs' claim that the refund amount should be higher.

In June 2005, the plaintiffs appealed the Civil District Court decision to the Louisiana Fourth Circuit Court of Appeal. Subsequent to Entergy New Orleans' filing of a bankruptcy petition in the Eastern District of Louisiana, Entergy New Orleans filed a Notice of Stay with the Court of Appeal. The Bankruptcy Court lifted the stay with respect to the plaintiffs' appeal of the Civil District Court decision, but the class action lawsuit remains stayed. In February 2006, Entergy New Orleans filed a notice removing the class action lawsuit from the Civil District Court to the U.S. District Court for the Eastern District of Louisiana. Additionally, in the Entergy New Orleans bankruptcy proceeding, the named plaintiffs in the Entergy New Orleans fuel clause lawsuit, together with the named plaintiffs in the Entergy New Orleans rate of return lawsuit, filed a Complaint for Declaratory Judgment asking the court to declare that Entergy New Orleans, Entergy Corporation, and Entergy Services are a single business enterprise, and as such, are liable in solido with Entergy New Orleans for any claims asserted in the Entergy New Orleans fuel clause lawsuit and the Entergy New Orleans rate of return lawsuit, and alternatively, that the automatic stay be lifted to permit the movants to pursue the same relief in state court. Answers were due in this adversary proceeding in February 2006, but Entergy New Orleans has requested an extension to answer until March 2006.

ELECTRIC INDUSTRY RESTRUCTURING AND THE CONTINUED APPLICATION OF SFAS 71

Although Arkansas and Texas enacted retail open access laws, the retail open access law in Arkansas has now been repealed. Retail open access in Entergy Gulf States' service territory in Texas has been delayed. Entergy believes that significant issues remain to be addressed by Texas regulators, and the enacted law does not provide sufficient detail to allow Entergy Gulf States to reasonably determine the impact on Entergy Gulf States' regulated operations. Entergy therefore continues to apply regulatory accounting principles to the retail operations of all of the domestic utility companies.

Texas (Entergy Gulf States)

As ordered by the PUCT, in January 2003, Entergy Gulf States filed its proposal for an interim solution (retail open access without a FERC-approved RTO), which among other elements, included:

- the recommendation that retail open access in Entergy Gulf States' Texas service territory, including corporate unbundling, occur by January 1, 2004, or else be delayed until at least January 1, 2007. If retail open access is delayed past January 1, 2004, Entergy Gulf States requested authorization to separate into two bundled utilities, one subject to the retail jurisdiction of the PUCT and one subject to the retail jurisdiction of the LPSC.
- the recommendation that Entergy's transmission organization, possibly with the oversight of another entity, will continue to serve as the transmission authority for purposes of retail open access in Entergy Gulf States' service territory.
- the recommendation that the decision points be identified that would require prior to January 1, 2004, the PUCT's determination, based upon objective criteria, whether to proceed with further efforts toward retail open access in Entergy Gulf States' Texas service territory.

After considering the proposal, in an April 2003 order the PUCT set forth a sequence of proceedings and activities designed to initiate an interim solution. These proceedings and activities included initiating a proceeding to certify an independent organization to administer market protocols and ensure nondiscriminatory access to transmission and distribution systems.

In July 2004, the PUCT denied Entergy's application to certify Entergy's transmission organization as an independent organization under Texas law. In its order, the PUCT also ordered: the cessation of efforts to develop an interim solution for retail open access in Entergy Gulf States' Texas service territory, termination of the pilot project in that territory, and a delay in retail open access in that territory until either a FERC-approved RTO is in place or some other independent transmission entity is certified under Texas law. Several parties have appealed the termination of the pilot program aspect of the order, claiming the issue was not properly a part of the proceeding.

In June 2005, a Texas law was enacted which provides that:

- Entergy Gulf States is authorized by the legislation to proceed with a jurisdictional separation into two vertically integrated utilities, one subject solely to the retail jurisdiction of the LPSC and one subject solely to the retail jurisdiction of the PUCT;
- the portions of all prior PUCT orders requiring Entergy Gulf States to comply with any provisions of Texas law governing transition to retail competition are void;
- Entergy Gulf States must file a plan by January 1, 2006, identifying the power region(s) to be considered for certification and the steps and schedule to achieve certification (as discussed below);
- Entergy Gulf States must file a transition to competition plan no later than January 1, 2007, that would address how Entergy Gulf States intends to mitigate market power and achieve full customer choice, including potential construction of additional transmission facilities, generation auctions, generation capacity divestiture, reinstatement of a customer choice pilot project, establishment of a price to beat, and other measures;
- Entergy Gulf States' rates are subject to cost-of-service regulation until retail customer choice is implemented;

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- Entergy Gulf States may not file a general base rate case in Texas before June 30, 2007, with rates effective no earlier than June 30, 2008, but may seek before then the recovery of certain incremental purchased power capacity costs, adjusted for load growth, not in excess of five percent of its annual base rate revenues (as discussed above in “Deferred Fuel Costs,” in July 2005, Entergy Gulf States filed a request for implementation of an incremental purchased capacity recovery rider); and
- Entergy Gulf States may recover over a period not to exceed 15 years reasonable and necessary transition to competition costs incurred before the effective date of the legislation and not previously recovered, with appropriate carrying charges (as discussed above in “Filings with the PUCT and Texas Cities,” in August 2005, Entergy Gulf States filed with the PUCT an application for recovery of its transition to competition costs).

Entergy Gulf States made the January 2006 filing regarding the identification of power region(s) required by the 2005 legislation, and based on the statutory requirements for the certification of a qualified power region (QPR), previous PUCT rulings, and Entergy Gulf States’ geographical location, Entergy Gulf States identified three potential power regions:

1. Electric Reliability Council of Texas (ERCOT) as the power region and Independent Organization (IO);
2. Southwest Power Pool (SPP) as the power region and IO; and
3. the Entergy market as the power region and the Independent Coordinator of Transmission (ICT) as the IO.

Based on previous rulings of the PUCT, and absent reconsideration of those rulings, Entergy Gulf States believes that the third alternative – an ICT operating in Entergy’s market area – is not likely to be a viable QPR alternative at this time. Accordingly, while noting this alternative, Entergy Gulf States’ filing focuses on the first two alternatives, which are expected to meet the statutory requirements for certification so long as certain key implementation issues can be resolved. Entergy Gulf States’ filing enumerated and discussed the corresponding steps and a high-level schedule associated with certifying either of these two power regions.

Entergy Gulf States’ filing does not make a recommendation between ERCOT and the SPP as a power region. Rather, the filing discusses the major issues that must be resolved for either of those alternatives to be implemented. In the case of ERCOT, the major issue is the cost and time related to the construction of facilities to interconnect Entergy Gulf States’ Texas operations with ERCOT, while addressing the interest of Entergy Gulf States’ retail customers and certain wholesale customers in access to generation outside of Texas. With respect to the SPP, the major issue is the development of protocols that would ultimately be necessary to implement retail open access.

Entergy Gulf States recommended that the PUCT open a project for the purpose of involving stakeholders in the selection of the single power region that Entergy Gulf States should request for certification. Entergy Gulf States notes that House Bill 1567 also directs Entergy Gulf States to file a transition to competition filing no later than January 1, 2007. The contents of the January 1, 2007 filing will be affected by the power region selected. Accordingly, Entergy Gulf States recommended that the goal of the project should be to reach consensus on a power region in a timely manner to inform Entergy Gulf States’ January 1, 2007 filing.

NOTE 3. INCOME TAXES

Income tax expenses from continuing operations for 2005, 2004, and 2003 consist of the following (in thousands):

	2005	2004	2003
Current:			
Federal ^{(a) (b)}	\$ (306,524)	\$ 67,924	\$ (725,319)
Foreign	13,290	(2,231)	8,284
State ^{(a) (b)}	(27,212)	38,324	23,316
Total ^{(a) (b)}	(320,446)	104,017	(693,719)
Deferred – net	898,384	282,275	1,218,796
Investment tax credit adjustments – net	(18,654)	(20,987)	(27,644)
Income tax expense from continuing operations	\$559,284	\$365,305	\$ 497,433

(a) The actual cash taxes paid were \$98,072 in 2005, \$28,241 in 2004, and \$188,709 in 2003. Entergy Louisiana’s mark-to-market tax accounting election significantly reduced taxes paid in 2002. In 2001, Entergy Louisiana changed its method of accounting for tax purposes related to its wholesale electric power contracts. The most significant of these is the contract to purchase power from the Vidalia project (the contract is discussed in Note 8 to the consolidated financial statements). The new tax accounting method has provided a cumulative cash flow benefit of approximately \$664 million through 2005, which is expected to reverse in the years 2006 through 2031 depending on several variables, including the price of power. The election did not reduce book income tax expense.

(b) In 2003, the domestic utility companies and System Energy filed, with the Internal Revenue Service (IRS), a change in tax accounting method notification for their respective calculations of cost of goods sold. The adjustment implemented a simplified method of allocation of overhead to the production of electricity, which is provided under the IRS capitalization regulations. The cumulative adjustment placing these companies on the new methodology resulted in a \$2.8 billion deduction on Entergy’s 2003 income tax return. There was no cash benefit from the method change in 2003. In addition, on a consolidated basis, there was no cash benefit from this method change in 2004 or 2005. The IRS has issued new proposed regulations effective in 2005 that may preclude a significant portion of the benefit of this tax accounting method change. In 2005, the domestic utility companies and System Energy filed a notice with the IRS of a new tax accounting method for their respective calculations of cost of goods sold. This new method is also subject to IRS scrutiny.

Total income taxes from continuing operations differ from the amounts computed by applying the statutory income tax rate to income before taxes. The reasons for the differences for the years 2005, 2004, and 2003 are (in thousands):

	2005	2004	2003
Computed at statutory rate (35%)	\$534,743	\$454,438	\$463,831
Increases (reductions) in tax resulting from:			
State income taxes net of federal income tax effect	44,282	36,149	43,210
Regulatory differences-utility plant items	28,983	41,240	52,446
Amortization of investment tax credits	(18,691)	(20,596)	(24,364)
EAM Capital Loss	(792)	(86,426)	–
Flow-through/permanent differences	(32,518)	(43,037)	(29,722)
U.S. tax on foreign income	2,798	2,014	7,888
Other – net	479	(18,477)	(15,856)
Total income taxes from continuing operations	\$559,284	\$365,305	\$497,433
Effective income tax rate	36.6%	28.1%	37.5%

The EAM capital loss is a tax benefit resulting from the sale of preferred stock and less than 1% of the common stock of Entergy Asset Management, an Entergy subsidiary. In December 2004, an Entergy subsidiary sold the stock to a third party for \$29.75 million. The sale resulted in a capital loss for tax purposes of \$370 million, producing a

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

federal and state net tax benefit of \$97 million that Entergy recorded in the fourth quarter of 2004. Entergy has established a contingency provision in its financial statements that management believes will sufficiently cover the risk associated with this issue.

Significant components of net deferred and non-current accrued tax liabilities as of December 31, 2005 and 2004 are as follows (in thousands):

	2005	2004
Deferred and Non-current		
Accrued Tax Liabilities:		
Net regulatory liabilities	\$ (954,742)	\$ (978,815)
Plant-related basis differences	(5,444,178)	(4,699,803)
Power purchase agreements	(2,422,967)	(972,348)
Nuclear decommissioning	(390,256)	(545,109)
Other	(621,179)	(346,993)
Total	(9,833,322)	(7,543,068)
Deferred Tax Assets:		
Accumulated deferred investment		
tax credit	125,521	133,979
Capital losses	119,003	134,688
Net operating loss carryforwards	2,788,864	1,201,006
Sale and leaseback	238,557	227,155
Unbilled/deferred revenues	25,455	28,741
Pension-related items	231,154	247,662
Reserve for regulatory adjustments	120,792	131,112
Customer deposits	70,222	107,652
Nuclear decommissioning	168,928	158,796
Other	560,980	225,659
Valuation allowance	(38,791)	(43,864)
Total	4,410,685	2,552,586
Net deferred and non-current		
accrued tax liability	\$(5,422,637)	\$(4,990,482)

At December 31, 2005, Entergy had \$268.4 million in net realized federal capital loss carryforwards that will expire as follows: \$104.9 million in 2007, \$0.8 million in 2008, and \$162.7 million in 2009.

At December 31, 2005, Entergy had federal net operating loss carryforwards of \$6.6 billion primarily resulting from changes in tax accounting methods relating to (a) the domestic utility companies calculation of cost of goods sold and (b) Non-Utility Nuclear's 2005 mark-to-market tax accounting election, and losses due to Hurricanes Katrina and Rita. Both tax accounting method changes produce temporary book tax differences, which will reverse in the future. Approximately \$4.0 billion of the net operating loss, attributable to the two tax accounting method changes, is expected to reverse within four years. The timing of the reversal depends on several variables, including the price of power and nuclear plant life extensions. If the federal net operating loss carryforwards are not utilized, they will expire in the years 2023 through 2025. Entergy expects to receive a refund of \$242 million from prior tax years under the special provisions of the Gulf Opportunity Zone Act of 2005 and the Energy Policy Act of 2005 in the second quarter of 2006. The expected refund is reflected as a receivable in the "Prepayments and other" line on the balance sheet as of December 31, 2005.

At December 31, 2005, Entergy had estimated state net operating loss carryforwards of \$8.4 billion, primarily resulting from Entergy Louisiana's mark-to-market tax election, the domestic utility companies' change in method of accounting for tax purposes related to cost of goods sold, and Non-Utility Nuclear's 2005 mark-to-market tax accounting election, all discussed above. If the state net operating loss carryforwards are not utilized, they will expire in the years 2008 through 2020.

The 2005 and 2004 valuation allowances are provided against United Kingdom (UK) capital loss and UK net operating loss carryforwards, and certain state net operating loss carryforwards. The UK losses can be utilized against future UK taxable income. For UK tax purposes, these carryforwards do not expire.

On October 22, 2004, the American Jobs Creation Act of 2004 (the Act) was enacted. The Act promotes domestic production and investing activities by providing a number of tax incentives including a temporary incentive to repatriate accumulated foreign earnings, subject to certain limitations, by providing an 85% dividends received deduction for certain repatriated earnings and also providing a tax deduction of up to 9% of qualifying production activities. In 2004, Entergy repatriated \$59.1 million of accumulated foreign earnings, which resulted in approximately \$11.0 million of tax benefit. At December 31, 2005, Entergy had no undistributed earnings from subsidiary companies outside the United States that are being considered for repatriation. In accordance with FASB Staff Position (FSP) 109-1, which was issued by the FASB to address the accounting for the impacts of the Act, the allowable production tax credit will be treated as a special deduction in the period in which it is deducted rather than treated as a tax rate change during 2004 which is the period in which the Act was signed into law. The adoption of FSP 109-1 and FSP 109-2, also issued by the FASB to address the accounting for the repatriation provisions of the Act, did not have a material effect on Entergy's financial statements.

INCOME TAX AUDITS

Entergy is currently under audit by the IRS with respect to tax returns for tax periods subsequent to 1995 and through 2003, and is subject to audit by the IRS and other taxing authorities for subsequent tax periods. The amount and timing of any tax assessments resulting from these audits are uncertain, and could have a material effect on Entergy's financial position and results of operations. Entergy believes that the contingency provisions established in its financial statements will sufficiently cover the liabilities that are reasonably estimable associated with tax matters. Certain material audit matters as to which management believes there is a reasonable possibility of a future tax payment are discussed below.

Depreciable Property Lives

In October 2005, Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and System Energy concluded settlement discussions with IRS Appeals related to the 1996 - 1998 audit cycle. The most significant issue settled involved the changes in tax depreciation methods with respect to certain types of depreciable property. Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans partially conceded depreciation associated with assets other than street lighting and intend to pursue the street lighting depreciation in litigation. Entergy Gulf States was not part of the settlement and did not change its accounting method for these certain assets until 1999. The total cash concession related to these deductions for Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and System Energy is \$56 million plus interest of \$23 million. The effect of a similar settlement by Entergy Gulf States would result in a cash tax exposure of approximately \$25 million plus interest of \$8 million. Because this issue relates to the timing of when depreciation expense is deducted, the conceded amount for Entergy Arkansas, Entergy Louisiana, Entergy Mississippi, Entergy New Orleans, and System Energy, or any future conceded amounts by Entergy Gulf States will be recovered in future periods. Entergy believes that the contingency provision established in its financial statements sufficiently covers the risk associated with this item.

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

Mark-to-Market of Certain Power Contracts

In 2001, Entergy Louisiana changed its method of accounting for income tax purposes related to its wholesale electric power contracts. The most significant of these is the contract to purchase power from the Vidalia hydroelectric project. On audit of Entergy Louisiana's 2001 tax return, the IRS made an adjustment reducing the amount of the deduction associated with this method change. The adjustment had no material impact on Entergy Louisiana's earnings and required no additional cash payment of 2001 income tax. The Vidalia contract method change has resulted in estimated cumulative cash flow benefits of approximately \$664 million through December 31, 2005. This benefit could reverse in the years 2006 through 2031 depending on several variables, including the price of power. The tax accounting election has had no effect on book income tax expense.

NOTE 4. LINES OF CREDIT AND SHORT-TERM BORROWINGS

Entergy Corporation has in place two separate revolving credit facilities, a five-year credit facility and a three-year credit facility. The five-year credit facility, which expires in May 2010, has a borrowing capacity of \$2 billion, of which \$785 million was outstanding as of December 31, 2005. The three-year facility, which expires in December 2008, has the borrowing capacity of \$1.5 billion, none of which was outstanding at December 31, 2005. Entergy also has the ability to issue letters of credit against the total borrowing capacity of both credit facilities, and letters of credit totaling \$239.5 million had been issued against the five-year facility at December 31, 2005. The total unused capacity for these facilities as of December 31, 2005 was approximately \$2.2 billion. The commitment fee for these facilities is currently 0.13% per annum of the unused amount. Commitment fees and interest rates on loans under the credit facility can fluctuate depending on the senior debt ratings of the domestic utility companies.

Entergy Corporation's facilities require it to maintain a consolidated debt ratio of 65% or less of its total capitalization. If Entergy fails to meet this ratio, or if Entergy or the domestic utility companies (except Entergy New Orleans) default on other indebtedness or are in bankruptcy or insolvency proceedings, an acceleration of the facilities' maturity dates may occur.

Entergy Arkansas, Entergy Louisiana, and Entergy Mississippi each have 364-day credit facilities available as follows:

Company	Expiration Date	Amount of Facility	Amount Drawn as of Dec. 31, 2005
Entergy Arkansas	April 2006	\$85 million ^(a)	–
Entergy Louisiana	April 2006	\$85 million ^(a)	\$40 million
Entergy Louisiana	May 2006	\$15 million ^(b)	–
Entergy Mississippi	May 2006	\$25 million	–

(a) The combined amount borrowed by Entergy Arkansas and Entergy Louisiana under these facilities at any one time cannot exceed \$85 million. Entergy Louisiana granted a security interest in its receivables to secure its \$85 million facility.

(b) The combined amount borrowed by Entergy Louisiana under its \$15 million facility and by Entergy New Orleans under a \$15 million facility that it has with the same lender cannot exceed \$15 million at any one time. Because Entergy New Orleans' facility is fully drawn, no capacity is currently available on Entergy Louisiana's facility.

The 364-day credit facilities have variable interest rates and the average commitment fee is 0.13%. The \$85 million Entergy Arkansas and Entergy Louisiana credit facilities each require the respective company to maintain total shareholders' equity of at least 25% of its total assets.

After the repeal of the Public Utility Holding Company Act of 1935 (PUHCA 1935), effective February 8, 2006, the FERC, under the Federal Power Act, and not the SEC, has jurisdiction over authorizing securities issuances by the domestic utility companies and System Energy (except securities with maturities longer than one year issued by (a) Entergy Arkansas which are subject to the jurisdiction of the APSC and (b) Entergy New Orleans which are currently subject to the jurisdiction of the bankruptcy court). Under the Public Utility Holding Company Act of 2005 (PUHCA 2005) and the Federal Power Act, no approvals are necessary for Entergy Corporation to issue securities. Under a savings provision in PUHCA 2005, each of the domestic utility companies and System Energy may rely on the financing authority in its existing PUHCA 1935 Securities and Exchange Commission (SEC) order or orders through December 31, 2007 or until the SEC authority is superceded by FERC authorization. The FERC has issued an order (FERC Short-Term Order) approving the short-term borrowing limits of the domestic utility companies (except Entergy New Orleans) and System Energy through March 31, 2008. Entergy New Orleans may rely on existing SEC PUHCA 1935 orders for its short-term financing authority, subject to bankruptcy court approval. In addition to borrowings from commercial banks, the FERC Short-Term Order authorized the domestic utility companies (except Entergy New Orleans which is authorized by an SEC PUHCA 1935 order) and System Energy to continue as participants in the Entergy System money pool through February 8, 2007. The money pool is an inter-company borrowing arrangement designed to reduce Entergy's subsidiaries' dependence on external short-term borrowings. Borrowings from the money pool and external short-term borrowings combined may not exceed authorized limits. As of December 31, 2005, Entergy's subsidiaries' aggregate money pool and external short-term borrowings authorized limit was \$2.0 billion, the aggregate outstanding borrowing from the money pool was \$379.7 million, and Entergy's subsidiaries' outstanding short-term borrowing from external sources was \$40 million. To the extent that the domestic utility companies and System Energy wish to rely on SEC financing orders under PUHCA 1935, there are capitalization and investment grade ratings conditions that must be satisfied in connection with security issuances, other than money pool borrowings. There is further discussion of commitments for long-term financing arrangements in Note 5 to the consolidated financial statements.

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

NOTE 5. LONG-TERM DEBT

Long-term debt as of December 31, 2005 and 2004 consisted of (in thousands):

Mortgage Bonds:		Maturity Date	2005	2004
6.125% Series	Entergy Arkansas	July 2005	\$ –	\$ 100,000
8.125% Series	Entergy New Orleans ^(a)	July 2005	–	30,000
6.77% Series	Entergy Gulf States	August 2005	–	98,000
4.875% Series	System Energy	October 2007	70,000	70,000
4.35% Series	Entergy Mississippi	April 2008	100,000	100,000
3.6% Series	Entergy Gulf States	June 2008	325,000	325,000
3.875% Series	Entergy New Orleans ^(a)	August 2008	–	30,000
Libor + 0.75% Series	Entergy Gulf States	December 2008	350,000	–
Libor + 0.40% Series	Entergy Gulf States	December 2009	225,000	225,000
4.5% Series	Entergy Arkansas	June 2010	100,000	–
4.67% Series	Entergy Louisiana	June 2010	55,000	–
5.12% Series	Entergy Gulf States	August 2010	100,000	–
5.83% Series	Entergy Louisiana	November 2010	150,000	–
4.65% Series	Entergy Mississippi	May 2011	80,000	80,000
4.875% Series	Entergy Gulf States	November 2011	200,000	200,000
6.0% Series	Entergy Gulf States	December 2012	140,000	140,000
5.15% Series	Entergy Mississippi	February 2013	100,000	100,000
5.25% Series	Entergy New Orleans ^(a)	August 2013	–	70,000
5.09% Series	Entergy Louisiana	November 2014	115,000	115,000
5.6% Series	Entergy Gulf States	December 2014	50,000	50,000
5.25% Series	Entergy Gulf States	August 2015	200,000	200,000
5.70% Series	Entergy Gulf States	June 2015	200,000	–
5.56% Series	Entergy Louisiana	September 2015	100,000	–
6.75% Series	Entergy New Orleans ^(a)	October 2017	–	25,000
5.4% Series	Entergy Arkansas	May 2018	150,000	150,000
4.95% Series	Entergy Mississippi	June 2018	95,000	95,000
5.0% Series	Entergy Arkansas	July 2018	115,000	115,000
5.5% Series	Entergy Louisiana	April 2019	100,000	100,000
7.0% Series	Entergy Arkansas	October 2023	–	175,000
5.6% Series	Entergy New Orleans ^(a)	September 2024	–	35,000
5.66% Series	Entergy Arkansas	February 2025	175,000	–
5.65% Series	Entergy New Orleans ^(a)	September 2029	–	40,000
6.7% Series	Entergy Arkansas	April 2032	100,000	100,000
7.6% Series	Entergy Louisiana	April 2032	150,000	150,000
6.0% Series	Entergy Arkansas	November 2032	100,000	100,000
6.0% Series	Entergy Mississippi	November 2032	75,000	75,000
7.25% Series	Entergy Mississippi	December 2032	100,000	100,000
5.9% Series	Entergy Arkansas	June 2033	100,000	100,000
6.20% Series	Entergy Gulf States	July 2033	240,000	240,000
6.25% Series	Entergy Mississippi	April 2034	100,000	100,000
6.4% Series	Entergy Louisiana	October 2034	70,000	70,000
6.38% Series	Entergy Arkansas	November 2034	60,000	60,000
6.18% Series	Entergy Gulf States	March 2035	85,000	–
6.30% Series	Entergy Louisiana	September 2035	100,000	–
Total mortgage bonds			\$4,575,000	\$3,763,000

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

Governmental Bonds ^(a) :	Maturity Date	2005	2004	
5.45% Series	Calcasieu Parish – Louisiana	2010	\$ 22,095	\$ 22,095
6.75% Series	Calcasieu Parish – Louisiana	2012	48,285	48,285
6.7% Series	Pointe Coupee Parish – Louisiana	2013	17,450	17,450
5.7% Series	Iberville Parish – Louisiana	2014	21,600	21,600
7.7% Series	West Feliciana Parish – Louisiana	2014	–	94,000
5.8% Series	West Feliciana Parish – Louisiana	2015	28,400	28,400
7.0% Series	West Feliciana Parish – Louisiana	2015	39,000	39,000
7.5% Series	West Feliciana Parish – Louisiana	2015	–	41,600
9.0% Series	West Feliciana Parish – Louisiana	2015	–	45,000
5.8% Series	West Feliciana Parish – Louisiana	2016	20,000	20,000
6.3% Series	Pope County – Arkansas ^(f)	2016	19,500	19,500
5.6% Series	Jefferson County – Arkansas	2017	45,500	45,500
6.3% Series	Jefferson County – Arkansas ^(f)	2018	9,200	9,200
6.3% Series	Pope County – Arkansas	2020	120,000	120,000
6.25% Series	Independence County – Arkansas	2021	–	45,000
7.5% Series	St. Charles Parish – Louisiana	2021	–	50,000
5.0% Series	Independence County – Arkansas	2021	45,000	–
5.875% Series	Mississippi Business Finance Corp.	2022	216,000	216,000
5.9% Series	Mississippi Business Finance Corp.	2022	102,975	102,975
7.0% Series	St. Charles Parish – Louisiana	2022	–	24,000
7.05% Series	St. Charles Parish – Louisiana	2022	–	20,000
Auction Rate	Independence County – Mississippi ^(f)	2022	30,000	30,000
4.6% Series	Mississippi Business Finance Corp. ^(f)	2022	16,030	16,030
5.95% Series	St. Charles Parish – Louisiana ^(f)	2023	25,000	25,000
6.2% Series	St. Charles Parish – Louisiana	2023	–	33,000
6.875% Series	St. Charles Parish – Louisiana	2024	–	20,400
6.375% Series	St. Charles Parish – Louisiana	2025	–	16,770
6.2% Series	Claiborne County – Mississippi	2026	90,000	90,000
5.05% Series	Pope County – Arkansas ^(b)	2028	–	47,000
6.6% Series	West Feliciana Parish – Louisiana	2028	40,000	40,000
Auction Rate	St. Charles Parish – Louisiana ^(f)	2030	60,000	60,000
4.9% Series	St. Charles Parish – Louisiana ^(e)	2030	–	55,000
Total governmental bonds			\$1,016,035	\$1,462,805

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

Other Long-Term Debt:	2005	2004
Note Payable to NYPA, non-interest bearing, 4.8% implicit rate	\$ 373,186	\$ 445,605
5-year Bank Credit Facility (Entergy Corporation and Subsidiaries, Note 4)	785,000	–
3-year Bank Credit Facility (Entergy Corporation and Subsidiaries, Note 4)	–	50,000
Bank term loan, Entergy Corporation, avg. rate 2.98%, due 2010	60,000	60,000
Bank term loan, Entergy Corporation, avg. rate 3.08%, due 2008	35,000	35,000
6.17% Notes due March 2008, Entergy Corporation	72,000	72,000
6.23% Notes due March 2008, Entergy Corporation	15,000	15,000
6.13% Notes due September 2008, Entergy Corporation	150,000	150,000
7.75% Notes due December 2009, Entergy Corporation	267,000	267,000
6.58% Notes due May 2010, Entergy Corporation	75,000	75,000
6.9% Notes due November 2010, Entergy Corporation	140,000	140,000
7.625% Notes initially due February 2011, Entergy Corporation ^(b)	500,000	–
7.06% Notes due March 2011, Entergy Corporation	86,000	86,000
Long-term DOE Obligation ^(c)	161,048	156,332
Waterford 3 Lease Obligation		
7.45% (Entergy Corporation and Subsidiaries, Note 9)	247,725	247,725
Grand Gulf Lease Obligation		
5.02% (Entergy Corporation and Subsidiaries, Note 9)	364,806	397,119
Unamortized Premium and Discount – Net	(6,886)	(10,277)
8.75% Junior Subordinated Deferrable Interest Debentures		
Due 2046 – Entergy Gulf States	–	87,629
Other	12,096	9,457
Total Long-Term Debt	\$8,928,010	\$7,509,395
Less Amount Due Within One Year	103,517	492,564
Long-Term Debt Excluding Amount Due Within One Year	\$8,824,493	\$7,016,831
Fair Value of Long-Term Debt ^(d)	\$ 8,009,388	\$ 6,614,211

(a) Consists of pollution control revenue bonds and environmental revenue bonds.

(b) The bonds had a mandatory tender date of September 1, 2005. Entergy Arkansas purchased the bonds from the holders, pursuant to the mandatory tender provision, and has not remarketed the bonds at this time.

(c) Pursuant to the Nuclear Waste Policy Act of 1982, Entergy's nuclear owner/licensee subsidiaries have contracts with the U.S. Department of Energy (DOE) for spent nuclear fuel disposal service. The contracts include a one-time fee for generation prior to April 7, 1983. Entergy Arkansas is the only Entergy company that generated electric power with nuclear fuel prior to that date and includes the one-time fee, plus accrued interest, in long-term debt.

(d) The fair value excludes lease obligations and long-term DOE obligations, and includes debt due within one year. It is determined using bid prices reported by dealer markets and by nationally recognized investment banking firms.

(e) The bonds had a mandatory tender date of June 1, 2005. Entergy Louisiana purchased the bonds from the holders, pursuant to the mandatory tender provision, and has not remarketed the bonds at this time.

(f) The bonds are secured by a series of collateral first mortgage bonds.

(g) Because of the Entergy New Orleans bankruptcy filing, Entergy deconsolidated Entergy New Orleans and reports its financial position and results under the equity method of accounting retroactive to January 1, 2005.

(h) In December 2005, Entergy Corporation sold 10 million equity units with a stated amount of \$50 each. An equity unit consists of (1) a note, initially due February 2011 and initially bearing interest at an annual rate of 5.75%, and (2) a purchase contract that obligates the holder of the equity unit to purchase for \$50 between 0.5705 and 0.7074 shares of Entergy Corporation common stock on or before February 17, 2009. Entergy will pay the holders quarterly contract adjustment payments of 1.875% per year on the stated amount of \$50 per equity unit. Under the terms of the purchase contracts, Entergy Corporation will issue between 5,705,000 and 7,074,000 shares of common stock in the settlement of the purchase contracts (subject to adjustment under certain circumstances).

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

The annual long-term debt maturities (excluding lease obligations) for debt outstanding as of December 31, 2005, for the next five years are as follows (in thousands):

2006	\$ 80,528
2007	\$ 149,539
2008	\$1,066,625
2009	\$ 512,584
2010	\$ 923,667

In November 2000, Entergy's Non-Utility Nuclear business purchased the FitzPatrick and Indian Point 3 power plants in a seller-financed transaction. Entergy issued notes to New York Power Authority (NYPA) with seven annual installments of approximately \$108 million commencing one year from the date of the closing, and eight annual installments of \$20 million commencing eight years from the date of the closing. These notes do not have a stated interest rate, but have an implicit interest rate of 4.8%. In accordance with the purchase agreement with NYPA, the purchase of Indian Point 2 in 2001 resulted in Entergy's Non-Utility Nuclear business becoming liable to NYPA for an additional \$10 million per year for 10 years, beginning in September 2003. This liability was recorded upon the purchase of Indian Point 2 in September 2001, and is included in the note payable to NYPA balance above. In July 2003, a payment of \$102 million was made prior to maturity on the note payable to NYPA. Under a provision in a letter of credit supporting these notes, if certain of the domestic utility companies or System Energy were to default on other indebtedness, Entergy could be required to post collateral to support the letter of credit.

Non-Utility Nuclear's purchase of the FitzPatrick and Indian Point 3 plants from NYPA included value sharing agreements with NYPA. Under the value sharing agreements, to the extent that the average annual price of the energy sales from each of the two plants exceeds specified strike prices, the Non-Utility Nuclear business will pay 50% of the amount exceeding the strike prices to NYPA. These payments, if required, will be recorded as adjustments to the purchase price of the plants. The annual energy sales subject to the value sharing agreements are limited to the lesser of actual generation or generation assuming an 85% capacity factor based on the plants' capacities at the time of the purchase. The value sharing agreements are effective through 2014. The strike prices for

Fitzpatrick range from \$37.51/MWh in 2005 increasing by approximately 3.5% each year to \$51.30/MWh in 2014, and the strike prices for Indian Point 3 range from \$42.26/MWh in 2005 increasing by approximately 3.5% each year to \$57.77/MWh in 2014.

Covenants in the Entergy Corporation notes require it to maintain a consolidated debt ratio of 65% or less of its total capitalization. If Entergy's debt ratio exceeds this limit, or if Entergy or certain of the domestic utility companies default on other indebtedness or are in bankruptcy or insolvency proceedings, an acceleration of the notes' maturity dates may occur.

The long-term securities issuances of Entergy Mississippi and System Energy also are limited to amounts authorized by the SEC under PUHCA 1935. After the repeal of PUHCA 1935 on February 8, 2006, the FERC, under the Federal Power Act, has jurisdiction over the securities issuances of these companies. Under a savings provision in the PUHCA 1935 repeal legislation, these companies can rely on the authority of their existing SEC orders until each obtains new orders from the FERC. The SEC PUHCA 1935 financing order of Entergy Mississippi limits securities issuances unless certain capitalization and investment grade ratings conditions are met. Entergy Gulf States and Entergy Louisiana, LLC have received FERC long-term financing orders that do not have such conditions. The long-term securities issuances of Entergy Arkansas are limited to amounts authorized by the APSC.

CAPITAL FUNDS AGREEMENT

Pursuant to an agreement with certain creditors, Entergy Corporation has agreed to supply System Energy with sufficient capital to:

- maintain System Energy's equity capital at a minimum of 35% of its total capitalization (excluding short-term debt);
- permit the continued commercial operation of Grand Gulf;
- pay in full all System Energy indebtedness for borrowed money when due; and
- enable System Energy to make payments on specific System Energy debt, under supplements to the agreement assigning System Energy's rights in the agreement as security for the specific debt.

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

NOTE 6. PREFERRED STOCK

The number of shares authorized and outstanding and dollar value of preferred stock and minority interest for Entergy Corporation subsidiaries as of December 31, 2005 and 2004 are presented below. Only the Entergy Gulf States series “with sinking fund” contain mandatory redemption requirements. All other series of the U.S. Utility are redeemable at Entergy’s option (\$ in thousands):

	Shares Authorized		Shares Outstanding		2005	2004
	2005	2004	2005	2004		
Entergy Corporation						
U.S. Utility:						
Preferred Stock without sinking fund:						
Entergy Arkansas, 4.32% – 7.88% Series	1,613,500	1,613,500	1,613,500	1,613,500	\$116,350	\$116,350
Entergy Gulf States, 4.20% – 7.56% Series	473,268	473,268	473,268	473,268	47,327	47,327
Entergy Louisiana Holdings, 4.16% – 8.00% Series	2,115,000	2,115,000	2,115,000	2,115,000	100,500	100,500
Entergy Louisiana LLC, 6.95% Series	1,000,000	–	1,000,000	–	100,000	–
Entergy Mississippi, 4.36% – 6.25% Series	1,403,807	503,807	1,403,807	503,807	50,381	50,381
Entergy New Orleans, 4.36% – 5.56% Series ^(a)	–	197,798	–	197,798	–	19,780
Total U.S. Utility Preferred Stock without sinking fund	6,605,575	4,903,373	6,605,575	4,903,373	\$414,557	\$334,337
Energy Commodity Services:						
Preferred Stock without sinking fund:						
Entergy Asset Management, 11.50% Rate	1,000,000	1,000,000	297,376	297,376	29,738	29,738
Other	–	–	–	–	1,679	1,281
Total Preferred Stock without sinking fund	7,605,575	5,903,373	6,902,951	5,200,749	\$445,974	\$365,356
U.S. Utility:						
Preferred Stock with sinking fund:						
Entergy Gulf States, Adjustable Rate 7.0% ^(b)	139,500	174,000	139,500	174,000	\$ 13,950	\$ 17,400
Total Preferred Stock with sinking fund	139,500	174,000	139,500	174,000	\$ 13,950	\$ 17,400
Fair Value of Preferred Stock with sinking fund^(c)					\$ 13,950	\$ 15,286

Totals may not foot due to rounding.

(a) Because of the Entergy New Orleans bankruptcy filing, Entergy deconsolidated Entergy New Orleans and reports its financial position and results under the equity method of accounting retroactive to January 1, 2005.

(b) Represents weighted-average annualized rate for 2005 and 2004.

(c) Fair values were determined using bid prices reported by dealer markets and by nationally recognized investment banking firms. There is additional disclosure of fair value of financial instruments in Note 14 to the consolidated financial statements.

All outstanding preferred stock is cumulative.

Entergy Gulf States’ preferred stock with sinking fund retirements were 34,500 shares in 2005, 2004, and 2003. Entergy Gulf States has annual sinking fund requirements of \$3.45 million through 2008 for its preferred stock outstanding.

In June 2005, Entergy Mississippi issued 1,200,000 shares of \$25 par value 6.25% Series Preferred Stock, all of which are outstanding as of December 31, 2005. The dividends are cumulative and payable quarterly beginning November 1, 2005. The preferred stock is redeemable on or after July 1, 2010, at Entergy Mississippi’s option, at the call price of \$25 per share. The proceeds from this issuance were used in the third quarter of 2005 to redeem all \$20 million of Entergy Mississippi’s \$100 par value 8.36% Series Preferred Stock and all \$10 million of Entergy Mississippi’s \$100 par value 7.44% Series Preferred Stock.

In December 2005, Entergy Louisiana, LLC issued 1,000,000 shares of \$100 par value 6.95% Series Preferred Stock, all of which are outstanding as of December 31, 2005. The dividends are cumulative and payable quarterly beginning March 15, 2006. The preferred stock is redeemable on or after December 31, 2010, at Entergy Louisiana’s option, at the call price of \$100 per share. The proceeds from the issuance will be used to repay short-term borrowings.

In 2004, Entergy realized a pre-tax gain of \$0.9 million upon the sale to a third party of preferred shares, and less than 1% of the common shares, of Entergy Asset Management, an Entergy subsidiary. See Note 3 to the consolidated financial statements for a discussion of the tax benefit realized on the sale. Entergy Asset Management’s stockholders’ agreement provides that at any time during the 180-day period prior to December 31, 2007 or each subsequent December 31 thereafter, either Entergy Asset Management or the preferred shareholders may request that the preferred dividend rate be reset. If Entergy Asset Management and the preferred shareholders are unable to agree on a dividend reset rate, a preferred shareholder can request that its shares be sold to a third party. If Entergy Asset Management is unable to sell the preferred shares within 75 days, the preferred shareholder has the right to take control of the Entergy Asset Management board of directors for the purpose of liquidating the assets of Entergy Asset Management in order to repay the preferred shares and any accrued dividends.

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

NOTE 7. COMMON EQUITY

COMMON STOCK

Treasury Stock

Treasury stock activity for Entergy for 2005 and 2004 is as follows (\$ in thousands):

	2005		2004	
	Treasury Shares	Cost	Treasury Shares	Cost
Beginning Balance, January 1	31,345,028	\$1,432,019	19,276,445	\$ 561,152
Repurchases	12,280,500	878,188	16,631,800	1,017,996
Issuances:				
Employee Stock-Based Compensation Plans	(2,965,006)	(147,888)	(4,555,897)	(146,877)
Directors' Plan	(15,920)	(359)	(7,320)	(252)
Ending Balance, December 31	40,644,602	\$2,161,960	31,345,028	\$1,432,019

Entergy Corporation reissues treasury shares to meet the requirements of the Stock Plan for Outside Directors (Directors' Plan), the Equity Ownership Plan of Entergy Corporation and Subsidiaries (Equity Ownership Plan), the Equity Awards Plan of Entergy Corporation and Subsidiaries, and certain other stock benefit plans. The Directors' Plan awards to non-employee directors a portion of their compensation in the form of a fixed number of shares of Entergy Corporation common stock.

Equity Compensation Plan Information

Entergy grants stock options, equity awards, and incentive awards to key employees of the Entergy subsidiaries under the Equity Ownership Plan which is a shareholder-approved stock-based compensation plan.

Stock Options

Stock options are granted at exercise prices not less than market value on the date of grant. The majority of options granted in 2005, 2004, and 2003 will become exercisable in equal amounts on each of the first three anniversaries of the date of grant. Unless they are

forfeited previously under the terms of the grant, options expire ten years after the date of the grant if they are not exercised. Stock-based compensation expense included in earnings applicable to common stock, net of related tax effects, for 2005 is \$7.8 million. There was no effect on net income in 2004 or 2003.

Entergy determines the fair value of the stock option grants made in 2005, 2004, and 2003 by considering factors such as lack of marketability, stock retention requirements, and regulatory restrictions on exercisability. The fair value valuations comply with SFAS 123R, "Share-Based Payment," which was issued in December 2004 and is effective in the first quarter 2006. The stock option weighted-average assumptions used in determining the fair values were as follows:

	2005	2004	2003
Stock price volatility	18.8%	23.1%	26.3%
Expected term in years	3	6.3	6.2
Risk-free interest rate	3.6%	3.2%	3.3%
Dividend yield	3.1%	3.3%	3.3%
Dividend payment	\$2.16	\$1.80	\$1.40

Stock option transactions are summarized as follows:

	2005		2004		2003	
	Number of Options	Average Exercise Price	Number of Options	Average Exercise Price	Number of Options	Average Exercise Price
Beginning-of-year balance	12,310,077	\$41.88	15,429,383	\$38.64	19,943,114	\$35.85
Options granted	1,835,218	\$69.37	1,898,098	\$58.63	2,936,236	\$44.98
Options exercised	(3,135,396)	\$40.11	(4,541,053)	\$38.07	(6,927,000)	\$33.12
Options forfeited/expired	(154,440)	\$59.16	(476,351)	\$39.94	(522,967)	\$40.98
End-of-year balance	10,855,459	\$46.80	12,310,077	\$41.88	15,429,383	\$38.64
Options exercisable at year-end	7,397,622	\$40.21	7,162,884	\$37.25	6,153,043	\$34.82
Weighted-average fair value of options at time of grant	\$8.17		\$7.76		\$6.86	

The following table summarizes information about stock options outstanding as of December 31, 2005:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	As of 12/31/2005	Weighted-Average Remaining Contractual Life-Years	Weighted-Average Exercise Price	Number Exercisable at 12/31/2005	Weighted-Average Exercise Price
\$23 - \$33.99	1,274,410	4.1	\$25.98	1,274,410	\$25.98
\$34 - \$44.99	5,940,768	6.1	\$41.12	5,260,842	\$40.69
\$45 - \$55.99	211,394	4.6	\$49.39	207,360	\$49.43
\$56 - \$66.99	1,688,091	8.1	\$58.63	532,714	\$58.69
\$67 - \$78.99	1,740,796	8.9	\$69.64	122,296	\$71.92
\$23 - \$78.99	10,855,459	6.6	\$46.80	7,397,622	\$40.21

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

Equity Awards and Incentive Awards

Entergy grants most of the equity awards and incentive awards earned under its stock benefit plans in the form of performance units, which are equal to the cash value of shares of Entergy Corporation common stock at the time of payment. In addition to the potential for equivalent share appreciation or depreciation, performance units will earn the cash equivalent of the dividends paid during the performance period applicable to each plan. The costs of equity and incentive awards, given either as company stock or performance units, are charged to income over the period of the grant or restricted period, as appropriate. In 2005, 2004, and 2003, \$36 million, \$47 million, and \$45 million, respectively, was charged to compensation expense.

RETAINED EARNINGS AND DIVIDEND RESTRICTIONS

Provisions within the articles of incorporation or pertinent indentures and various other agreements relating to the long-term debt and preferred stock of certain of Entergy Corporation's subsidiaries restrict the payment of cash dividends or other distributions on their common and preferred stock. As of December 31, 2005, Entergy Arkansas and Entergy Mississippi had restricted retained earnings unavailable for distribution to Entergy Corporation of \$396.4 million and \$68.5 million, respectively. Entergy Corporation received dividend payments from subsidiaries totaling \$424 million in 2005, \$825 million in 2004, and \$425 million in 2003.

NOTE 8. COMMITMENTS AND CONTINGENCIES

Entergy is involved in a number of legal, tax, and regulatory proceedings before various courts, regulatory commissions, and governmental agencies in the ordinary course of its business. While management is unable to predict the outcome of such proceedings, management does not believe that the ultimate resolution of these matters will have a material adverse effect on Entergy's results of operations, cash flows, or financial condition.

ENTERGY NEW ORLEANS BANKRUPTCY

See Note 16 to the consolidated financial statements for information on the Entergy New Orleans bankruptcy proceeding.

VIDALIA PURCHASED POWER AGREEMENT

Entergy Louisiana has an agreement extending through the year 2031 to purchase energy generated by a hydroelectric facility known as the Vidalia project. Entergy Louisiana made payments under the contract of approximately \$115.1 million in 2005, \$147.7 million in 2004, and \$112.6 million in 2003. If the maximum percentage (94%) of the energy is made available to Entergy Louisiana, current production projections would require estimated payments of approximately \$130.4 million in 2006, and a total of \$3.4 billion for the years 2006 through 2031. Entergy Louisiana currently recovers the costs of the purchased energy through its fuel adjustment clause. In an LPSC-approved settlement related to tax benefits from the tax treatment of the Vidalia contract, Entergy Louisiana agreed to credit rates by \$11 million each year for up to ten years, beginning in October 2002. The provisions of the settlement also provide that the LPSC shall not recognize or use Entergy Louisiana's use of the cash benefits from the tax treatment in setting any of Entergy Louisiana's rates. Therefore, to the extent Entergy Louisiana's use of the proceeds would ordinarily have reduced its rate base, no change in rate base shall be reflected for ratemaking purposes.

NUCLEAR INSURANCE

Third Party Liability Insurance

The Price-Anderson Act provides insurance for the public in the event of a nuclear power plant accident. The costs of this insurance are borne by the nuclear power industry. Originally passed by Congress in 1957 and most recently amended in 2005, the Price-Anderson Act requires nuclear power plants to show evidence of financial protection in the event of a nuclear accident. This protection must consist of two levels:

1. The primary level is private insurance underwritten by American Nuclear Insurers and provides liability insurance coverage of \$300 million. If this amount is not sufficient to cover claims arising from the accident, the second level, Secondary Financial Protection, applies. An industry-wide aggregate limitation of \$300 million exists for domestically-sponsored terrorist acts. There is no aggregate limitation for foreign-sponsored terrorist acts.
2. Within the Secondary Financial Protection level, each nuclear plant must pay a retrospective premium, equal to its proportionate share of the loss in excess of the primary level, up to a maximum of \$100.6 million per reactor per incident. This consists of a \$95.8 million maximum retrospective premium plus a five percent surcharge that may be applied, if needed, at a rate that is presently set at \$15 million per year per nuclear power reactor. There are no domestically or foreign-sponsored terrorism limitations.

Currently, 104 nuclear reactors are participating in the Secondary Financial Protection program – 103 operating reactors and one under construction. The product of the maximum retrospective premium assessment to the nuclear power industry and the number of nuclear power reactors provides over \$10 billion in insurance coverage to compensate the public in the event of a nuclear power reactor accident.

Entergy owns and operates ten of the nuclear power reactors, and owns the shutdown Indian Point 1 reactor (10% of Grand Gulf is owned by a non-affiliated company which would share on a pro-rata basis in any retrospective premium assessment under the Price-Anderson Act).

An additional but temporary contingent liability exists for all nuclear power reactor owners because of a previous Nuclear Worker Tort (long-term bodily injury caused by exposure to nuclear radiation while employed at a nuclear power plant) insurance program that was in place from 1988 to 1998. The maximum premium assessment exposure to each reactor is \$3 million and will only be applied if such claims exceed the program's accumulated reserve funds. This contingent premium assessment feature will expire with the Nuclear Worker Tort program's expiration, which is scheduled for 2008.

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

Property Insurance

Entergy's nuclear owner/licensee subsidiaries are members of certain mutual insurance companies that provide property damage coverage, including decontamination and premature decommissioning expense, to the members' nuclear generating plants. These programs are underwritten by Nuclear Electric Insurance Limited (NEIL). As of December 31, 2005, Entergy was insured against such losses per the following structures:

U.S. Utility Plants (ANO 1 and 2, Grand Gulf, River Bend, and Waterford 3)

- Primary Layer (per plant) – \$500 million per occurrence
- Excess Layer (per plant) – \$100 million per occurrence
- Blanket Layer (shared among the U.S. Utility plants) – \$1.0 billion per occurrence
- Total limit – \$1.6 billion per occurrence
- Deductibles:
 - \$5.0 million per occurrence – Turbine/generator damage
 - \$5.0 million per occurrence – Other than turbine/generator damage

Note: ANO 1 and 2 share in the Primary Layer with one policy in common.

Non-Utility Nuclear Plants (Indian Point 2 and 3, FitzPatrick, Pilgrim, and Vermont Yankee)

- Primary Layer (per plant) – \$500 million per occurrence
- Blanket Layer (shared among all plants) – \$615 million per occurrence
- Total limit – \$1.115 billion per occurrence
- Deductibles:
 - \$2.5 million per occurrence – Turbine/generator damage
 - \$2.5 million per occurrence – Other than turbine/generator damage

Note: Indian Point 2 and 3 share in the Primary Layer with one policy in common.

In addition, the Non-Utility Nuclear plants are also covered under NEIL's Accidental Outage Coverage program. This coverage provides certain fixed indemnities in the event of an unplanned outage that results from a covered NEIL property damage loss, subject to a deductible. The following summarizes this coverage as of December 31, 2005:

Indian Point 2 and 3

- \$4.5 million weekly indemnity
- \$490 million maximum indemnity
- Deductible: 12 week waiting period

FitzPatrick and Pilgrim (each plant has an individual policy with the noted parameters)

- \$4.0 million weekly indemnity
- \$490 million maximum indemnity
- Deductible: 12 week waiting period

Vermont Yankee

- \$4.0 million weekly indemnity
- \$435 million maximum indemnity
- Deductible: 12 week waiting period

Entergy's U.S. Utility nuclear plants have significantly less or no accidental outage coverage. Under the property damage and accidental outage insurance programs, Entergy nuclear plants could be subject to assessments should losses exceed the accumulated funds available from NEIL. As of December 31, 2005, the maximum amounts of such possible assessments per occurrence were \$52.5 million for the U.S. Utility plants and \$66.7 million for the Non-Utility Nuclear plants.

Entergy maintains property insurance for its nuclear units in excess of the Nuclear Regulatory Commission's (NRC's) minimum requirement of \$1.06 billion per site for nuclear power plant licensees. NRC regulations provide that the proceeds of this insurance must be used, first, to render the reactor safe and stable, 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.

In the event that one or more acts of domestically-sponsored terrorism causes property damage under one or more or all nuclear insurance policies issued by NEIL (including, but not limited to, those described above) within 12 months from the date the first property damage occurs, the maximum recovery under all such nuclear insurance policies shall be an aggregate of \$3.24 billion plus the additional amounts recovered for such losses from reinsurance, indemnity, and any other sources applicable to such losses. There is no aggregate limit involving one or more acts of foreign-sponsored terrorism.

NON-NUCLEAR PROPERTY INSURANCE

Entergy's non-nuclear property insurance program provides coverage up to \$400 million on an Entergy system-wide basis, subject to a \$20 million per occurrence self-insured retention, for all risks coverage for direct physical loss or damage, including boiler and machinery breakdown. Covered property generally includes power plants, substations, facilities, inventories, and gas distribution-related properties. Excluded property generally includes above-ground transmission and distribution lines, poles, and towers. The primary property program (excess of the deductible) is placed through Oil Insurance Limited (\$250 million layer) with the excess program (\$150 million layer) placed on a quota share basis through underwriters at Lloyds (50%) and Hartford Steam Boiler Inspection and Insurance Company (50%). There is an aggregation limit of \$1 billion for all parties insured by OIL for any one occurrence. Coverage is in place for Entergy Corporation, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, Entergy Mississippi, and Entergy New Orleans.

In addition to the OIL program, Entergy has purchased additional coverage for some of its non-regulated, non-generation assets through Zurich American. This policy serves to buy-down the \$20 million deductible and is placed on a scheduled location basis. The applicable deductibles are \$100,000 or \$250,000 as per the schedule provided to underwriters.

NUCLEAR DECOMMISSIONING AND OTHER RETIREMENT COSTS

SFAS 143, "Accounting for Asset Retirement Obligations," which was implemented effective January 1, 2003, requires the recording of liabilities for all legal obligations associated with the retirement of long-lived assets that result from the normal operation of those assets. For Entergy, these asset retirement obligations consist of its liability for decommissioning its nuclear power plants.

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

These liabilities are recorded at their fair values (which are the present values of the estimated future cash outflows) in the period in which they are incurred, with an accompanying addition to the recorded cost of the long-lived asset. The asset retirement obligation is accreted each year through a charge to expense, to reflect the time value of money for this present value obligation. The amounts added to the carrying amounts of the long-lived assets will be depreciated over the useful lives of the assets.

In accordance with ratemaking treatment and as required by SFAS 71, the depreciation provisions for the domestic utility companies and System Energy include a component for removal costs that are not asset retirement obligations under SFAS 143. In accordance with regulatory accounting principles, Entergy has recorded a regulatory asset for certain of its domestic utility companies and System Energy of \$162.9 million as of December 31, 2005 and \$86.9 million as of December 31, 2004 to reflect an estimate of incurred but uncollected removal costs previously recorded as a component of accumulated depreciation. The decommissioning and retirement cost liability for certain of the domestic utility companies and System Energy includes a regulatory liability of \$22.8 million as of December 31, 2005 and \$34.6 million as of December 31, 2004 representing an estimate of collected but not yet incurred removal costs.

The cumulative decommissioning and retirement cost liabilities and expenses recorded in 2005 by Entergy were as follows (in millions):

	Liabilities as of Dec. 31, 2004	Accretion	Implementation of FIN 47	Change in Cash Flow Estimate	Spending	Liabilities as of Dec. 31, 2005
U. S.						
Utility	\$1,328.0	\$88.2	\$27.8	\$(282.2)	–	\$1,161.8
Non-Utility						
Nuclear	\$ 738.3	\$59.2	\$ 0.9	\$(26.0)	\$(10.3)	\$ 762.1

In addition, an insignificant amount of removal costs associated with non-nuclear power plants are also included in the decommissioning line item on the balance sheet. Entergy periodically reviews and updates estimated decommissioning costs. The actual decommissioning costs may vary from the estimates because of regulatory requirements, changes in technology, and increased costs of labor, materials, and equipment. During 2004 and 2005, Entergy updated decommissioning cost studies for ANO 1 and 2, River Bend, Grand Gulf, Waterford, and a non-utility plant.

In the first quarter of 2004, Entergy Arkansas recorded a revision to its estimated decommissioning cost liability in accordance with a new decommissioning cost study for ANO 1 and 2 as a result of revised decommissioning costs and changes in assumptions regarding the timing of when the decommissioning of the plants will begin. The revised estimate resulted in a \$107.7 million reduction in its decommissioning liability, along with a \$19.5 million reduction in utility plant and an \$88.2 million reduction in the related regulatory asset.

In the third quarter of 2004, Entergy Gulf States recorded a revision to its estimated decommissioning cost liability in accordance with a new decommissioning cost study for River Bend that reflected an expected life extension for the plant. The revised estimate resulted in a \$166.4 million reduction in decommissioning liability, along with a \$31.3 million reduction in utility plant, a \$49.6 million reduction in non-utility property, a \$40.1 million reduction in the related regulatory asset, and a regulatory liability of \$17.7 million. For the portion of River Bend not subject to cost-based ratemaking, the revised estimate resulted in the elimination of the asset retirement cost that had been recorded at the time of adoption of

SFAS 143 with the remainder recorded as miscellaneous income of \$27.7 million (\$17 million net-of-tax).

In the third quarter of 2004, Entergy's Non-Utility Nuclear business recorded a reduction of \$20.3 million in decommissioning liability to reflect changes in assumptions regarding the timing of when decommissioning of a plant will begin. Entergy considered the assumptions as part of recent studies evaluating the economic effect of the plant in its region. The revised estimate resulted in miscellaneous income of \$20.3 million (\$11.9 million net-of-tax), reflecting the excess of the reduction in the liability over the amount of undepreciated asset retirement cost recorded at the time of adoption of SFAS 143.

In the first quarter of 2005, Entergy's Non-Utility Nuclear business recorded a reduction of \$26.0 million in its decommissioning cost liability in conjunction with a new decommissioning cost study as a result of revised decommissioning costs and changes in assumptions regarding the timing of the decommissioning of a plant. The revised estimate resulted in miscellaneous income of \$26.0 million (\$15.8 million net-of-tax), reflecting the excess of the reduction in the liability over the amount of undepreciated assets.

In the second quarter of 2005, Entergy Louisiana recorded a revision to its estimated decommissioning cost liability in accordance with a new decommissioning cost study for Waterford 3 that reflected an expected life extension for the plant. The revised estimate resulted in a \$153.6 million reduction in its decommissioning liability, along with a \$49.2 million reduction in utility plant and a \$104.4 million reduction in the related regulatory asset.

In the third quarter of 2005, Entergy Arkansas recorded a revision to its estimated decommissioning cost liability for ANO 2 in accordance with the receipt of approval by the NRC of Entergy Arkansas' application for a life extension for the unit. The revised estimate resulted in an \$87.2 million reduction in its decommissioning liability, along with a corresponding reduction in the related regulatory asset.

In the third quarter of 2005, System Energy recorded a revision to its estimated decommissioning cost liability in accordance with a new decommissioning cost study for Grand Gulf. The revised estimate resulted in a \$41.4 million reduction in the decommissioning cost liability for Grand Gulf, along with a \$39.7 million reduction in utility plant and a \$1.7 million reduction in the related regulatory asset.

In December 2005, Entergy implemented FASB Interpretation 47, "Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143", (FIN 47), effective as of that date, which required the recognition of additional asset retirement obligations other than nuclear decommissioning which are conditional in nature. The obligations recognized upon implementation primarily represent Entergy's obligation to remove and dispose of asbestos at many of its non-nuclear generating units if and when those units are retired from commercial service and dismantled. For the U.S. Utility business, the implementation of FIN 47 for the rate-regulated business of the domestic utility companies was recorded in regulatory assets, with no resulting effect on Entergy's net income. Entergy recorded these regulatory assets because existing rate mechanisms in each jurisdiction allow the recovery in rates of the ultimate costs of asbestos removal, either through cost of service or in rate base, from current and future customers. As a result of this treatment, FIN 47 was earnings neutral to the rate-regulated business of the domestic utility companies. Upon implementation of FIN 47 in December 2005, assets increased by \$28.8 million and liabilities increased by \$30.3 million for the U.S. Utility segment as a result of recording the asset retirement obligations at their fair values of \$30.3 million as determined under FIN 47,

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

increasing utility plant by \$2.7 million, increasing accumulated depreciation by \$1.8 million, and recording the related regulatory assets of \$27.9 million. The implementation of FIN 47 for portions of Entergy Gulf States not subject to cost-based ratemaking decreased earnings by \$0.9 million net-of-tax. If Entergy had applied FIN 47 during prior periods, the following impacts would have resulted:

	December 31, 2004	December 31, 2003
Asset retirement obligations actually recorded	\$2,066,277	\$2,215,490
Pro forma effect of FIN 47	\$ 29,399	\$ 27,708
Asset retirement obligations – pro forma	\$2,095,676	\$2,243,198

The impact on net income for each of the years ended December 31, 2004 and 2003 would have been immaterial.

For the Indian Point 3 and FitzPatrick plants purchased in 2000, NYPA retained the decommissioning trusts and the decommissioning liability. NYPA and Entergy executed decommissioning agreements, which specify their decommissioning obligations. NYPA has the right to require Entergy to assume the decommissioning liability provided that it assigns the corresponding decommissioning trust, up to a specified level, to Entergy. If the decommissioning liability is retained by NYPA, Entergy will perform the decommissioning of the plants at a price equal to the lesser of a pre-specified level or the amount in the decommissioning trusts. Entergy believes that the amounts available to it under either scenario are sufficient to cover the future decommissioning costs without any additional contributions to the trusts.

Entergy maintains decommissioning trust funds that are committed to meeting the costs of decommissioning the nuclear power plants. The fair values of the decommissioning trust funds and asset retirement obligation-related regulatory assets of Entergy as of December 31, 2005 are as follows (in millions):

	Decommissioning Trust	Regulatory Asset
U. S. Utility	\$1,136.0	\$271.7
Non-Utility Nuclear	\$1,470.8	\$ –

The Energy Policy Act of 1992 contains a provision that assesses domestic nuclear utilities with fees for the decontamination and decommissioning (D&D) of the DOE's past uranium enrichment operations. Annual assessments in 2005 were \$4.5 million for Entergy Arkansas, \$1.1 million for Entergy Gulf States, \$1.7 million for Entergy Louisiana, and \$1.9 million for System Energy. The Energy Policy Act calls for cessation of annual D&D assessments not later than October 24, 2007. At December 31, 2005, one year of assessments was remaining. D&D fees are included in other current liabilities and other non-current liabilities and, as of December 31, 2005, recorded liabilities were \$4.5 million for Entergy Arkansas, \$1.1 million for Entergy Gulf States, \$1.7 million for Entergy Louisiana, and \$1.7 million for System Energy. Regulatory assets in the financial statements offset these liabilities, with the exception of Entergy Gulf States' 30% non-regulated portion. These assessments are recovered through rates in the same manner as fuel costs.

CASHPOINT BANKRUPTCY

In 2003 the domestic utility companies entered an agreement with CashPoint Network Services (CashPoint) under which CashPoint was to manage a network of payment agents through which Entergy's utility customers could pay their bills. The payment agent system allows customers to pay their bills at various commercial or governmental locations, rather than sending payments by mail. Approximately one-third of Entergy's utility customers use payment agents.

On April 19, 2004, CashPoint failed to pay funds due to the domestic utility companies that had been collected through payment agents. The domestic utility companies then obtained a temporary restraining order from the Civil District Court for the Parish of Orleans, State of Louisiana, enjoining CashPoint from distributing funds belonging to Entergy, except by paying those funds to Entergy. On April 22, 2004, a petition for involuntary Chapter 7 bankruptcy was filed against CashPoint by other creditors in the United States Bankruptcy Court for the Southern District of New York. In response to these events, the domestic utility companies expanded an existing contract with another company to manage all of their payment agents. The domestic utility companies filed proofs of claim in the CashPoint bankruptcy proceeding in September 2004. Although Entergy cannot precisely determine at this time the amount that CashPoint owes to the domestic utility companies that may not be repaid, it has accrued an estimate of loss based on current information. If no cash is repaid to the domestic utility companies, an event Entergy does not believe is likely, the current estimate of maximum exposure to loss is approximately \$25 million.

HARRISON COUNTY PLANT FIRE

On May 13, 2005, an explosion and fire damaged the non-nuclear wholesale assets business' Harrison County power plant. A catastrophic failure and subsequent natural gas escape from a nearby 36-inch interstate pipeline owned and operated by a third party is believed to have caused the damage. Current estimates are that the cost to clean-up the site and reconstruct the damaged portions of the plant will be approximately \$52 million and take until the second quarter 2006 to be completed. The plant's property insurer has acknowledged coverage, subject to a \$200 thousand deductible. Entergy owns approximately 61% of this facility. Entergy does not expect the damage caused to the Harrison County plant to have a material effect on its financial position or results of operations.

EMPLOYMENT LITIGATION

Entergy Corporation and certain subsidiaries are defendants in numerous lawsuits filed by former employees asserting that they were wrongfully terminated and/or discriminated against on the basis of age, race, sex, and/or other protected characteristics. Entergy Corporation and these subsidiaries are vigorously defending these suits and deny any liability to the plaintiffs. Nevertheless, no assurance can be given as to the outcome of these cases.

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

NOTE 9. LEASES

GENERAL

As of December 31, 2005, Entergy had capital leases and non-cancelable operating leases for equipment, buildings, vehicles, and fuel storage facilities (excluding nuclear fuel leases and the Grand Gulf and Waterford 3 sale and leaseback transactions) with minimum lease payments as follows (in thousands):

Year	Operating Leases	Capital Leases
2006	\$ 94,533	\$ 5,747
2007	77,026	3,495
2008	63,081	1,307
2009	51,692	237
2010	36,695	237
Years thereafter	196,312	2,331
Minimum lease payments	519,339	13,354
Less: Amount representing interest	-	3,403
Present value of net minimum lease payments	\$519,339	\$ 9,951

Total rental expenses for all leases (excluding nuclear fuel leases and the Grand Gulf and Waterford 3 sale and leaseback transactions) amounted to \$71.2 million in 2005, \$81.3 million in 2004, and \$84.3 million in 2003.

NUCLEAR FUEL LEASES

As of December 31, 2005, arrangements to lease nuclear fuel existed in an aggregate amount up to \$150 million for Entergy Arkansas, \$105 million for Entergy Gulf States, \$80 million for Entergy Louisiana, and \$110 million for System Energy. As of December 31, 2005, the unrecovered cost base of nuclear fuel leases amounted to approximately \$92.2 million for Entergy Arkansas, \$55.2 million for Entergy Gulf States, \$58.5 million for Entergy Louisiana, and \$87.5 million for System Energy. The lessors finance the acquisition and ownership of nuclear fuel through loans made under revolving credit agreements, the issuance of commercial paper, and the issuance of intermediate-term notes. The credit agreements for Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, and System Energy each have a termination date of October 30, 2006. The termination dates may be extended from time to time with the consent of the lenders. The intermediate-term notes issued pursuant to these fuel lease arrangements have varying maturities through February 15, 2009. It is expected that additional financing under the leases will be arranged as needed to acquire additional fuel, to pay interest, and to pay maturing debt. However, if such additional financing cannot be arranged, the lessee in each case must repurchase sufficient nuclear fuel to allow the lessor to meet its obligations in accordance with the fuel lease.

Lease payments are based on nuclear fuel use. The total nuclear fuel lease payments (principal and interest) as well as the separate interest component charged to operations by the domestic utility companies and System Energy were \$135.8 million (including interest of \$12.9 million) in 2005, \$146.6 million (including interest of \$12.8 million) in 2004, and \$142.0 million (including interest of \$11.8 million) in 2003.

SALE AND LEASEBACK TRANSACTIONS

In 1988 and 1989, System Entergy and Entergy Louisiana, respectively, sold and leased back portions of their ownership interests in Grand Gulf and Waterford 3 for 26 1/2-year and 28-year lease terms, respectively. Both companies have options to terminate the leases, to repurchase the sold interests, or to renew the leases at the end of their terms.

Under System Energy's 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 May 2009.

Entergy Louisiana did not exercise its option to repurchase the undivided interests in Waterford 3 in 1994. As a result, Entergy Louisiana was required to provide collateral for the equity portion of certain amounts payable by Entergy Louisiana under the leases. Such collateral was in the form of a new series of non-interest bearing first mortgage bonds in the aggregate principal amount of \$208.2 million issued by Entergy Louisiana in September 1994.

In July 1997, Entergy Louisiana caused the Waterford 3 lessors to issue \$307.6 million aggregate principle amount of Waterford 3 Secured Lease Obligation Bonds, 8.09% Series due 2017, to refinance the outstanding bonds originally issued to finance the purchase of the undivided interests by the lessors. In May 2004, System Energy caused the Grand Gulf lessors to refinance the outstanding bonds that they had issued to finance the purchase of their undivided interest in Grand Gulf. Both refinancings are at lower interest rates, and Entergy Louisiana's and System Energy's lease payments have been reduced to reflect the lower interest costs.

As of December 31, 2005, Entergy Louisiana and System Energy had future minimum lease payments, recorded as long-term debt (reflecting an implicit rate of 7.45% and 5.02%, respectively) as follows (in thousands):

Year	Entergy Louisiana	System Energy
2006	\$ 18,261	\$ 46,019
2007	18,754	46,552
2008	22,606	47,128
2009	32,452	47,760
2010	35,138	48,569
Years thereafter	298,924	253,833
Minimum lease payments	426,135	489,861
Less: Amount representing interest	178,410	125,055
Present value of net minimum lease payments	\$247,725	\$364,806

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

NOTE 10. RETIREMENT, OTHER POSTRETIREMENT BENEFITS, AND DEFINED CONTRIBUTION PLANS

QUALIFIED PENSION PLANS

Entergy has seven qualified pension plans covering substantially all of its employees: “Entergy Corporation Retirement Plan for Non-Bargaining Employees,” “Entergy Corporation Retirement Plan for Bargaining Employees,” “Entergy Corporation Retirement Plan II for Non-Bargaining Employees,” “Entergy Corporation Retirement Plan II for Bargaining Employees,” “Entergy Corporation Retirement Plan III,” “Entergy Corporation Retirement Plan IV for Non-Bargaining Employees,” and “Entergy Corporation Retirement Plan IV for Bargaining Employees.” Except for the Entergy Corporation Retirement Plan III, the pension plans are noncontributory and provide pension benefits that are based on employees’ credited service and compensation during the final years before retirement. The Entergy Corporation Retirement Plan III includes a mandatory employee contribution of 3% of earnings during the first 10 years of plan participation, and allows voluntary contributions from 1% to 10% of earnings for a limited group of employees. Entergy Corporation and its subsidiaries fund pension costs in accordance with contribution guidelines established by the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code of 1986, as amended. The assets of the plans include common and preferred stocks, fixed-income securities, interest in a money market fund, and insurance contracts. As of December 31, 2005 and 2004, Entergy recognized an additional minimum pension liability for the excess of the accumulated benefit obligation over the fair market value of plan assets. In accordance with SFAS 87, an offsetting intangible asset, up to the amount of any unrecognized prior service cost, was also recorded, with the remaining offset to the liability recorded as a regulatory asset reflective of the recovery mechanism for pension costs in the U.S. Utility’s jurisdictions or to other comprehensive income for Entergy’s non-regulated business. Entergy’s domestic utility companies’ and System Energy’s pension costs are recovered from customers as a component of cost of service in each of its jurisdictions. Entergy uses a December 31 measurement date for its pension plans. As a result of the Entergy New Orleans bankruptcy filing, Entergy has discontinued the consolidation of Entergy New Orleans retroactive to January 1, 2005, and is reporting Entergy New Orleans’ results under the equity method of accounting.

COMPONENTS OF QUALIFIED NET PENSION COST

Total 2005, 2004, and 2003 qualified pension costs of Entergy Corporation and its subsidiaries, including amounts capitalized, included the following components (in thousands):

	2005	2004	2003
Service cost – benefits			
earned during the period	\$ 82,520	\$ 76,946	\$ 70,337
Interest cost on projected benefit obligation	155,477	148,092	134,403
Expected return on assets	(159,544)	(153,584)	(155,460)
Amortization of transition asset	(662)	(763)	(763)
Amortization of prior service cost	4,863	5,143	5,886
Recognized net loss	35,604	21,687	6,399
Curtailed loss	–	–	14,864
Special termination benefits	–	–	32,006
Net pension costs	\$ 118,258	\$ 97,521	\$ 107,672

QUALIFIED PENSION OBLIGATIONS, PLAN ASSETS, FUNDED STATUS, AMOUNTS NOT YET RECOGNIZED AND RECOGNIZED IN THE BALANCE SHEET AS OF DECEMBER 31, 2005 AND 2004 (IN THOUSANDS):

	2005	2004
Change in Projected Benefit Obligation (PBO)		
Balance at beginning of year	\$2,555,086	\$2,349,565
Service cost	82,520	76,946
Interest cost	155,477	148,092
Amendments	6,467	3,709
Actuarial loss	211,194	171,146
Employee contributions	1,032	1,212
Benefits paid	(117,768)	(117,234)
Balance at end of year	\$2,894,008	\$2,633,436
Change in Plan Assets		
Fair value of assets at beginning of year	\$1,841,929	\$1,744,975
Actual return on plan assets	137,885	170,964
Employer contributions	131,801	72,825
Employee contributions	1,032	1,212
Benefits paid	(117,768)	(117,234)
Fair value of assets at end of year	\$1,994,879	\$1,872,742
Funded status	\$ (889,129)	\$ (760,694)
Amounts not yet recognized in the balance sheet		
Unrecognized transition asset	–	(662)
Unrecognized prior service cost	29,393	29,053
Unrecognized net loss	713,285	542,391
Accrued pension cost recognized in the balance sheet	\$ (156,451)	\$ (189,912)
Amounts recognized in the balance sheet		
Accrued pension cost	\$ (156,451)	\$ (189,912)
Additional minimum pension liability	(406,463)	(244,280)
Intangible asset	24,159	26,167
Accumulated other comprehensive income (before taxes)	24,243	10,781
Regulatory asset	358,061	207,332
Net amount recognized	\$ (156,451)	\$ (189,912)

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

OTHER POSTRETIREMENT BENEFITS

Entergy also currently provides health care and life insurance benefits for retired employees. Substantially all domestic employees may become eligible for these benefits if they reach retirement age while still working for Entergy. Entergy uses a December 31 measurement date for its postretirement benefit plans.

Effective January 1, 1993, Entergy adopted SFAS 106, which required a change from a cash method to an accrual method of accounting for postretirement benefits other than pensions. At January 1, 1993, the actuarially determined accumulated postretirement benefit obligation (APBO) earned by retirees and active employees was estimated to be approximately \$241.4 million for Entergy (other than Entergy Gulf States) and \$128 million for Entergy Gulf States. Such obligations are being amortized over a 20-year period that began in 1993. For the most part, the domestic utility companies and System Energy recover SFAS 106 costs from customers and are required to fund postretirement benefits collected in rates to an external trust.

COMPONENTS OF NET OTHER POSTRETIREMENT BENEFIT COST

Total 2005, 2004, and 2003 other postretirement benefit costs of Entergy Corporation and its subsidiaries, including amounts capitalized and deferred, included the following components (in thousands):

	2005	2004	2003
Service cost – benefits earned during the period	\$ 37,310	\$ 30,947	\$ 37,799
Interest cost on APBO	51,883	53,801	52,746
Expected return on assets	(17,402)	(18,825)	(15,810)
Amortization of transition obligation	3,368	9,429	15,193
Amortization of prior service cost	(13,738)	(5,222)	(925)
Recognized net (gain)/loss	22,295	15,546	12,369
Curtailed loss	–	–	57,958
Special termination benefits	–	–	5,444
Net other postretirement benefit cost	\$ 83,716	\$ 85,676	\$164,774

OTHER POSTRETIREMENT BENEFIT OBLIGATIONS, PLAN ASSETS, FUNDED STATUS, AND AMOUNTS NOT YET RECOGNIZED AND RECOGNIZED IN THE BALANCE SHEET AS OF DECEMBER 31, 2005 AND 2004 (IN THOUSANDS):

	2005	2004
Change in APBO		
Balance at beginning of year	\$ 928,217	\$ 941,803
Service cost	37,310	30,947
Interest cost	51,883	53,801
Actuarial loss	98,041	73,890
Benefits paid	(60,031)	(66,456)
Plan amendments	(64,200)	(60,231)
Plan participant contributions	6,749	9,312
Balance at end of year	\$ 997,969	\$ 983,066
Change in Plan Assets		
Fair value of assets at beginning of year	\$ 214,005	\$ 227,446
Actual return on plan assets	15,003	15,550
Employer contributions	58,790	63,399
Plan participant contributions	6,749	9,312
Benefits paid	(60,031)	(66,455)
Fair value of assets at end of year	\$ 234,516	\$ 249,252
Funded status	\$ (763,453)	\$ (733,814)
Amounts not yet recognized in the balance sheet		
Unrecognized transition obligation	15,176	5,594
Unrecognized prior service cost	(66,105)	(39,560)
Unrecognized net loss	403,252	391,940
Accrued other postretirement benefit cost recognized in the balance sheet	\$ (411,130)	\$ (375,840)

QUALIFIED PENSION AND OTHER POSTRETIREMENT PLANS' ASSETS

Entergy's qualified pension and postretirement plans weighted-average asset allocations by asset category at December 31, 2005 and 2004 are as follows:

	Pension		Postretirement	
	2005	2004	2005	2004
Domestic Equity Securities	45%	46%	37%	38%
International Equity Securities	21%	21%	15%	14%
Fixed-Income Securities	32%	31%	47%	47%
Other	2%	2%	1%	1%

Entergy's trust asset investment strategy is to invest the assets in a manner whereby long-term earnings on the assets (plus cash contributions) provide adequate funding for retiree benefit payments. The mix of assets is based on an optimization study that identifies asset allocation targets in order to achieve the maximum return for an acceptable level of risk, while minimizing the expected contributions and pension and postretirement expense.

In the optimization study, Entergy formulates assumptions (or hires a consultant to provide such analysis) about characteristics, such as expected asset class investment returns, volatility (risk), and correlation coefficients among the various asset classes. The future market assumptions used in the optimization study are determined by examining historical market characteristics of the various asset classes, and making adjustments to reflect future conditions expected to prevail over the study period.

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

The optimization analysis utilized in Entergy's latest study produced the following approved asset class target allocations.

	Pension	Postretirement
Domestic Equity Securities	45%	37%
International Equity Securities	20%	14%
Fixed-Income Securities	31%	49%
Other (Cash and GACs)	4%	0%

These allocation percentages combined with each asset class' expected investment return produced an aggregate return expectation for the five years following the study of 7.6% for pension assets, 5.4% for taxable postretirement assets, and 7.2% for non-taxable postretirement assets. These returns are not inconsistent with Entergy's disclosed expected pre-tax return on assets of 8.50% over the life of the respective liabilities.

Since precise allocation targets are inefficient to manage security investments, the following ranges were established to produce an acceptable economically efficient plan to manage to targets:

	Pension	Postretirement
Domestic Equity Securities	45% to 55%	32% to 42%
International Equity Securities	15% to 25%	9% to 19%
Fixed-Income Securities	25% to 35%	44% to 54%
Other	0% to 10%	0% to 5%

ACCUMULATED PENSION BENEFIT OBLIGATION

The accumulated benefit obligation for Entergy's qualified pension plans was \$2.5 billion and \$2.3 billion at December 31, 2005 and 2004, respectively.

ESTIMATED FUTURE BENEFIT PAYMENTS

Based upon the assumptions used to measure Entergy's qualified pension and postretirement benefit obligation at December 31, 2005, and including pension and postretirement benefits attributable to estimated future employee service, Entergy expects that benefits to be paid over the next ten years will be as follows (in thousands):

Year(s)	Estimated Future Benefits Payments		Estimated Future Medicare Subsidy Receipts
	Pension	Postretirement	
2006	\$118,291	\$ 58,936	\$ 4,241
2007	\$120,343	\$ 63,280	\$ 4,928
2008	\$123,592	\$ 66,551	\$ 5,618
2009	\$128,281	\$ 69,397	\$ 6,249
2010	\$134,532	\$ 72,545	\$ 6,810
2011 - 2015	\$840,503	\$405,161	\$45,328

CONTRIBUTIONS

Entergy expects to contribute \$349 million (excluding about \$1 million in employee contributions) to its qualified pension plans in 2006. \$107 million of this contribution was originally planned for 2005, however it was delayed as a result of the Katrina Emergency Tax Relief Act. Entergy expects to contribute \$60 million to other postretirement plans in 2006.

ADDITIONAL INFORMATION

The change in the qualified pension plans' minimum pension liability included in other comprehensive income and regulatory assets was as follows for 2005 and 2004 (in thousands):

	2005	2004
Increase/(decrease) in the minimum pension liability included in:		
Other comprehensive income (before taxes)	\$ 13,462	\$ (4,578)
Regulatory assets	\$150,729	\$ 73,311

ACTUARIAL ASSUMPTIONS

The assumed health care cost trend rate used in measuring the APBO of Entergy was 12% for 2006, gradually decreasing each successive year until it reaches 4.5% in 2012 and beyond. The assumed health care cost trend rate used in measuring the Net Other Postretirement Benefit Cost of Entergy was 10% for 2005, gradually decreasing each successive year until it reaches 4.5% in 2011 and beyond. A one percentage point change in the assumed health care cost trend rate for 2005 would have the following effects (in thousands):

	1 Percentage Point Increase		1 Percentage Point Decrease	
	Impact on the APBO	Impact on the sum of service costs and interest cost	Impact on the APBO	Impact on the sum of service costs and interest cost
Entergy Corporation	\$101,814	\$12,727	\$(92,042)	\$(10,998)

The significant actuarial assumptions used in determining the pension PBO and the SFAS 106 APBO as of December 31, 2005, 2004, and 2003 were as follows:

	2005	2004	2003
Weighted-average discount rate:			
Pension	5.90%	6.00%	6.25%
Other postretirement	5.90%	6.00%	6.71%
Weighted-average rate of increase in future compensation levels	3.25%	3.25%	3.25%

The significant actuarial assumptions used in determining the net periodic pension and other postretirement benefit costs for 2005, 2004, and 2003 were as follows:

	2005	2004	2003
Weighted-average discount rate:			
Pension	6.00%	6.25%	6.75%
Other postretirement	6.00%	6.71%	6.75%
Weighted-average rate of increase in future compensation levels	3.25%	3.25%	3.25%
Expected long-term rate of return on plan assets:			
Taxable assets	5.50%	5.50%	5.50%
Non-taxable assets	8.50%	8.75%	8.75%

Entergy's remaining pension transition assets are being amortized over the greater of the remaining service period of active participants or 15 years which ended in 2005, and its SFAS 106 transition obligations are being amortized over 20 years ending in 2012.

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued***VOLUNTARY SEVERANCE PROGRAM**

As part of an initiative to achieve productivity improvements with a goal of reducing costs, primarily in the Non-Utility Nuclear and U.S. Utility businesses, in the second half of 2003 Entergy offered a voluntary severance program to employees in various departments. Approximately 1,100 employees, including 650 employees in nuclear operations from the Non-Utility Nuclear and U.S. Utility businesses, accepted the offers. As a result of this program, in the fourth quarter 2003 Entergy recorded additional pension and postretirement costs (including amounts capitalized) of \$110.3 million for special termination benefits and plan curtailment charges. These amounts are included in the net pension cost and net postretirement benefit cost for the year ended December 31, 2003.

MEDICARE PRESCRIPTION DRUG, IMPROVEMENT AND MODERNIZATION ACT OF 2003

In December 2003, the President signed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 into law. The Act introduces a prescription drug benefit cost under Medicare (Part D), starting in 2006, as well as federal subsidy to employers who provide a retiree prescription drug benefit that is at least actuarially equivalent to Medicare Part D.

The actuarially estimated effect of future Medicare subsidies reduced the December 31, 2005 and 2004 Accumulated Postretirement Benefit Obligation by \$176 million and \$161 million, respectively, and reduced the 2005 and 2004 other postretirement benefit cost by \$24.3 million and \$23.3 million, respectively.

NON-QUALIFIED PENSION PLANS

Entergy also sponsors non-qualified, non-contributory defined benefit pension plans that provide benefits to certain executives. Entergy recognized net periodic pension cost of \$16.4 million in 2005, \$16.4 million in 2004, and \$14.5 million in 2003. The projected benefit obligation was \$142 million and \$141 million as of December 31, 2005 and 2004, respectively. There are \$0.4 million in plan assets for a pre-merger Entergy Gulf States plan. The accumulated benefit obligation was \$133 million and \$130 million as of December 31, 2005 and 2004, respectively. As of December 31, 2005, Entergy's additional minimum pension liability for the non-qualified pension plans was \$63.1 million. This liability was offset by a \$13.6 million intangible asset, \$38.1 million regulatory asset, and an \$11.4 million charge to accumulated other comprehensive income before taxes.

DEFINED CONTRIBUTION PLANS

Entergy sponsors the Savings Plan of Entergy Corporation and Subsidiaries (System Savings Plan). The System Savings Plan is a defined contribution plan covering eligible employees of Entergy and its subsidiaries. The employing Entergy subsidiary makes matching contributions for all non-bargaining and certain bargaining employees to the System Savings Plan in an amount equal to 70% of the participants' basic contributions, up to 6% of their eligible earnings per pay period. The 70% match is allocated to investments as directed by the employee.

Through January 31, 2004, the System Savings Plan provided that the employing Entergy subsidiary make matching contributions in the following manner for all non-bargaining and certain bargaining employees. The employing Entergy subsidiary continues to make matching contributions in the following manner for all other bargaining employees who don't receive the 70% matching

contribution discussed above. The System Savings Plan provides that the employing Entergy subsidiary make matching contributions:

- in an amount equal to 75% of the participants' basic contributions, up to 6% of their eligible earnings per pay period, in shares of Entergy Corporation common stock if the employees direct their company-matching contribution to the purchase of Entergy Corporation's common stock; or
- in an amount equal to 50% of the participants' basic contributions, up to 6% of their eligible earnings per pay period, if the employees direct their company-matching contribution to other investment funds.

Entergy also sponsors the Savings Plan of Entergy Corporation and Subsidiaries II (established in 2001), Savings Plan of Entergy Corporation and Subsidiaries IV (established in 2002), and the Savings Plan of Entergy Corporation and Subsidiaries V (established in 2002) to which matching contributions are also made. The plans are defined contribution plans that cover eligible employees, as defined by each plan, of Entergy and its subsidiaries. Effective December 31, 2005, employees participating in the Savings Plan of Entergy Corporation and Subsidiaries V (Savings Plan V) were transferred into the System Savings Plan when Savings Plan V was merged into the System Savings Plan.

Entergy's subsidiaries' contributions to defined contribution plans collectively were \$33.8 million in 2005, \$32.9 million in 2004, and \$31.5 million in 2003. The majority of the contributions were to the System Savings Plan.

NOTE 11. BUSINESS SEGMENT INFORMATION

Entergy's reportable segments as of December 31, 2005 are U.S. Utility and Non-Utility Nuclear. U.S. Utility generates, transmits, distributes, and sells electric power in portions of Arkansas, Louisiana, Mississippi, and Texas, and provides natural gas utility service in portions of Louisiana. Non-Utility Nuclear owns and operates five nuclear power plants and is primarily focused on selling electric power produced by those plants to wholesale customers. "All Other" includes the parent company, Entergy Corporation, and other business activity, including the Energy Commodity Services segment, the Competitive Retail Services business, and earnings on the proceeds of sales of previously-owned businesses. The Energy Commodity Services segment was presented as a reportable segment prior to 2005, but it did not meet the quantitative thresholds for a reportable segment in 2005 and 2004, and with the sale of Entergy-Koch's businesses in 2004, management does not expect the Energy Commodity Services segment to meet the quantitative thresholds in the foreseeable future. The 2004 and 2003 information in the tables below has been restated to include the Energy Commodity Services segment in the All Other column. As a result of the Entergy New Orleans bankruptcy filing, Entergy has discontinued the consolidation of Entergy New Orleans retroactive to January 1, 2005, and is reporting Entergy New Orleans results under the equity method of accounting in the U.S. Utility segment.

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

Entergy's segment financial information is as follows (in thousands):

	U.S. Utility	Non-Utility Nuclear*	All Other*	Eliminations	Consolidated
2005					
Operating revenues	\$ 8,526,943	\$1,421,547	\$ 237,735	\$ (79,978)	\$10,106,247
Deprec., amort. & decomm.	867,755	117,752	13,991	–	999,498
Interest and dividend income	75,748	66,836	78,185	(70,290)	150,479
Equity in earnings of unconsolidated equity affiliates	765	–	220	–	985
Interest and other charges	364,665	50,874	130,302	(70,237)	475,604
Income taxes (benefits)	405,662	163,865	(10,243)	–	559,284
Loss from discontinued operations	–	–	(44,794)	–	(44,794)
Net income (loss)	681,767	282,622	(40,544)	(87)	923,758
Preferred dividend requirements	22,007	–	3,475	(55)	25,427
Earnings (loss) applicable to common stock	659,760	282,622	(44,019)	(32)	898,331
Total assets	25,242,432	4,887,572	3,477,169	(2,755,904)	30,851,269
Investments in affiliates – at equity	150,135	–	428,006	(281,357)	296,784
Cash paid for long-lived asset additions	1,285,012	160,899	11,230	945	1,458,086
2004					
Operating revenues	\$ 8,142,808	\$1,341,852	\$ 265,051	\$ (64,190)	\$ 9,685,521
Deprec., amort. & decomm.	915,667	106,408	21,028	–	1,043,103
Interest and dividend income	40,831	63,569	60,430	(55,195)	109,635
Equity in loss of unconsolidated equity affiliates	–	–	(78,727)	–	(78,727)
Interest and other charges	383,032	53,657	96,229	(55,142)	477,776
Income taxes (benefits)	406,864	142,620	(184,179)	–	365,305
Loss from discontinued operations	–	–	(41)	–	(41)
Net income (loss)	666,691	245,029	21,384	(55)	933,049
Preferred dividend requirements	23,283	–	297	(55)	23,525
Earnings applicable to common stock	643,408	245,029	21,087	–	909,524
Total assets	22,937,237	4,531,604	2,423,194	(1,581,258)	28,310,777
Investments in affiliates – at equity	207	–	512,571	(280,999)	231,779
Cash paid for long-lived asset additions	1,152,167	242,822	15,626	(5)	1,410,610
2003					
Operating revenues	\$ 7,584,857	\$1,274,983	\$ 210,910	\$ (38,036)	\$ 9,032,714
Deprec., amort. & decomm.	890,092	87,825	17,954	–	995,871
Interest and dividend income	43,035	36,874	45,651	(38,226)	87,334
Equity in earnings (loss) of unconsolidated equity affiliates	(3)	–	271,650	–	271,647
Interest and other charges	419,111	34,460	90,295	(38,225)	505,641
Income taxes	341,044	88,619	67,770	–	497,433
Loss from discontinued operations	–	–	(14,404)	–	(14,404)
Cumulative effect of accounting change	(21,333)	154,512	3,895	–	137,074
Net income	492,574	300,799	157,094	–	950,467
Preferred dividend requirements	23,524	–	–	–	23,524
Earnings applicable to common stock	469,050	300,799	157,094	–	926,943
Total assets	22,402,314	4,171,777	3,572,824	(1,619,527)	28,527,388
Investments in affiliates – at equity	211	–	1,081,462	(28,345)	1,053,328
Cash paid for long-lived asset additions	1,233,208	281,377	54,358	–	1,568,943

*Businesses marked with * are referred to as the "competitive businesses," with the exception of the parent company, Entergy Corporation. Eliminations are primarily intersegment activity.*

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

In the fourth quarter of 2005, Entergy decided to divest the retail electric portion of the Competitive Retail Services business operating in the ERCOT region of Texas. Due to this planned divestiture, activity from this business is reported as discontinued operations in the Consolidated Statements of Income. In connection with the planned sale, an impairment reserve of \$39.8 million (\$25.8 million net-of-tax) was recorded for the remaining net book value of the Competitive Retail Services business' information technology systems.

Revenues and pre-tax income (loss) related to the Competitive Retail Services business' discontinued operations were as follows (in thousands):

	2005	2004	2003
Operating revenues	\$654,333	\$438,203	\$162,206
Pre-tax income (loss)	\$ (68,845)	\$ 562	\$ (21,763)

Assets and liabilities related to the Competitive Retail Services business' discontinued operations were as follows (in thousands):

December 31,	2005	2004
Current assets	\$ 89,579	\$ 85,572
Other property and investments	15,095	5,061
Property, plant and equipment – net	19,587	27,867
Deferred debits and other assets	20,903	15,263
Total assets	\$145,164	\$133,763
Current liabilities	\$ 26,036	\$ 32,552
Non-current liabilities	35,884	6,298
Equity	83,244	94,913
Total liabilities and equity	\$145,164	\$133,763

Also, in the fourth quarter of 2004, Entergy recorded a charge of approximately \$55 million (\$36 million net-of-tax) as a result of an impairment of the value of the Warren Power plant. Entergy concluded that the value of the plant, which is owned in the non-nuclear wholesale assets business, was impaired. Entergy reached this conclusion based on valuation studies prepared in connection with the sale of preferred stock in a subsidiary in the non-nuclear wholesale assets business.

GEOGRAPHIC AREAS

For the years ended December 31, 2005, 2004, and 2003, Entergy derived less than 1% of its revenue from outside of the United States.

As of December 31, 2005 and 2004 Entergy had almost no long-lived assets located outside of the United States.

NOTE 12. EQUITY METHOD INVESTMENTS

As of December 31, 2005, Entergy owns investments in the following companies that it accounts for under the equity method of accounting:

Company	Ownership	Description
Entergy New Orleans, Inc.	100% ownership of common stock	A regulated public utility company that generates, transmits, distributes, and sells electric power to retail and wholesale customers. As a result of Entergy New Orleans' bankruptcy filing in September 2005, Entergy deconsolidated Entergy New Orleans and reflects Entergy New Orleans' financial results under the equity method of accounting retroactive to January 1, 2005. See Note 16 for further discussion of the bankruptcy proceeding.
Entergy-Koch, LP	50% partnership interest	Engaged in two major businesses: energy commodity marketing and trading through Entergy-Koch Trading, and gas transportation and storage through Gulf South Pipeline. Entergy-Koch sold both of these businesses in the fourth quarter of 2004, and Entergy-Koch is no longer an operating entity.
RS Cogen LLC	50% member interest	Co-generation project that produces power and steam on an industrial and merchant basis in the Lake Charles, Louisiana area.
Top Deer	50% member interest	Wind-powered electric generation joint venture.

Following is a reconciliation of Entergy's investments in equity affiliates (in thousands):

	2005	2004	2003
Beginning of year	\$231,779	\$1,053,328	\$ 824,209
Deconsolidation of Entergy New Orleans, effective January 1, 2005	154,462	–	–
Additional investments	–	157,020	4,668
Income (loss) from the investments	985	(78,727)	271,647
Other income	–	6,232	45,583
Distributions received	(80,901)	(888,260)	(105,142)
Dispositions and other adjustments	(9,541)	(17,814)	12,363
End of year	\$296,784	\$ 231,779	\$1,053,328

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

The following is a summary of combined financial information reported by Entergy's equity method investees (in thousands):

	2005	2004	2003
Income Statement Items			
Operating revenues	\$ 721,410	\$ 270,177	\$585,404
Operating income	\$ 9,526	\$(111,535)	\$207,301
Net income	\$ 1,592	\$ 739,858 ⁽¹⁾	\$172,595
Balance Sheet Items			
Current assets	\$ 415,586	\$ 540,386	
Non-current assets	\$1,498,465	\$ 418,038	
Current liabilities	\$ 544,030	\$ 180,009	
Non-current liabilities	\$ 999,346	\$ 463,899	

(1) Includes gains recorded by Entergy-Koch on the sales of its energy trading and pipeline businesses.

RELATED-PARTY TRANSACTIONS AND GUARANTEES

See Note 16 to the consolidated financial statements for a discussion of the Entergy New Orleans bankruptcy proceedings and activity between Entergy and Entergy New Orleans.

During 2004 and 2003, Entergy procured various services from Entergy-Koch consisting primarily of pipeline transportation services for natural gas and risk management services for electricity and natural gas. The total cost of such services in 2004 and 2003 was approximately \$9.5 million and \$15.9 million, respectively. There were no related party transactions between Entergy-Koch and Entergy in 2005. Entergy Louisiana and Entergy New Orleans entered into purchase power agreements with RS Cogen, and purchased a total of \$61.2 million, \$43.6 million, and \$26.0 million of capacity and energy from RS Cogen in 2005, 2004, and 2003, respectively. Entergy's operating transactions with its other equity method investees were not material in 2005, 2004, or 2003.

In the purchase agreements for its energy trading and the pipeline business sales, Entergy-Koch agreed to indemnify the respective purchasers for certain potential losses relating to any breaches of the sellers' representations, warranties, and obligations under each of the purchase agreements. Entergy Corporation has guaranteed up to 50% of Entergy-Koch's indemnification obligations to the purchasers. Entergy does not expect any material claims under these indemnification obligations, but to the extent that any are asserted and paid, the gain that Entergy expects to record in 2006 may be reduced.

During the fourth quarter of 2004, an Entergy subsidiary purchased from a commercial bank holder \$16.3 million of RS Cogen subordinated indebtedness, due October 2017, bearing interest at LIBOR plus 4.50%. The debt was purchased at a discount of approximately \$2.4 million that was to be amortized over the remaining life of the debt. In June 2005, 100% of the \$16.0 million balance of the subordinated indebtedness was sold to a lending institution for 100.75% of par.

NOTE 13. ACQUISITIONS AND DISPOSITIONS

ASSET ACQUISITIONS

In June 2005, Entergy Louisiana purchased the 718 MW Perryville power plant located in northeast Louisiana for \$162 million from a subsidiary of Cleco Corporation. Entergy received the plant, materials and supplies, SO₂ emission allowances, and related real estate. The LPSC approved the acquisition and the long-term cost-of-service purchased power agreement under which Entergy Gulf States will purchase 75 percent of the plant's output.

ASSET DISPOSITIONS

Entergy-Koch Businesses

In the fourth quarter of 2004, Entergy-Koch sold its energy trading and pipeline businesses to third parties. The sales came after a review of strategic alternatives for enhancing the value of Entergy-Koch, LP. Entergy received \$862 million of cash distributions in 2004 from Entergy-Koch after the business sales, and Entergy ultimately expects to receive total net cash distributions exceeding \$1 billion, comprised of the after-tax cash from the distributions of the sales proceeds and the eventual liquidation of Entergy-Koch. Entergy currently expects the net cash distributions that it will receive will exceed its equity investment in Entergy-Koch, and expects to record a \$60 million net-of-tax gain when it receives the remaining cash distributions, which it expects will occur in 2006.

Other

In January 2004, Entergy sold its 50% interest in the Crete project, which is a 320MW power plant located in Illinois, and realized an insignificant gain on the sale.

In the fourth quarter of 2004, Entergy sold undivided interests in the Warren Power and the Harrison County plants at a price that approximated book value.

NOTE 14. RISK MANAGEMENT AND FAIR VALUES

MARKET AND COMMODITY RISKS

In the normal course of business, Entergy is exposed to a number of market and commodity risks. Market risk is the potential loss that Entergy may incur as a result of changes in the market or fair value of a particular instrument or commodity. All financial and commodity-related instruments, including derivatives, are subject to market risk. Entergy is subject to a number of commodity and market risks, including:

Type of Risk	Primary Affected Segments
Power price risk	U.S. Utility, Non-Utility Nuclear Energy Commodity Services
Fuel price risk	U.S. Utility, Non-Utility Nuclear Energy Commodity Services
Foreign currency exchange rate risk	U.S. Utility, Non-Utility Nuclear Energy Commodity Services
Equity price and interest rate risk – investments	U.S. Utility, Non-Utility Nuclear

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *continued*

Entergy manages these risks through both contractual arrangements and derivatives. Contractual risk management tools include long-term power and fuel purchase agreements, capacity contracts, and tolling agreements. Entergy also uses a variety of commodity and financial derivatives, including natural gas and electricity futures, forwards, swaps, and options; foreign currency forwards; and interest rate swaps as a part of its overall risk management strategy. Except for the energy trading activities conducted through December 2004 by Entergy-Koch, Entergy enters into derivatives only to manage natural risks inherent in its physical or financial assets or liabilities.

Entergy's exposure to market risk is determined by a number of factors, including the size, term, composition, and diversification of positions held, as well as market volatility and liquidity. For instruments such as options, the time period during which the option may be exercised and the relationship between the current market price of the underlying instrument and the option's contractual strike or exercise price also affects the level of market risk. A significant factor influencing the overall level of market risk to which Entergy is exposed is its use of hedging techniques to mitigate such risk. Entergy manages market risk by actively monitoring compliance with stated risk management policies as well as monitoring the effectiveness of its hedging policies and strategies. Entergy's risk management policies limit the amount of total net exposure and rolling net exposure during the stated periods. These policies, including related risk limits, are regularly assessed to ensure their appropriateness given Entergy's objectives.

Hedging Derivatives

Entergy classifies substantially all of the following types of derivative instruments held by its consolidated businesses as cash flow hedges:

Instrument	Business Segment
Natural gas and electricity futures and forwards	Non-Utility Nuclear, Energy Commodity Services, Competitive Retail Services
Foreign currency forwards	U.S. Utility, Non-Utility Nuclear

Cash flow hedges with net unrealized losses of approximately \$391 million at December 31, 2005 are scheduled to mature during 2006. Net losses totaling approximately \$218 million were realized during 2005 on the maturity of cash flow hedges. Unrealized gains or losses result from hedging power output at the Non-Utility Nuclear power stations and foreign currency hedges related to Euro-denominated nuclear fuel acquisitions. The related gains or losses from hedging power are included in revenues when realized. The realized gains or losses from foreign currency transactions are included in the cost of capitalized fuel. The maximum length of time over which Entergy is currently hedging the variability in future cash flows for forecasted transactions at December 31, 2005 is approximately three years. The ineffective portion of the change in the value of Entergy's cash flow hedges during 2005, 2004, and 2003 was insignificant.

Fair Values

Financial Instruments

The estimated fair value of Entergy's financial instruments is determined using bid prices reported by dealer markets and by nationally recognized investment banking firms. The estimated fair value of

derivative financial instruments is based on market quotes. Considerable judgment is required in developing some of the estimates of fair value. Therefore, estimates are not necessarily indicative of the amounts that Entergy could realize in a current market exchange. In addition, gains or losses realized on financial instruments held by regulated businesses may be reflected in future rates and therefore do not necessarily accrue to the benefit or detriment of stockholders.

Entergy considers the carrying amounts of most of its 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. Additional information regarding financial instruments and their fair values is included in Notes 5 and 6 to the consolidated financial statements.

NOTE 15. DECOMMISSIONING TRUST FUNDS

Entergy holds debt and equity securities, classified as available-for-sale, in nuclear decommissioning trust accounts. The securities held at December 31, 2005 and 2004 are summarized as follows (in millions):

	Fair Value	Total Unrealized Gains	Total Unrealized Losses
2005			
Equity	\$1,502	\$280	\$12
Debt Securities	1,105	20	10
Total	\$2,607	\$300	\$22
2004			
Equity	\$ 995	\$166	\$17
Debt Securities	1,457	33	6
Total	\$2,452	\$199	\$23

The fair value and gross unrealized losses of available-for-sale equity and debt securities, summarized by investment type and length of time that the securities have been in a continuous loss position, are as follows at December 31, 2005 (in millions):

	Equity Securities		Debt Securities	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Less than 12 months	\$ 27	\$ 1	\$425	\$ 6
More than 12 months	104	11	116	4
Total	\$131	\$12	\$541	\$10

Entergy evaluates these unrealized gains and losses at the end of each period to determine whether an other than temporary impairment has occurred. This analysis considers the length of time that a security has been in a loss position, the current performance of that security, and whether decommissioning costs are recovered in rates. Due to the regulatory treatment of decommissioning collections and trust fund earnings, Entergy Arkansas, Entergy Gulf States, Entergy Louisiana, and System Energy record regulatory assets or liabilities for unrealized gains and losses on trust investments. For the unregulated portion of River Bend, Entergy Gulf States has recorded an offsetting amount of unrealized gains or losses in other deferred credits. No significant impairments were recorded in 2005 and 2004 as a result of these evaluations.

NOTES to CONSOLIDATED FINANCIAL STATEMENTS *concluded*

The fair value of debt securities, summarized by contractual maturities, at December 31, 2005 and 2004 are as follows (in millions):

	2005	2004
Less than 1 year	\$ 80	\$ 134
1 year – 5 years	357	592
5 years – 10 years	382	425
10 years – 15 years	116	158
15 years – 20 years	73	60
20 years +	97	88
Total	\$1,105	\$1,457

During the year ended December 31, 2005, the proceeds from the dispositions of securities amounted to \$50 million with gross gains of \$0.7 million and gross losses of \$2.3 million, which were reclassified out of other comprehensive income into earnings during the period. During the year ended December 31, 2004, the proceeds from the dispositions of securities amounted to \$37 million with gross gains of \$0.7 million and gross losses of \$0.7 million, which were reclassified out of other comprehensive income into earnings during the period.

NOTE 16. ENTERGY NEW ORLEANS BANKRUPTCY PROCEEDING

Because of the effects of Hurricane Katrina, on September 23, 2005, Entergy New Orleans filed a voluntary petition in the United States Bankruptcy Court for the Eastern District of Louisiana seeking reorganization relief under the provisions of Chapter 11 of the United States Bankruptcy Code (Case No. 05-17697). Entergy New Orleans continues to operate its business as a debtor-in-possession under the jurisdiction of the bankruptcy court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the bankruptcy court.

In September 2005, Entergy New Orleans, as borrower, and Entergy Corporation, as lender, entered into the Debtor-in-Possession (DIP) credit agreement, a debtor in possession credit facility to provide funding to Entergy New Orleans during its business restoration efforts. On December 9, 2005, the bankruptcy court issued its final order approving the DIP credit agreement, including the priority and lien status of the indebtedness under the agreement. The credit facility provides for up to \$200 million in loans. The facility enables Entergy New Orleans to request funding from Entergy Corporation, but the decision to lend money is at the sole discretion of Entergy Corporation. As of December 31, 2005, Entergy New Orleans had outstanding borrowings of \$90 million under the DIP credit agreement.

Entergy owns 100 percent of the common stock of Entergy New Orleans, has continued to supply general and administrative services, and has provided debtor-in-possession financing to Entergy New Orleans. Uncertainties surrounding the nature, timing, and specifics of the bankruptcy proceedings, however, have caused Entergy to deconsolidate Entergy New Orleans and reflect Entergy New Orleans' financial results under the equity method of accounting retroactive to January 1, 2005. Because Entergy owns all of the common stock of Entergy New Orleans, this change will not affect the amount of net income Entergy records resulting from Entergy New Orleans' operations for any current or prior period, but will result in Entergy New Orleans' net income for 2005 being presented as "Equity in earnings (loss) of unconsolidated equity affiliates" rather than its results being included in each individual income statement line item, as is the case for periods prior to 2005.

Entergy reviewed the carrying value of its investment in Entergy New Orleans to determine if an impairment had occurred as a result of the storm, the flood, the power outages, restoration costs and changes in customer load. Entergy determined that as of December 31, 2005, no impairment had occurred because management believes that recovery is probable. Entergy will continue to assess the carrying value of its investment in Entergy New Orleans as developments occur in Entergy New Orleans' recovery efforts.

Entergy's results of operations for 2005 include \$207.2 million in operating revenues, primarily from sales of power by Entergy consolidated subsidiaries to Entergy New Orleans, and \$117.5 million in purchased power, primarily from purchases of power by Entergy consolidated subsidiaries from Entergy New Orleans. As stated above, however, because Entergy owns all of the common stock of Entergy New Orleans, the deconsolidation of Entergy New Orleans does not affect the amount of net income Entergy records resulting from Entergy New Orleans' operations.

NOTE 17. QUARTERLY FINANCIAL DATA (UNAUDITED)

Operating results for the four quarters of 2005 and 2004 were (in thousands):

	Operating Revenues ^(a)	Operating Income ^(b)	Net Income
2005			
First Quarter	\$2,110,182	\$311,008	\$178,620
Second Quarter	\$2,445,389	\$515,573	\$292,789
Third Quarter	\$2,898,259	\$654,339	\$356,388
Fourth Quarter	\$2,652,417	\$311,069	\$ 95,961
2004			
First Quarter	\$2,169,983	\$379,020	\$213,016
Second Quarter	\$2,379,668	\$491,267	\$271,011
Third Quarter	\$2,832,642	\$570,316	\$288,047
Fourth Quarter	\$2,303,228	\$209,569	\$160,975

(a) Operating revenues are lower by \$102,461 in the first quarter 2005 and \$110,597 in the second quarter 2005 due to the deconsolidation of Entergy New Orleans retroactive to January 1, 2005. Operating revenues are lower by \$110,771 in the first quarter 2005, \$153,533 in the second quarter 2005, \$231,472 in the third quarter 2005, \$81,566 in the first quarter 2004, \$105,429 in the second quarter 2004, and \$130,939 in the third quarter 2004 due to the treatment of a portion of the Competitive Retail Services business as a discontinued operation.

(b) Operating income is lower by \$12,521 in the first quarter 2005 and \$17,934 in the second quarter 2005 due to the deconsolidation of Entergy New Orleans retroactive to January 1, 2005. Operating income is lower (higher) by \$(1,850) in the first quarter 2005, \$(3,897) in the second quarter 2005, \$(10,502) in the third quarter 2005, \$(186) in the first quarter 2004, \$3,045 in the second quarter 2004, and \$1,156 in the third quarter 2004 due to the treatment of a portion of the Competitive Retail Services business as a discontinued operation.

EARNINGS PER AVERAGE COMMON SHARE

	2005		2004	
	Basic	Diluted	Basic	Diluted
First Quarter	\$0.80	\$0.79	\$0.90	\$0.88
Second Quarter	\$1.36	\$1.33	\$1.16	\$1.14
Third Quarter	\$1.68	\$1.65	\$1.24	\$1.22
Fourth Quarter	\$0.43	\$0.42	\$0.71	\$0.69

INVESTOR INFORMATION

The 2006 Annual Meeting of Shareholders will be held on Friday, May 12, at the Hilton Jackson, 1001 East County Line Road, Jackson, Mississippi. The meeting will begin at 10 a.m. (CDT).

SHAREHOLDER NEWS

Entergy's quarterly earnings results, dividend action, and other news and information of investor interest may be obtained by calling Entergy Shareholder Direct at 1-888-ENTERGY (368-3749). You may also use this service to receive a printed copy of the quarterly earnings release by fax or mail. Updated quarterly earnings results can be expected in late January, April, July, and October. Dividend information will be updated according to the declaration schedule.

This and other information, including Entergy's Corporate Governance Guidelines, Board Committee Charters for the Corporate Governance, Audit, and Personnel Committees, and Entergy's Code of Conduct is available on Entergy's home page on the internet at www.entergy.com.

For copies of the above and copies of Entergy's 10-K and 10-Q reports filed with the Securities and Exchange Commission or for other investor information, call 1-800-292-9960 or write to:

Entergy Corporation
 Investor Relations
 500 Clinton Center Drive
 Clinton, MS 39056

Securities analysts and representatives of financial institutions may contact Michele Lopiccolo at 601-339-2816 or mlopicc@entergy.com.

SHAREHOLDER ACCOUNT INFORMATION

Mellon Investor Services, LLC is Entergy's transfer agent, registrar, dividend disbursing agent, and dividend reinvestment and stock purchase plan agent. Shareholders of record with questions about lost certificates, lost or missing dividend checks, or notifications of change of address should contact:

Mellon Investor Services
 480 Washington Boulevard
 Jersey City, NJ 07310
 Telephone: 1-800-333-4368
 Internet address: www.melloninvestor.com

COMMON STOCK INFORMATION

The company's common stock is listed on the New York, Chicago, and Pacific exchanges under the symbol "ETR." The Entergy share price is reported daily in the financial press under "Entergy" in most listings of New York Stock Exchange securities. Entergy common stock is a component of the following indices: S&P 500, S&P Utilities Index, and the NYSE Composite Index, among others.

In May 2005, Entergy's Chief Executive Officer certified to the New York Stock Exchange that he was not aware of any violation of the NYSE corporate governance listing standards. Also, Entergy filed certifications regarding the quality of the company's public disclosure, required by Section 302 of the Sarbanes-Oxley Act of 2002, as exhibits to its Report on Form 10-K for the fiscal year ended December 31, 2005.

At year-end 2005 there were 207,529,485 shares of Entergy common stock outstanding. Shareholders of record totaled 48,968, and approximately 76,000 investors held Entergy stock in "street name" through a broker.

DIVIDEND PAYMENTS

The entire amount of dividends paid during 2005 is taxable as ordinary income. The Board of Directors declares dividends quarterly and sets the record and payment dates. Subject to Board discretion, those dates for 2006 are:

Declaration Date	Record Date	Payment Date
January 27	February 10	March 1
April 11	May 11	June 1
August 4	August 15	September 1
October 27	November 10	December 1

Quarterly dividend payments (in cents-per-share):

Quarter	2006	2005	2004	2003	2002
1	54	54	45	35	33
2		54	45	35	33
3		54	45	45	33
4		54	54	45	35

DIVIDEND REINVESTMENT/STOCK PURCHASE

Entergy offers an automatic Dividend Reinvestment and Stock Purchase Plan administered by Mellon Investor Services. The plan is designed to provide Entergy shareholders and other investors with a convenient and economical method to purchase shares of the company's common stock. The plan also accommodates payments of up to \$3,000 per month for the purchase of Entergy common shares. First-time investors may make an initial minimum purchase of \$1,000. Contact Mellon by telephone or internet for information and an enrollment form.

DIRECT REGISTRATION SYSTEM

Entergy has elected to participate in a Direct Registration System that provides investors with an alternative method for holding shares. DRS will permit investors to move shares between the company's records and the broker dealer of their choice.

This option, available to every shareholder who chooses to have shares registered in his or her name on the books of the company, will be offered by broker dealers at the time an investor purchases shares and requests that they be registered. An additional feature of DRS enables existing registered holders to deposit physical shares into a book account.

ENTERGY COMMON STOCK PRICES

The high and low trading prices for each quarterly period in 2005 and 2004 were as follows (in dollars):

Quarter	2005		2004	
	High	Low	High	Low
1	72.00	64.48	60.20	56.01
2	76.60	69.35	59.92	50.64
3	79.22	70.52	61.98	54.43
4	76.42	67.00	68.67	60.08

ENVIRONMENTAL INFORMATION

Entergy's Sustainability Report and other information on Entergy's environmental policy is available on Entergy's home page at www.entergy.com.

DIRECTORS AND OFFICERS

DIRECTORS

Maureen Scannell Bateman
Partner, Holland & Knight, LLP, Boston, Massachusetts.
An Entergy director since 2000. Age, 62

W. Frank Blount
Chairman and Chief Executive Officer, JI Ventures, Inc.,
TTS Management Corp., Atlanta, Georgia. An Entergy
director since 1987. Age, 67

Simon D. deBree
Retired Director and Chief Executive Officer of DSM,
The Netherlands. An Entergy director since 2001. Age, 68

Gary W. Edwards
Former Senior Executive Vice President of Conoco,
Houston, Texas. Joined the Entergy Board in 2005. Age, 64

Claiborne P. Deming*
President and Chief Executive Officer and Director of Murphy
Oil Corporation, El Dorado, Arkansas. An Entergy director
since 2002. Age, 51

Alexis Herman
Chair and Chief Executive Officer of New Ventures, Inc.,
McLean, Virginia. An Entergy director since 2003. Age, 58

Donald C. Hintz
Former President, Entergy Corporation, Punta Gorda, Florida.
An Entergy director since 2004. Age, 62

J. Wayne Leonard
Entergy Chief Executive Officer. Joined Entergy in April 1998
as President and Chief Operating Officer; appointed CEO and
elected to the Board of Directors on January 1, 1999.
New Orleans, Louisiana. Age, 55

Stuart L. Levenick
Group President of Caterpillar, Inc., Peoria, Illinois. Joined the
Entergy Board in 2005. Age, 52

Robert v.d. Luft
Entergy Chairman. Member of Entergy Board of Directors since
1992; elected Chairman of the Board on May 26, 1998. Also
served as acting CEO from May 26 until December 31, 1998.
Chadds Ford, Pennsylvania. Age, 70

Kathleen A. Murphy*
Former Senior Vice President and Chief Financial Officer,
Connell Limited Partnership, Stamford, Connecticut.
An Entergy director since 2000. Age, 55

James R. Nichols
Partner, Nichols & Pratt, LLP, Attorney and Chartered Financial
Analyst, Boston, Massachusetts. An Entergy director since 1986.
Age, 67

William A. Percy, II
Chairman and Chief Executive Officer of Greenville Compress
Company, Greenville, Mississippi. An Entergy director since 2000.
Age, 66

W. J. "Billy" Tauzin
President and CEO, Pharmaceutical Research and Manufacturers
of America, Washington, D.C. Joined the Entergy Board in 2005.
Age, 62

Steven V. Wilkinson
Retired Audit Partner, Arthur Andersen LLP, Watersmeet,
Michigan. An Entergy director since 2003. Age, 64

OFFICERS

J. Wayne Leonard
Chief Executive Officer. Joined Entergy in 1998 as President
and Chief Operating Officer; appointed CEO on January 1, 1999.
Former executive of Cinergy. Age, 55

Leo P. Denault
Executive Vice President and Chief Financial Officer. Joined
Entergy in 1999 as Vice President of corporate development.
Former Vice President of Cinergy. Age, 46

Richard J. Smith
Group President, Utility Operations. Joined Entergy in 2000.
Former President of Cinergy Resources, Inc. Age, 54

Curtis L. Hébert
Executive Vice President, External Affairs. Joined Entergy in 2001.
Former Chairman of the Federal Energy Regulatory Commission.
Age, 43

Mark T. Savoff
Executive Vice President, Operations. Joined Entergy in 2003.
Former President, General Electric Power Systems – GE Nuclear
Energy. Age, 49

Robert D. Sloan
Executive Vice President, General Counsel and Secretary. Joined
Entergy in 2003. Former Vice President and General Counsel at
GE Industrial Systems. Age, 58

Gary J. Taylor
Executive Vice President and Chief Nuclear Officer. Joined
Entergy in 2000. Former Vice President of nuclear operations
at South Carolina Electric & Gas Company. Age, 52

Joseph T. Henderson
Senior Vice President and General Tax Counsel. Joined
Entergy in 1999. Former Associate General Tax Counsel
for Shell Oil. Age, 48

Nathan E. Langston
Senior Vice President and Chief Accounting Officer. Joined
Entergy in 1971 and advanced through various accounting and
finance positions before being promoted to VP & CAO in 1998.
Age, 57

William E. Madison
Senior Vice President, Human Resources and Administration.
Joined Entergy in 2001. Former Senior Vice President for
Avis Group Holdings, Inc. Age, 59

Steven C. McNeal
Vice President and Treasurer. Joined Entergy in 1982 as a financial
analyst and was given increased responsibility in areas of finance,
treasury, and risk management before being promoted to VP &
Treasurer in 1998. Age, 49

* Mr. Deming and Ms. Murphy have announced their decision to retire from the Board in May 2006.

Enduring

OUR COMMITMENT TO SAFELY GENERATE CLEAN, RELIABLE,
AFFORDABLE POWER FOR OUR CUSTOMERS



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